

CONTENTS

Feature Articles

This month's focus: **Share Repurchases under Uncertainty**

Overview	<i>Hiroyuki Ishikawa</i>	3
-----------------------	--------------------------	---

Articles

A Simple Review of Share Repurchases	<i>Satoru Yamaguchi</i>	7
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By reviewing prior research, this paper gives reasons why firms avail themselves of share repurchases: to reduce agency costs arising from free cash flow, signal undervaluation, substitute for dividends, take advantage of flexibility, avoid the threat of takeover, boost earnings per share, and reduce (or not) the value of stock options.

Relationship Between Payout Policy and Corporate Governance: Focus on Japanese Stewardship Code and Corporate Governance Code

.....	<i>Shinya Shinozaki</i>	19
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This study examined the impact of the Stewardship Code and Corporate Governance Code on payout policy. As a result, on average, after both codes came into effect, it was found that firms with higher shareholding ratios on the part of investors who have the incentive to monitor (i.e., institutional investors, and foreign investors) prefer buybacks over dividends. In addition, after both codes have come into effect, (1) firms with low average ROE and dividend payout ratio over the past five years, and (2) those with high risk of overinvestment prefer dividends, while firms with higher shareholding ratios of investors who have these incentives tended to pay out within a range that would not be a burden in the future. Moreover, after both codes have come into effect it has become clear that these types of investors generally prefer buybacks when firms are considerably subject to economic uncertainty.

Share Repurchase-induced EPS Management under Uncertainty

.....	<i>Yoshinori Shimada</i>	32
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This paper examines how uncertainty is related with share repurchase-induced EPS (earnings per shares) management. The results show that repurchasing firms experience a decrease in EPS, not increase, although firms are likely to repurchase more shares under uncertainty. Consistent with the decrease in EPS after repurchases, it is also found that repurchase under uncertainty is not an effective tool for earnings management to avoid missing management EPS forecasts.

Post Share Repurchase Announcement Returns and Liquidity	45
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..... *Hironori Kawase / Kento Inoue*

Can we earn a positive return after firms have announced share repurchases? We investigate post-repurchase announcement returns using stock liquidity. We find that liquidity, especially the ratio of trading volume to total number of shares outstanding before share repurchase announcement, significantly explains post-announcement abnormal returns. We also find that post-announcement returns are even larger during the period of uncertainty when liquidity seemed to have declined.

Prospects

Analysis of the Impact of METI's New "Fair M&A Guidelines" on Valuation Practices	58
--	----

..... *Kazunori Suzuki, CMA*

Economic and Industrial Analysis

Global Economic Conditions and Outlook	63
---	----

..... *Tomoyuki Fukumoto*

Point of View	73
----------------------	----

..... *Hiroshi Matsutani, CMA*

Articles

VAR Analysis in Term Structure Spillovers of Interest Rates: Bayesian Approach of the Affine Arbitrage-Free Class of Nelson-Siegel Term Structure Models	77
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..... *Tomoyuki Takami, CMA*

In this paper, after analyzing the decline in the term premium of long-term interest rates and rise in international spillovers, I clarify the impact of Japanese investors activating the movement to search for yield in overseas markets against the background of the ultra-low interest rate environment. By a Bayesian estimation of the Arbitrage-Free Dynamic Nelson-Siegel model, which can satisfy both the viewpoints of consistency with finance theory and empirical performance, I extract term premium and then analyze it using the time-varying parameter vector autoregression model.

Measuring Factor Crowding in the Japanese Stock Market	90
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..... *Keisuke Morita / Kei Nakagawa, CMA*

Since successful quantitative funds suffered a major loss in the Paribas shock, crowding, which represents a concentration of capital on a specific investment strategy has attracted attention. Measuring crowding enables us to use various applications. However, there are many challenges in measuring crowding. In this paper, we propose CoFactor, a new method of measuring the crowding of stock factor investment strategies. Empirical analysis in the Japanese stock market demonstrates that CoFactor is (1) sensitive to crowding and capable of detecting veiled herding which existing methods cannot reveal, and (2) likely to predict bubbles and crashes.

Special Posting

Round Table Discussion by Top Women Analysts:

What are the business skills required in the New Normal era?

..... *Nana Otsuki / Wakako Sato, CMA / Mana Nakazora, CMA CIIA /*

Rie Nishihara /Ayako Kanouchi, CMA 102

Book Reviews*Toyoharu Takahashi / Akio Sashida / Nobuyoshi Yamori* 109

SAAJ News 122