

## Feature Articles

### This month's focus: **Market Reaction to Earnings Announcements**

#### Increase in Market Reaction to Earnings Announcements and Firm Characteristics

*Junko Jinushi*

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In recent years, market reaction to earnings announcements has been increasing in Japan and the US. Why is this? This paper explores the reasons for the increase by analyzing the relationship between four firm characteristics (loss, firm size, analyst coverage, and index stocks) and market reaction.

#### Investors' Order Submission Behavior around Earnings Announcements: A Preliminary Analysis

*Toshio Moriwaki / Kazuhisa Otogawa*

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This paper analyzes investors' order submission behavior around earnings announcements using the FLEX Full Historical database provided by the Japan Exchange Group. Specifically, we identify the point of time at which firms listed on the 1st Section of the Tokyo Stock Exchange released annual accounting earnings during regular trading hours in May 2018, and investigate the number of trades, limit order submissions, and cancellations at one-minute intervals. We then demonstrate the relationship between the content of earnings news and investors' order submission behavior around earnings announcements.

#### Information Transfers Associated with Earnings Announcements: Research Trends and Challenges

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This study reviews the principal literature investigating information transfer associated with earnings announcements and discusses research trends and challenges. First, the study summarizes the findings of previous studies in terms of (1) the existence and scope of information transfers, (2) the determinants of information transfers, and (3) stock market efficiency with respect to information transfers. Subsequently, it discusses the progress of research and challenges in recent years.

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### Bond Market Reaction to Earnings Announcements and Main Bank System

*Mao Mukai / Shota Otomasa*

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This paper investigates the relationship between earnings announcements and the corporate bond market to discuss the decision making usefulness of earnings information in the corporate bond market, and then clarifies the relationship between the usefulness of earnings information and the main bank system. As a result of the analysis, the following two observations were obtained. First, the corporate bond market responds to earnings information, especially information on net losses announced in earnings announcements. It was also clarified that the reaction of the corporate bond market to net losses was greater than that to net income. Second, there is evidence that the reaction of the corporate bond market to net losses is larger for firms with weak main bank relationships.

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## Article

### Empirical Analysis of Listed Subsidiaries: Motivation to Maintain Listing of Such Firms

*Shinya Kawamoto*

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This paper investigates the relationship between earnings announcements and the corporate bond market to discuss the decision making usefulness of earnings information in the corporate bond market, and then clarifies the relationship between the usefulness of earnings information and the main bank system. As a result of the analysis, the following two observations were obtained. First, the corporate bond market responds to earnings information, especially information on net losses announced in earnings announcements. It was also clarified that the reaction of the corporate bond market to net losses was greater than that to net income. Second, there is evidence that the reaction of the corporate bond market to net losses is larger for firms with weak main bank relationships.