Advertisement

Contemporary Accounting Research / Volume 9, Issue 1 / pp. 252-282

Bond ratings, bond yields and financial information*

DAVID A. ZIEBART, SARA A. REITER

First published: Fall 1992

https://doi.org/10.1111/j.1911-3846.1992.tb00879.x

* Research support for this project was provided by the Investors in Business Education summer research grant program of the Bureau of Business and Economic Research and the Department of Accounting at the University of Illinois at Urbana-Champaign, and the KPMG Peat Marwick Foundation. The authors wish to thank participants of workshops at the University of Notre Dame, the State University of New York at Binghamton, and the Financial Colloquium at the University of Illinois, as well as Walter Teets and Tom Omer for helpful comments on early drafts of this paper. In addition, participants at the 1990 Conference on Financial Economics and Accounting and the 1990 Contemporary Accounting Research Conference provided beneficial comments on this paper. Finally, we wish to gratefully acknowledge the in-depth comments provided by Vic Bernard (reviewer), Yaw Mensah (discussant at the Conference on Financial Economics and Accounting), and Gordon Richardson and Ramesh Chandra (discussants at the CAR conference) (see pp. 283–289, 290–295) for comments, suggestions, and insights that have significantly contributed to this project. All errors and omissions remain ours.

PDF

Abstract

Abstract. The role of accounting information in investment decision making and capital markets has been investigated by exploring fundamental connections between accounting numbers and market-based phenomena of interest. Studies of bond rating predictions have described how bond raters make their judgments as a function of accounting and other data. This study expands our knowledge of these fundamental connections by investigating whether bond ratings have a direct impact on bond yields and how accounting information impacts the bond yields—directly, or indirectly through the bond ratings. A simultaneous equation system is constructed using firm-

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

information affects bond ratings, that bond ratings directly affect bond yields, that financial information also directly affects bond yields, and that financial information indirectly affects bond yields through its effect on ratings. The role of accounting information in setting bond market prices is clarified using this approach.

Résumé. On a étudié le rôle de l'information comptable dans la prise de décisions d'investissement et sur les marchés financiers en explorant les liens fondamentaux entre les données comptables et les phénomènes d'intérêt fondés sur le marché. Les études portant sur les prédictions relatives à la notation des obligations ont décrit de quelle façon les services d'information financière jugeaient de la valeur des obligations à partir de données, comptables et autres. Les auteurs de la présente étude élargissent la connaissance de ces liens fondamentaux en analysant la possibilité que la notation des obligations ait une incidence directe sur leur rendement et la façon dont l'information comptable agit sur le rendement des obligations, que ce soit directement, ou indirectement par l'intermédiaire de leur notation. Les auteurs constuisent un système d'équations simultanées à l'aide de l'information financière propre à l'entreprise, des cotes accordées aux obligations par deux services majeurs d'informations financières et du rendement des émissions initiales. l'échantillon qui a servi à l'étude compte 189 nouvelles émissions d'obligations dans le secteur industriel, cotées à la fois par Standard & Poor's et Moody's, qui ont été émises entre 1981 et 1985. Les tests appliqués aux configurations de rechange du modèle structurel établissent clairement les relations entre la notation des obligations, l'information financière et le rendement des obligations. Les progrès de la méthodologie statistique ont mené à une meilleure compréhension et une meilleure évaluation des rôles relatifs de la notation des obligations et de l'information financière dans l'établissement du prix des obligations. La modélisation d'équations simultanées permet, d'une part, l'évaluation des relations entre rendement, notation et information financière et, d'autre part, l'estimation des conséquences directes et indirectes de l'information financière sur le rendement qui doit être estimé, ce qui amène à conclure que l'information financière a une incidence sur la notation des obligations, que la notation des obligations exerce une influence directe sur le rendement des obligations, que l'information financière touche également de manière directe le rendement des obligations et qu'elle a une incidence indirecte sur le rendement des obligations, par le truchement de son incidence sur la notation. Le rôle de l'information comptable dans l'établissement de la valeur marchande des obligations est éclairci grâce à cette méthode.

References

Bentler, P.M. and D.G. Bonett, "Significance Tests and Goodness of Fit in the Analysis of Covariance Structure," *Psychological Bulletin* 88 (1980) pp. 588–606

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Billingsley, R.S., R.E. Lamy, M.W. Marr, and G.R. Thomspon, " Split Ratings and Bond Reoffering Yields," *Financial Management* (Summer 1985) pp. 59–65.

Google Scholar

Bollen, K.A. *Structural Equations with Latent Variables* (New York: Wiley, 1989).

Google Scholar

Cook, T.Q. and P.H. Hendershott, " The Impact of Taxes, Risk and Relative Security Supplies on Interested Rate Differentials," *The Journal of Finance* (September 1978) pp. 1173–1186.

Google Scholar

Ederington, L.H. Why Split Ratings Occur," *Financial Management* (Spring 1986) pp. 37–47.

Google Scholar

Ederington, L.H., J.B. Yawitz, and B.E. Roberts, " The Informational Content of Bond Ratings," *Journal of Financial Research* (Fall 1987) pp. 211–226.

Google Scholar

Fair, R.C. *A Short-run Forecasting Model of the United States Economy* (Lexington, MA: Heath, 1971).

Google Scholar

Fisher, L. Determinants of Risk Premiums on Corporate Bonds," *The Journal of Political Economy* (June 1959) pp. 217–237.

Google Scholar

Fornell, C. A Second Generation of Multivariate Analysis: An Overview," in *A Second Generation of Multivariate Analysis* Vol. 1, ed. C. Fornell (New York: Praeger, 1982) pp. 1–21

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Griffin, P.A. *Usefulness to Investors and Creditors of Information Provided by Financial Reporting* (Stamford, CT: Financial Accounting Standards Board, 1987).

Google Scholar

Griffin, P.A., and A.Z. Sanvicente, " Common Stock Returns and Rating Changes: A Methodological Comparison," *The Journal of Finance* (March 1982) pp. 103–119.

Google Scholar

Hanushek, E.A. and J.E. Jackson, *Statistical Methods for Social Scientists* (New York: Academic Press, 1977).

Web of Science® Google Scholar

Hayduk, L.A. *Structural Equation Modeling with LISREL* (Baltimore, MD: The John Hopkins University Press, 1987).

Google Scholar

Hettenhouse, G.W. and W.L. Sartoris, " An Analysis of the Informational Value of Bond Rating Changes," *Quarterly Review of Business and Economics* (Summer 1976) pp. 65–78.

Google Scholar

Holthausen, R.W. and R.W. Leftwich, " The Effect of Bond Rating Changes on Common Stock Prices," *Journal of Financial Economics* (September 1986) pp. 57–89.

Google Scholar

Jaffee, D.M. Cyclical Variations in the Risk Structure of Interest Rates," *Journal of Monetary Economics* (July 1975) pp. 309–325.

Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Katz, S. The Price Adjustment of Bonds to Rating Reclassifications," *The Journal of Finance* (May 1974) pp. 551–559.

Google Scholar

Kendall, M.G. and A. Stuart, *The Advanced Theory of Statistics: Volume 2, Inference and Relationship*, 3rd ed. (New York: Hafner, 1973) pp. 316–324.

Google Scholar

Laber, G. Effects of the Bell System Breakup on the Cost of Debt," *Journal of Economics and Business* (August 1987) pp. 185–197).

Google Scholar

Liu, P. and W.T. Moore, " The Impact of Split Bond Ratings on Risk Premia," *The Financial Review* (February 1987) pp. 71–85.

Google Scholar

Long, J.S. *Covariance Structure Models* (Beverly Hills, CA: Sage, 1983) pp. 47–49.

Web of Science® Google Scholar

Merton, R.C. On the Pricing of Corporate Debt: The Risk Structure of Interest Rates," *The Journal of Finance* (May 1974) pp. 449–470.

Google Scholar

Muthen, B. A General Structural Equation Model with Dichotomous, Ordered Categorical, and Continous Latent Variable Indicators," *Psychometrica* **49** (1984) pp. 115–132.

Web of Science® Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Muthen, B., and A. Christoffersson, "Simultaneous Factor Analysis of Dichotomous Variables in Several Groups," *Psychometrica* **46** (1981) pp. 485–500.

Web of Science® | Google Scholar

Neter, J. and W. Wasserman, *Applied Linear Statistical Models* (Homewood, IL: Richard D. Irwin, 1974).

Google Scholar

Ogden, J.P. Determinants of the Ratings and Yields on Corporate Bonds: Tests of the Contingent Claims Model," *The Journal of Financial Research* (Winter 1987) pp. 329–339.

Google Scholar

Peavy, J.W. and J.A. Scott, " The AT&T Divestiture: Effects of Ratings Changes on Bond Returns," *Journal of Economics and Business* (August 1986) pp. 255–271.

Google Scholar

Perry, L.G., P. Liu, and D.A. Evans, " Modified Bond Ratings: Further Evidence on the Effect of Split Ratings on Corporate Bond Yields," *Journal of Business Finance & Accounting* (Summer 1988) pp. 231–241.

Google Scholar

Pinches, G.E. and J.C. Singleton, " The Adjustment of Stock Prices to Bond Rating Changes," *The Journal of Finance* (March 1978) pp. 29–43.

Google Scholar

Reiter, S.A. The Use of Bond Market Data in Accounting Research," *Journal of Accounting Literature 9* (1990) pp. 183–227.

Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Thatcher, J.S. The Choice of Call Provision Terms: Evidence of the Existence of Agency Costs of Debt," *The Journal of Finance* (June 1985) pp. 549–561.

Google Scholar

Thompson, G.R. and P. Vaz, " Dual Bond Ratings: A Test of the Certification Function of Ratings Agencies," *The Financial Review* (August 1990) pp. 457–471.

Google Scholar

Wansley, J.W. and T.M. Clauretie, " The Impact of CreditWatch Placement on Equity Returns and Bond Prices," *The Journal of Financial Research* (Spring 1985) pp. 31–42.

Google Scholar

Weinstein, M.I. The Effect of a Rating Change Announcement on Bond Price," *Journal of Financial Economics* (December 1977) pp. 329–350.

Google Scholar

Zaima, J.K. and J. McCarthy, " The Impact of Bond Rating Changes on Common Stocks and Bonds: Tests of the Wealth Redistribution Hypothesis," *The Financial Review* (November 1988) pp. 483–498.

Google Scholar

Citing Literature

Download PDF

ABOUT WILEY ONLINE LIBRARY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Contact Us
Training and Support
DMCA & Reporting Piracy
Sitemap

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential