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Price determinants of American Depositary Receipts (ADR): a cross-sectional analysis of panel data

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Evidence from 13 different Regression (SUR) ar ate both conte tional panel data most influenti provided in previous gnificantly influenc liscovery occurs i nnovations in the h act is not as strong a

Notes

[1] See the Bank of New York (BNY, 2002).

[2] See Verbeek (2000) for an explanation of the advantages of using panel data in financial analysis.

[3] The term closing prices refers to the previous day's closing price, adjusted for subsequent capital actions (i.e. bonus and right issues).

[4] Japan and Australia are the second and third biggest issuers of Depository Receipt programs.

[5] Industry (global or local), country (developed or emerging), and global (crude oil, seasonal dummies, etc.) factors have not been considered because prior research suggests that these do not have much explanatory power in explaining ADR returns (Choi and Kim, 2000; Kumar Patro, 2000).

[6] The SUR/FGLS estimator was popularised by Kmenta (1986) and is therefore also referred to as Parks-Kmenta or Kmenta's "cross-sectionally correlated and time-wise autoregr mator was proven b

[7] All Aus estimated jointly, e are is preferre country factor (E

[8] See x theorem.

[9] The Wa derived from the nd the home m H_0: $\varphi = \gamma =$ 0). Failu stimates ADR retu underlying shares a uation 3 on three sample sub-periods (1990–1993, 1994–1996 and 1997–2000).

[10] Test for panel heteroskedasticity and cross-sectional correlation were not conducted on countries for which we only have one ADR issuing firm (Denmark, Finland, France, and Norway). OLS is reported with heteroscedasticity consistent standard errors and covariance results which are equivalent to SUR/FGLS estimation with just one cross-section in the pool (Kmenta, 1986). These cases are indicated in the result tables as OLS-HCSEC in the row representing the number of cross-sections used in estimation.

[11] Equation 3 was also estimated with exchange rate, the US and the home stock market index orthogonalized on each other for the full sample period with an aim to remove influence of the exchange rate on both market index. Results were consistent with those reported in Table 2.

[12] Although our estimation procedure is generally robust to non-synchronous trading, the observed underreaction to the underlying share and exchange rate and overreaction the US and home stock market indexes could be due to: (a) herd behaviour, (b) arbitrageurs, (c) access to investment information, and (d) convertibility of ADRs to underlying share.

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