

Private Placements and Liquidity

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Abstract

The literature documents substantial offer price discounts and positive announcement effects for private placements of equity by publicly listed companies. The prevailing hypotheses of certification, monitoring and managerial entrenchment generally disregard the impact of resale restrictions and the associated illiquidity as a determinant. Using a different sample than previous studies, we exploit a natural experiment in the Canadian market to study the effect of a change in resale restrictions on private placements. First, we examine the impact of a legislative change that shortened resale restrictions on privately placed equity. Second, we examine the use of special warrants, a unique Canadian type of private placement. These are private/public hybrid offerings that are issued as private placements with a promise to file a prospectus, thereby allowing the shares to become freely tradable. We show that private placements with shortened resale restrictions are made by firms with lower information asymmetry, similar to public offerings; are offered with smaller price discounts; and are associated with less positive announcement-period abnormal returns. Overall, our evidence highlights the importance of liquidity in the market for private placements.

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1. Introduction

Private placements of equity by publicly listed companies are typically associated with positive announcement-day stock price effects and are issued at considerable discounts from the firm's market price.¹ These findings are based on evidence from several countries.² The monitoring and certification hypotheses are the most widely cited explanations for these findings. Under the monitoring hypothesis (Wruck, 1989), the positive announcement effects are a consequence of reduced agency costs motivated by the private-placement induced increase in ownership concentration. Private placement discounts reflect compensation for monitoring services provided by private investors. Under the certification hypothesis, Hertz and Smith (1993) extend the Myers and Majluf (1984) model of information asymmetry between managers and outside investors regarding the firm's true value and show that private placement discounts and stock price effects reflect the resolution of this asymmetry. An alternative hypothesis is managerial entrenchment (Barclay et al., 2007). Under this hypothesis, management places stock with friendly investors who will not "rock the boat".

Prior research has generally disregarded the importance of liquidity in the context of private placements. However, several US studies have acknowledged the restricted resale provisions and the associated illiquidity for equity private placements, but they have downplayed its significance as a determinant of offer price discounts and announcement effects. The general consensus seems to be that if liquidity is important to investors then this would provide strong incentives for firms to register their shares prior to issuing or to commit to quickly register shares after the private sale. Evidence in the US seems to suggest that few firms register their private

¹ We use "discount" and "offer price discount" interchangeably throughout the paper.

² See for example: Wruck (1989), Hertz and Smith (1993), Wu (2004), and Barclay et al. (2007), for the US; Wu et al. (2005), for Hong Kong; Kato and Schallheim (1993) and Kang and Stultz (1996), for Japan; Molin (1996) and Cronqvist and Nilsson (2000), for Sweden; Eckbo and Norli (2005), for Norway.

placements.³ Moreover, it is argued that many buyers of private placements, including banks, pension funds, wealthy individuals, and officers and directors of the issuing firm, are less concerned with reduced liquidity since the private placements would constitute only a small portion of their financial portfolios.

This paper provides new evidence on the role of liquidity in the market for private placements. Taking advantage of unique features in the Canadian regulatory and institutional environment, we exploit a natural experiment to examine the effect of a change in resale restrictions on private placement discounts and announcement effects for a sample of 821 private placements by Toronto Stock Exchange (TSX) listed companies between 1993 and 2005.

Private placements of equity cannot be properly examined in Canada unless they are subdivided into privately placed equity and privately placed special warrants. Private placements of equity in Canada are similar to US private placements issued under regulation D of Rule 144. Privately placed special warrants on the other hand are unique to Canada. Sold as privately placed securities, these warrants become exercisable at a specified future date, when the warrants can be exchanged for shares of the issuer at no additional cost. The warrants are issued without a prospectus. However, the issuer promises to file a prospectus so that when the warrant is exercised, the newly issued shares become freely tradable. A special warrant deal essentially offers the speed of a private placement and at the same time offers investors the promise of freely tradable securities.⁴ They can be viewed as hybrid private/public offerings.

Regulations governing private placements experienced several changes during the sample period 1993-2005. During the period from 1993 to November 29, 2001, privately placed

³ For example, Wruck (1989) finds that *unregistered* shares are sold in 65% of her sample of private placements. Barclay et al. (2007) locate 17 registration statements out of their sample of 594 private placements and report registration costs averaging only 0.4% of the value of the shares being registered.

⁴ In effect, these are like Regulation D issues in the US *with* a guaranteed registration.

securities were subject to resale restrictions ranging from 6 to 18 months that prevented investors from selling their shares in the public market.⁵ Effective November 30, 2001, Multilateral Instrument 45-102 (“MI 45-102”, henceforth) was implemented which reduced resale restrictions from the 6 to 18 month restricted period to a 4 month restricted period for all equity private placements issued by reporting issuers.

These features provide the setting for a natural experiment. Using a differences-in-differences estimation methodology, we examine the impact of MI 45-102 and the use of privately placed special warrants on offer price discounts and announcement-period abnormal returns.⁶ Several of our empirical findings suggest that liquidity is an important consideration in private placement offerings. First, we document a major shift away from privately placed special warrants after resale restrictions were reduced in 2001. Privately placed special warrants, which comprised approximately 83% of total private placements to *financial* investors from 1993 to 2001, became virtually nonexistent after MI 45-102 came into effect on November 30, 2001.⁷ Second, consistent with the theoretical model of Chemmanur and Fulghieri (1999) for private placement versus public offerings, we find that issuers making special warrant private placements, similar to issuers making public offerings, have lower information asymmetry than equity private placement issuers. This suggests that firms with high information asymmetry tend to reduce information production costs by issuing equity privately instead of offering privately

⁵ Specifically, if the securities in question were listed and posted for trading on a recognized stock exchange and the securities were “legal for life” under the provisions of the Insurance Act, the holding period was 6 months. A 12 month period was applicable for securities listed and posted on a recognized stock exchange (i.e. reporting issuer). In all other circumstances an 18 month period applied.

⁶ We define the discount as the percentage difference between the offer price and the firm’s market price the day before the pricing date.

⁷ We focus on *financial* investors (undisclosed in press reports) in this paper because they are arms length investors. Therefore, we remove from our sample private placements for which the buyer is identified in the press reports to be either *strategic* (strategic alliance partners, joint venture partners, and/or customers); *active* (nominated to the board of directors); *insiders* (managers and/or existing shareholders); *venture/private capital* (purchase by a single venture capitalist or private equity firm). Since these purchasers have a non-arms length relationship with the issuer, the motivations of these buyers are different.

placed special warrants. Third, we document higher discounts and more positive announcement-period abnormal returns for *equity* private placements in the period 1993-2001, before the legislative change, when resale restrictions were 6 to 18 months, compared to the period after, where resale restrictions are only 4 months. Finally, we find privately placed special warrants are associated with smaller offer price discounts and less positive announcement-period abnormal returns than privately placed equity before MI 45-102 came into effect due to the shorter resale restrictions for privately placed special warrants. Overall, our results document the importance of liquidity in the market for private placements.

The remainder of the paper is organized into the following sections. Section 2 describes the Canadian private placement market. Section 3 provides a literature review of private placements and develops our hypotheses. Section 4 describes the data and presents descriptive statistics. Section 5 presents our empirical tests and findings, and conclusions are drawn in Section 6.

2. Background on Canadian Private Placements

Private placements are an alternative to the prospectus-based method of offering securities. They are offerings made through certain statutory exemptions which allow the securities to be sold without a prospectus. Compared to prospectus offerings, private placements can be completed with relative speed and the terms of the financing can more readily be kept confidential (Drinkwater et al., 1985, p.1).

Under Canadian securities law the sales of private placements are limited to various prescribed exempt purchasers. The definition of such deemed purchasers is established by law and generally refers to sophisticated and knowledgeable investors with substantial funds (i.e. “accredited investors”). Restricting offers that are exempt from the prospectus requirements to

accredited investors protects unsuspecting investors from being taken advantage of by unscrupulous issuers. In addition, in order to prevent the use of private placements to bypass the more costly prospectus offering (“backdoor public offerings”), private placements are subject to restrictions on resale. Consequently, until the end of the statutory restricted period (formerly called the “hold period”), privately placed shares can only be sold to other exempt purchasers (i.e. accredited investors). After the elapse of the restricted period, the shares can be resold to any and all investors in the marketplace. This restricted period ranged from 6 to 18 months until November 29, 2001, when it was reduced to 4 months.

The regulation of securities in Canada is a provincial or territorial responsibility. Where all stages of a private placement are confined to a single province, legal questions that arise can be decided with reference to the securities law of that province. In practice, however, private placements often unfold in more than one province, giving rise to jurisdictional issues. To remedy such complications, effective November 30, 2001, Multilateral Instrument 45-102 (MI 45-102) was implemented as an initiative of the securities regulatory authorities of all provinces and territories other than Quebec to harmonize provincial and territorial resale restrictions on privately placed securities. In particular, the various 6, 12 or 18 month restricted periods were replaced by a single 4 month restricted period for “qualifying issuers” and a 12 month restricted period for all other issuers. Briefly, a “qualifying issuer” is a reporting issuer with securities listed on a specified exchange and is an electronic filer under SEDAR (the Canadian equivalent of the US EDGAR – an electronic depository of public securities documents for public companies).⁸

⁸ These rules were further changed effective March 30, 2004. Multilateral Instrument 45-102 was rescinded and replaced by a revised version of the instrument. The “qualifying issuer” concept was eliminated and all securities issued under a private placement were (and continue to be) subject to a 4 month restricted period. This does not confound the analysis since our sample includes all qualified issuers.

Private placements of special warrants are a unique Canadian type of private placement. They are private/public hybrid transactions, designed to provide an issuer with the quick access to funds normally associated with private placements, while providing purchasers with freely tradable securities prior to the expiration of the restricted period normally associated with private placements.

The steps involved in a special warrant transaction are straightforward. An issuer sells privately placed special warrants for cash under an exemption from the prospectus requirements. The special warrants are convertible into equity shares and the conversion is qualified pursuant to a prospectus being filed. The proceeds from the sale of the special warrants are either received on the closing date of the privately placed special warrants or may be held in escrow pending clearance of the prospectus. The special warrants are usually refundable to the purchasers of the special warrants if a receipt for the prospectus is not obtained by a stated deadline (usually 8 to 10 weeks following the purchase of the special warrants [Insight Education Services seminar papers, 1990, p. 5]). Alternatively, interest may be charged for each day that a receipt for the prospectus is not obtained following the agreed upon deadline. Therefore, under a privately placed special warrant transaction the restricted period associated with the underlying shares is thereby reduced from 6, 12 or 18 months (prior to November 30, 2001) to the length of time necessary to prepare and obtain a receipt for a prospectus.⁹

From the issuer's perspective, the offer price is determined prior to the clearance period for the prospectus and proceeds are received immediately. From the purchaser's perspective, they obtain securities which will be freely tradable at an earlier date than if they purchased equity private placements, thereby reducing their risk of being unable to respond to price movements

⁹ See Insight Education Services seminar papers (1990) for a more complete discussion of the structure of special warrant private placements.

during the restricted period. From the market's perspective, a prospectus is filed and up-to-date information is available concerning the issuer.

One might naturally ask why a prospectus cannot be filed to qualify previously issued securities in a private placement, thereby eliminating the need for privately placed special warrants to allow for the shares to become freely tradable. Unlike in the United States where the regulatory system requires the registration or qualification of actual securities, the Canadian system requires qualification of transactions in securities or distributions. Therefore, under the various securities laws in Canada it is not possible to issue securities on a private placement and then file a prospectus to qualify its resale prior to the expiration of the applicable restricted period.¹⁰ Securities commissions forcefully point out that once a private placement offering takes place, there is no distribution to be qualified by a prospectus, since the distribution was already completed in the initial placement. In the privately placed special warrant transaction, the issuance of the underlying shares upon the exercise of the special warrant is considered to be a trade and a distribution which a prospectus may qualify. As a result, the shares obtained through the exercising of the non-tradable special warrants are freely tradable (Insight Education Services seminar papers, 1987).

3. Literature Review and Hypotheses

3.1 Literature Review

Several theories in the literature have been suggested to explain the positive announcement effects and high offer price discounts associated with private placements of equity. This section provides a brief survey of the theoretical work in this literature and the various empirical predictions and findings.

¹⁰ As noted securities laws are provincially regulated in Canada. Therefore, no one law covers all of Canada but the provincial laws share some similarities and in some cases have adopted national standards.

Jensen and Meckling (1976) suggest that increases in outside ownership stakes in the firm increase incentives for monitoring management. Morck, Shleifer and Vishny (1988) model monitoring activities as control-oriented, thus an increase in the ownership fraction held by a potential acquirer of the firm will increase the probability of a value increasing takeover since this would provide him/her with a larger capital gain on a potential value improvement. Insofar as private placements are concerned, Wruck (1989) shows that the increase in ownership concentration resulting from private placements generally enhances firm value. Specifically, for a sample of 48 equity issues she shows that abnormal returns associated with private placements are positively related to ownership changes when ownership concentration is low or high, but negatively related for some middle range of ownership concentration. She further suggests that private placement discounts reflect compensation for increased monitoring provided by private investors. Cronqvist and Nilsson (2004) examine the choice between rights offerings and private placements of equity for a sample of 296 equity issues in Sweden. They also interpret the positive announcement effects for their sample of equity private placements in favor of the monitoring hypothesis. Similar support is found by Kato and Schallheim (1993) for a sample 76 equity private placements in Japan.

Myers and Majluf (1984) show that equity offerings can reveal asymmetric information about the firm's intrinsic value. They view this as an attempt by corporate insiders to maximize the wealth of current shareholders at the expense of new investors. They argue that if management has private information about the true value of the firm, an announcement of an equity offering to new investors at the current market price may indicate overvaluation. Hertz and Smith (1993) extend this framework to the case of private placements. Specifically, they introduce certification as the motivation for private placements. In a sample of 106 US private

placements they show that private placement discounts are compensation for information production and certification. They also document positive announcement-day abnormal returns and attribute this to the willingness of private placement investors to commit funds to the firm thereby conveying management's belief that the firm is undervalued. Wu, Wang and Yao (2005) study the positive announcement effects of new equity issues in Hong Kong. They document positive two-day abnormal returns for both a sample of 99 private placements and for a sample of 306 public placements. They attribute these positive announcement effects to growth uncertainty (i.e. more asymmetric information about growth relative to assets in place). Similarly, Eckbo and Norli document positive announcement effects for a sample of 136 private placements in Norway. They develop a model of a pecking order of flotation methods in a generalized Myers and Majluf framework.

Wu (2004) examines the impact of information asymmetry on the choice between public offerings and private placements. Drawing on the theoretical work of Chemmanur and Fulghieri (1999), she shows that US firms issuing private placements have higher information asymmetry than public offering firms.

Barclay et al. (2007) discount the monitoring and certification hypotheses and find support for the managerial entrenchment hypothesis. Using a much larger sample of 594 US private placements they classify private placement purchasers into: *active investors* (those who become active in firm affairs); *managerial investors* (those that are part of the incumbent management); and *passive investors* (those for whom no sign of activity between the purchasers and the issuing firm was found either before or after the placement). Their findings suggest that private placements are often made to passive investors, thereby helping management solidify their control of the firm. Active purchasers constitute only 12% of all private placements in their

sample. They show that announcement returns are almost zero for private placements to passive purchasers but large and positive for placements to active purchasers. Moreover, they document long-run stock returns that are significantly negative for passive purchasers but positive for active purchasers.

Carpentier et al. (2005) provide a brief survey of Canadian private placements. They compare the offer price discount between a sample of 2,108 Canadian private placements and 1,990 SEOs between 1993 and 2003. They find that private placements are offered with higher price discounts than SEOs. They do not explore the monitoring, certification or managerial entrenchment hypotheses and they do not include privately placed special warrants and do not examine the impact of the legislative change (MI 45-102) on the restricted period in their study.

Silber (1991) addresses the impact of liquidity on private placements. In a sample of 69 US private placements, Silber (1991) compares restricted securities, which can be sold only after a two-year holding period, with publicly traded securities of the same company. He documents an average price discount of about 34% for restricted securities and concludes that liquidity clearly has a significant impact on the cost of equity capital.

3.2. Testable hypotheses

The abovementioned papers, with the exception of Silber (1991), seem to disregard or downplay the importance of liquidity in the market for equity private placements. Hertz and Smith (1993) and Barclay et al. (2007) argue that the buyers of equity private placements are generally high net-worth individuals and/or companies and financial institutions that presumably hold well diversified financial portfolios so that liquidity is not an important component of their purchase decisions. They further support their claim by suggesting that firms could offer registered private placements or register them shortly after the placement in a low-cost manner if

liquidity is demanded by purchasers. As discussed in Section 2, this argument does not have merit in Canada since under the Canadian securities law it is not possible to issue securities on a private placement and then file a prospectus to qualify its resale prior to the expiration of the applicable restricted period. This follows because a prospectus is intended to qualify a trade and distribution of shares but a distribution has already been made with the initial placement. Privately placed special warrants overcome this legal technicality. In a special warrant transaction, the issuance of the underlying security upon the conversion of the special warrant is considered to be a trade and distribution which a prospectus may qualify.

The legislative change, MI 45-102, and our sample of special warrant and equity private placements offer the ideal setting for a natural experiment and to test the importance of liquidity in the market for private placements.

If privately placed special warrants were used to bypass the lengthy resale restrictions associated with equity private placements then we would expect them to be used less after MI 45-102 came into effect on November 30, 2001, when the restricted trading period for equity private placements was reduced. This leads to the following hypothesis:

H1: The use of privately placed special warrants should be most prevalent before MI 45-102 came into effect.

The theoretical model of Chemmanur and Fulghieri (1999) predicts that well known firms choose public offerings while firms characterized by high information asymmetry choose private placements.¹¹ The argument is that for a given level of information asymmetry, firms incur higher information production costs if they issue equity publicly instead of privately. Therefore, in equilibrium, firms with high information asymmetry tend to reduce information production costs by issuing equity privately. In the present context, privately placed special

¹¹ This is empirically supported by Wu (2004).

warrants are hybrid private/public offerings and the information production costs are presumably higher than equity private placements. We would thus expect firms with lower information asymmetry to issue special warrant private placements, and firms with greater information asymmetry to issue equity private placements. This implies the following hypothesis:

H2: Firms with lower information asymmetry are more likely to issue privately placed special warrants while firms with greater information asymmetry are more likely to issue privately placed equity.

If liquidity is a determinant of offer price discounts then we should expect offer price discounts for equity private placements to be smaller after MI 45-102 came into effect, which reduced the restricted period, and we should also expect smaller offer price discounts for special warrant private placements compared to equity private placements before MI 45-102 came into effect. This forms the basis for the following hypotheses:

H3: Offer price discounts for privately placed equity are smaller after MI 45-102 came into effect.

H4: Offer price discounts are smaller for privately placed special warrants compared to privately placed equity before MI 45-102 came into effect.

Costly signaling implies that the credibility of the signal depends on the type of placement (i.e. associated resale restrictions). Because of the greater likelihood of opportunistic resale, we expect announcements of privately placed equity offerings after MI 45-102 came into effect to provide less credible signals of firm value and thus yield less positive announcement effects, due to the lower resale restrictions, compared to privately placed equity before MI 45-102 came into effect. Similarly, we also expect less positive announcement effects for privately placed special warrants before MI 45-102 came into effect compared to equity private placements, since privately placed special warrants are associated with lower resale restrictions

than equity private placements before MI 45-102 came into effect. This forms the basis for the following hypotheses.

H5: Announcement-period abnormal returns for privately placed equity are smaller after MI 45-102 came into effect.

H6: Announcement-period abnormal returns are smaller for privately placed special warrants compared to privately placed equity before MI 45-102 came into effect.

4. Data and Descriptive Statistics

4.1. Data

We obtain data on offerings of privately placed equity and privately placed special warrants from the Financial Post (FP) Advisor database. Our initial dataset consists of all exempt offerings announced during the period January 1, 1993 to December 31, 2005. This database provides many attributes of the share offerings, including the announcement date and closing dates. However, the pricing date, which is necessary for computing the offer price discount, is not included and was collected from the press reports in Factiva and Lexis Nexis. While collecting the pricing date we also verified the announcement date, the closing date, and the offer price. When disclosed, information on the purchasers of the private placements was also collected from the press reports. FP Advisor reports privately placed special warrants in the same category as prospectus offerings.¹² Therefore any examination of private placements in Canada using the FP Advisor should account for this and include special warrants as private placements. This database includes primary offerings, secondary offerings and combined primary and secondary offerings. Our analysis, however, will focus on primary and combined offerings to ensure that secondary offerings do not bias certain results.

¹² This is likely due to the nature of special warrants which are issued as private placements but with the promise to file a prospectus on a predetermined date.

Share prices, returns, and shares outstanding are obtained from the TSX/CFMRC database. Since this only covers TSX listed firms we eliminate from our sample all firms that are not TSX listed.

We exclude from our sample unit offerings, flow through shares, and prospectus offerings. We also exclude offerings with missing announcement dates, pricing dates and/or closing dates. This leaves us with an overall sample of 986 privately placed equity and privately placed special warrants (the “broad” sample).

Table 1 reports the total number of private placements and total gross proceeds from these offerings segmented by the type of private placement and by announcement year. Figure 1 illustrates the yearly frequency of special warrant and equity private placements. Several findings are noteworthy. Out of the 986 private placement offerings, privately placed special warrants comprise 55% of the sample over the entire sample period. Privately placed special warrants raised about C\$11.1 billion, approximately C\$4.6 billion more than privately placed equity. Upon closer examination of Table 1 and highlighted in Figure 1, we report a clear time trend. In particular, 91.5% of the 542 privately placed special warrants are offered between January 1st, 1993 and November 30th, 2001 inclusive. Privately placed special warrants are almost non-existent after 2001. This irregularity is not coincidental. As discussed earlier, MI 45-102 came into effect on November 30th, 2001 which shortened the restricted period for all privately placed equity offerings by reporting issuers. The dramatic drop in the use of privately placed special warrants and corresponding increase in privately placed equity strongly supports hypothesis H1, that privately placed special warrants were used to bypass the pre-November 2001 lengthy restricted period for privately placed equity. This highlights the importance of liquidity in investment decisions.

[Insert Table 1 and Figure 1 about here]

As noted, information on the purchasers of the private placements was collected from the press reports when disclosed. Table 2 lists the five categories of private placement investors that were identified: (1) *Financial investors* (undisclosed), (2) *Strategic investors* (strategic alliance partners, joint venture partners, and/or customers), (3) *Active investors* (nominated to the board of directors upon purchase of the private placement), (4) *Insiders* (managers and/or existing shareholders), (5) *Venture/Private Capital* (purchase by a single venture capitalist or private equity firm). Panel A shows that in the period 1993-2005, financial investors are the representative sample making up 88% of all private placements. In addition, 98% of the special warrant private placements are made to financial investors. Therefore, the relatively high frequency of special warrant private placements among financial investors suggests that liquidity is most important for this group of investors.

[Insert Table 2 about here]

We focus on financial investors in the remainder of the paper because they are arms length investors. Therefore, we exclude 118 private placements where purchasers are classified as either *strategic*, *active*, *insiders*, or *venture capital/private equity*. Including these offerings would only confound the empirical analysis since these purchasers have a non-arms length relationship with the issuer and thus, the motivations of these buyers are different. We also exclude 47 observations due to missing pre-announcement data. This leaves us with a final sample of 821 private placements sold to financial investors (the “main” sample).

4.2. Descriptive statistics

Table 3 presents descriptive statistics for the various controls used throughout the paper. On average, privately placed special warrants have a higher offer price, raise more in terms of gross proceeds and are completed within a shorter time frame than privately placed equity. This holds across the entire sample period, between 1993 and 2005 and also in the sub-period 1993-2001. Focusing on the period 1993-2001, the average offer price and average gross proceeds for the privately placed special warrant sample is C\$6.6 and C\$19.9 million respectively, compared to an average offer price of C\$3.7 and average gross proceeds of C\$6.8 million for the privately placed equity sample. The time to complete an offering of special warrants, from the announcement date to the closing date, is 18.1 days on average, compared to 21.7 days for privately placed equity. Measured in the month prior to the issue, the average market capitalization of firms issuing special warrant private placements is C\$107.7 million compared to C\$85.8 million for firms issuing privately placed equity. We also compute the relative issue size, *Fraction Placed*, which is defined as the number of shares offered scaled by the firm's total number of shares outstanding in the month prior to the announcement of the equity offer. Although the mean difference is statistically insignificant, the median difference is statistically significant and larger for special warrant private placements.

We use two proxies for information asymmetry. Following Denis (1991), Blackwell, Marr, and Spivey (1991), Bethel and Krigman (2006) and Wu (2004) we use: (1) *STD(e)*, the standard deviation of market-model residuals measured over a 230-day period prior to the announcement of the equity offer; and (2) *Spread*, the percentage bid-ask spread scaled by the midpoint of the two quotes that define the spread, using the average of the percentage bid-ask spreads across all quotes over a 60-day period prior to the announcement of the equity offer. In

the period 1993-2001, $STD(e)$ is 7.4% for the equity of firms making equity private placements compared to 5.1% for special warrant private placements. Similarly, $Spread$ is 6.4% for the equity of firms making equity private placements compared to 3.8% for special warrant private placements. The descriptive statistics for our information asymmetry proxies suggest that equity private placements are associated with greater information asymmetry, consistent with hypothesis H2.

As in Bethel and Krigman (2006) we also control for the order processing and inventory components of bid-ask spreads by including share turnover ($Turnover$), defined as daily trading volume as a percentage of shares outstanding measured over the 60 trading days prior to the announcement date. $Turnover$ is lower for equity private placements compared to special warrant private placements (0.2% versus 0.3%, respectively).

Systematic (market) risk, β , is estimated using the market-model from days, $t = -250, \dots, -20$ that precede each announcement. We find that β is higher for special warrant private placements compared to equity private placements (0.7 compared to 0.4, respectively). We also control for market volatility, $STD(R_m)$, measured over the 60 trading days prior to the announcement of the equity offer. We find $STD(R_m)$ to be higher for equity private placements compared to special warrant private placements, which is 0.8% and 0.7%, respectively.

[Insert Table 3 about here]

5. Empirical Results

5.1. The Choice of Private Placement Type

The univariate results in Table 3 suggest that firms offering equity private placements have greater information asymmetry than firms offering special warrant private placements. We now examine the choice of private placement type using a multivariate logistic regression of the

choice of offering, privately placed special warrants or privately placed equity, as a function of a set of independent variables reflecting firm and offer characteristics that determine this choice. The dependent variable takes on a value of one if privately placed special warrants are offered, and zero if privately placed equity are offered. In addition to the abovementioned proxies and control variables, we include *Prior Issue*, defined as the number of issues that the firm had between January 1, 1993 and the current issue, where the issues were of the same type as the current issue. This is included since subsequent announcements of private placements may reduce adverse selection costs, similar in spirit to the findings of D'Mello et al. (2003), who show that subsequent announcements of SEOs reduce adverse selection costs. *Time* is a binary variable taking on the value of 1 for offerings between December 1, 2001 and December 30, 2005, and zero for offerings between January 1, 1993 and November 30, 2001. This is included to capture the effect of the legislative change, MI 45-102. *Firm size* is the natural logarithm of the firm's market capitalization in the month prior to the announcement of the equity offer. In order to control for outliers, we winsorize all continuous variables hereafter at the 1% level.¹³

Before turning to the logistic regression results, we report Pearson correlation coefficients for the control variables used in this paper. The correlations are presented in Table 4. Our two proxies for information asymmetry, *STD(e)* and *Spread*, are highly positively correlated with a correlation of 0.67. We also find *Firm Size* to be highly negatively correlated with *STD(e)* (-0.45) and *Spread* (-0.67). This suggests that *Firm Size* also proxies for information asymmetry. The interpretation from the negative correlations is that information asymmetries are likely to be more severe for small firms (Hertzel and Smith, 1993).

[Insert Table 4 about here]

¹³ This includes both dependent and independent variables. Scenarios with other cutoff points are also examined, and they give similar results.

The results of the logistic regression are presented in Table 5. Consistent with our univariate findings, the coefficients on our information asymmetry proxies, *STD(e)* and *Spread*, are statistically significant and negative. This suggests that firms with greater information asymmetry are more likely to issue private placements of equity than private placements of special warrants. This is consistent with the theoretical model of Chemmanur and Fulghieri (1999) and the empirical findings of Wu (2004). They show that firms characterized by high information asymmetry choose private placements instead of public offerings in order to reduce information production costs. The intuition of their model straightforwardly extends to the current context since special warrants are seen as hybrid private/public offerings. Therefore, we would expect the information production costs for special warrant private placements to be greater than for equity private placements. Also consistent with our univariate findings and supporting hypothesis H1, we find that special warrant private placements are less likely to be offered after MI 45-102 came into effect. This is supported by the significantly negative coefficient on *Time*. We also find *Fraction Placed* and *Firm Size* to be significantly positive. Therefore, larger firms that issue relatively more shares are more likely to issue privately placed special warrants. This result is also intuitive. If information asymmetries are smaller in larger firms, then according to the above argument information production costs are lower in larger firms and larger firms would consequently be more likely to offer special warrant private placements. Furthermore, it may be practically more difficult for firms to issue a larger fraction of illiquid stock. Therefore firms making larger fractional placements would be more likely to issue special warrant private placements.

[Insert Table 5 about here]

5.2. Pricing of Private Placements

In this section we examine the offer price discount, defined as $(P_{-1} - P_{offer})/P_{offer}$, which is scaled up by a factor of 100, where P_{-1} is the market price the day before the pricing date and P_{offer} is the offer price. We use a differences-in-differences estimation methodology to determine the effect MI 45-102 on discounts, and to compare discounts between privately placed special warrants and privately placed equity.¹⁴ This is possible since MI 45-102 affected equity private placements but not special warrant private placements. Therefore, we refer to the equity private placements as our treatment group and special warrant private placements as our control group. In the first level of differences we subtract the average discount after the legislation from the average discount before the legislation. Since we can do this for both the control and treatment group, we get two sets of differences: $\Delta_{Discount}^{Equity}$ for the treatment group and $\Delta_{Discount}^{SW}$ for the control group. On its own, $\Delta_{Discount}^{Equity}$ could be a misleading estimator of the legislation's impact since other changes contemporaneous with the legislative change affect this estimate. In order to deal with this, we use a second level of differences. If contemporaneous shocks (for example, a time trend) affect the treatment and control groups in similar ways, then those shocks should also be contained in $\Delta_{Discount}^{SW}$. Therefore, the difference between $\Delta_{Discount}^{Equity}$ and $\Delta_{Discount}^{SW}$ net out these contemporaneous shocks allowing us to identify the impact of the legislative change.

The setup and basic results are presented in Table 6. The univariate results suggest that liquidity is a determinant of discounts. First, the mean discount for *equity* private placements is substantially smaller after MI 45-102 came into effect, when resale restrictions were shortened (16.4% during the 6-18 month restricted period compared to 7.0% for the 4 month restricted

¹⁴ See Bertrand and Mullainathan (1999) for a practical illustration of the differences-in-differences methodology.

period). Second, in the period before the legislative change, when special warrant private placements offered a shorter restricted period, the average discount for special warrant private placements was smaller than the average discount for equity private placements (7.7% compared to 16.4%, respectively). Third, the differences-in-differences produces a 9.2% decrease in discounts for *equity* private placements due to the legislative change.¹⁵

[Insert Table 6 about here]

Although the univariate results are insightful, in practice we implement the differences-in-differences approach in a regression framework in order to control for firm and offer characteristics. Therefore, we estimate:

$$Discount_j = \beta_0 + \beta_1 Time_j + \beta_2 SW_j + \beta_3 SW_j * Time_j + \gamma_i X_{ij} + \varepsilon_j$$

where the dependent variable is the offer price discount, as defined above, X_i are controls for firm and offer characteristics, with i indexing controls $i=1, \dots, n$. $Time$, as defined above, is a binary variable taking on the value of 1 for offerings between December 1, 2001 and December 30, 2005, and zero for offerings between January 1, 1993 and November 30, 2001. SW is a binary variable taking on the value of 1 for special warrant private placements, and zero for equity private placements. β_1 represents the difference in discounts for *equity* private placements before and after the legislative change. β_2 represents the difference in discounts between equity private placements and special warrant private placements in the period January 1, 1993 – November 29, 2001. Our estimate of the impact of the legislative change, MI 45-102, on

¹⁵ Note that in Table 6 we present the results for $(\Delta_{Discount}^{SW} - \Delta_{Discount}^{Equity})$ since our empirical results focus on the privately placed special warrants group. The analysis remains the same.

discounts is β_3 , the coefficient on the interaction term. It represents the difference in the changes of the discounts over time: $\Delta_{Discount}^{SW} - \Delta_{Discount}^{Equity}$.

The regression results are presented in Table 7. We estimate specifications based on both proxies for information asymmetry, $STD(e)$ and $Spread$, as well as $Firm Size$. The basic results are presented in Models (1) – (3). Several findings are noteworthy. First, the coefficient on $Time$ is negative and statistically significant. This says that for the sample of *equity* private placements, the average discount was higher in the period 1993-2001, when resale restrictions were longer, compared to the period 2002-2005, when resale restrictions were reduced. Second, the coefficient on SW is negative and statistically significant. This says that in the period 1993-2001, the average discount for privately placed special warrants was smaller than the average discount for privately placed equity. Third, the coefficient on the interaction term $Time*SW$, our estimate of the legislation's effect is positive and statistically significant. Therefore, consistent with our univariate results, MI 45-102 reduced the average discount for *equity* private placements by about 7.49%, controlling for firm and offer characteristics.

We also allow the coefficient on relevant firm-level characteristics to vary by $Time$ and by the type of private placement, SW . Specifically, we interact $Time*SW$ with $STD(e)$, $Spread$, and $Fraction Placed$. The results are presented in Models (4) – (6) of Table 7. The two-way interactions $STD(e)*SW$, $Spread*SW$, and $Fraction Placed*SW$ are negative and statistically significant. These results indicate that special warrant private placements representing a greater fraction of the firm ($Fraction Placed$), and special warrant private placements by firms with greater information asymmetry ($STD(e)$ and $Spread$) are associated with smaller discounts than equity private placements. *A priori* reasoning can assist us in interpreting these results. Issuing a larger fraction of illiquid stock may be practically more difficult from a firm's perspective so that

a higher discount may be needed to compensate purchasers of equity private placements, which are more illiquid, compared to special warrant private placements which are more liquid. Moreover, Hertz and Smith (1993) argue that if new investments are more difficult to value than assets in place, it is likely that the cost of information is potentially higher and investors will expend more resources to determine firm value, the larger is *Fraction Placed*. This implies a positive relationship between discounts and *Fraction Placed*, as documented by Hertz and Smith (1993). We document a positive coefficient on *Fraction Placed* and a negative coefficient on *Fraction Placed*SW* suggesting that the cost of information is higher for equity private placements, for which the committed restriction from resale is longer, and lower for special warrant private placements, for which the committed restriction from resale is shorter. Furthermore, investors purchasing shares from a firm with greater information asymmetry, as measured by *STD(e)* and *Spread*, may require a higher discount as compensation for purchasing a more illiquid placement of shares from a firm that is presumably more difficult to value. This implies that discounts should be higher for equity private placements of firms with greater information asymmetry compared to special warrant private placements, as indicated by the positive coefficients on *STD(e)* and *Spread* and the negative coefficients on *STD(e)*SW* and *Spread*SW*. We also find a significantly negative coefficient on *Firm Size*, suggesting that offerings by larger firms, which presumably have lower information asymmetry, are associated with smaller discounts. Lastly, the coefficient on *Prior Issue* is also negative and statistically significant. This says that firms that have issued securities before (of the same type) offer the shares at a smaller discount. This result is intuitive and is in the spirit of D'Mello et al. (2003) who show that subsequent announcements of SEOs reduce adverse selection costs. In the current

context, the smaller discounts for subsequent offers can be attributed to reduced adverse selection costs.

[Insert Table 7 about here]

Overall, the empirical results support hypotheses H3 and H4 and highlight the importance of liquidity as a determinant of discounts. We find that MI 45-102, which reduced resale restrictions from 6-18 months to 4 months, affected the discounts on equity private placements. Equity private placements during the 6 to 18 month restricted period had *higher* discounts than equity private placements during the 4 month restricted period. Moreover, in the period 1993-2001, when special warrant private placements were the only mechanism by which to bypass the 6 to 18 month restricted period, special warrant private placements had smaller discounts than equity private placements. These results suggest that liquidity is important for investors and is consequently priced into the discounts on private placements.

5.3. Announcement-Period Abnormal Returns of Private Placements

We use the conventional market-model event-study methodology to examine abnormal announcement-period returns. The model is estimated with a linear regression of the firm's stock returns on the TSX/CFMRC value weighted return index. The estimation period includes day -250 through day -20, with day 0 being the initial public announcement of the private placement. The event period includes day -3 to day 3.¹⁶ Abnormal returns are calculated for each event day and cumulative abnormal returns are formed by summing and then averaging the daily abnormal returns.

Table 8 presents descriptive statistics and the univariate differences-in-differences estimation results for announcement-period abnormal returns. We find positive announcement-

¹⁶ Our results are robust to various event windows.

period abnormal returns for both privately placed equity and privately placed special warrants during the entire sample period 1993-2005 and within the sub-period 1993-2001. These results are consistent with what others have documented for private placements of equity (e.g. Wruck, 1989; Hertz and Smith, 1993; Barclay et al., 2007). The sub-period results highlight several patterns. Before MI 45-102 came into effect, during the period 1993-2001, the announcement-period abnormal returns for equity private placements is 7.61% compared to 1.99% for special warrant private placements, and the difference is statistically significant. Recall that during this period the only way to avoid the 6 to 18 month restricted period was through special warrant private placements. Therefore, equity private placements, through their longer restricted period provide a more credible signal, and are consequently associated with significantly more positive announcement-period abnormal returns. Turning now to the sub-period 2002-2005, the period after MI 45-102 came into effect, we find an insignificant difference between equity private placements and special warrant private placements. This result is as expected since both types of private placements now possess virtually the same restricted period. Comparing announcement-period abnormal returns between the two periods for privately placed *equity* illustrates the impact of the legislative change. The results suggest that announcement-period abnormal returns were significantly more positive during the period 1993-2001 compared to the period 2002-2005 (7.61% compared to 3.57%). This is intuitive since the signal from the announcement of equity private placements is more credible in the period when resale restrictions are longer. The differences-in-differences estimate of the impact of MI 45-102 is 3.43%, and of the correct sign, but statistically insignificant. Therefore, the univariate results support H6 but are inconclusive for H5. We turn to a multivariate analysis below to shed further light.

[Insert Table 8 about here]

Table 9 reports multiple regression analyses with abnormal stock returns from day -3 to day 3 as the dependent variable. As in the previous subsection, we rely on the multivariate differences-in-differences estimation methodology to examine the impact of a change in resale restrictions on announcement-period abnormal returns. The basic results are presented in Models (1) – (3). The results support H6 and are inconclusive for H5. The coefficient on *SW* is negative and statistically significant, in support of H6. This says that the market reacted less positively to the announcement of special warrant private placements compared to equity private placements in the period 1993-2001. This is consistent with our intuition. Special warrant private placements are associated with shortened resale restrictions compared to equity private placements in the period 1993-2001, and we argue that issues with shortened resale restrictions provide a less credible signal of firm value than issues associated with longer resale restrictions. The coefficient on *Time*, the difference in announcement-period abnormal returns before and after MI 45-102 is negative and of the correct sign, but statistically insignificant. Similarly, the coefficient on *Time*SW*, the differences-in-differences estimate, is positive and of the correct sign, but statistically insignificant. We offer two explanations for why the results for H6 are inconclusive. First, there are only 44 special warrant private placements offered after MI 45-102 came into effect. The small sample size may reduce the power of the statistical tests. Second, it can be argued that equity private placements after MI 45-102 came into effect are not the same as equity private placements before MI 45-102 came into effect. This follows from the literature on asymmetric information models in the capital markets, which view equity issues as an attempt by corporate insiders to maximize the wealth of current shareholders at the expense of new investors. For example, Akerlof's (1970, 2002) lemons principle suggests that high information asymmetry in the private equity market is more likely to attract bad-quality firms. Therefore,

high-quality firms have incentives to reveal their qualities to increase their market values through costly signaling. In the present context, the use of equity private placements and special warrant private placements prior to MI 45-102 created a separating equilibrium whereby firms issuing equity private placements, associated with longer restrictions on resale, were associated with a more positive market reaction than special warrant private placements. The cost of such signaling was higher discounts. These discounts were justified as long as the issuance of equity private placements was perceived more favorably by the market, which we document. This information revelation was eliminated after the implementation of MI 45-102. Presently, all equity private placements are associated with a four month restricted period and the use of privately placed special warrants has all but disappeared. This suggests a pooling equilibrium whereby would-be special warrant issuers are pooled with would-be equity private placement issuers. Therefore, firms that would otherwise have issued special warrant private placements prior to MI 45-102 are now issuing equity private placements. This would confound the differences-in-differences estimation. This did not pose a problem in our analysis of discounts because the purchasers of private placements are institutional investors, who are sophisticated investors and can disentangle the quality of the issue. On the other hand, the market's reaction is based on all market participants. We provide further evidence for this proposition in the following subsection.

As in the previous subsection we also allow the coefficients on *Fraction Placed*, *STD(e)* and *Spread* to vary by *Time* and *SW*. Specifically, we interact *SW*Time* with *Fraction Placed*, *STD(e)* and *Spread*. The results are presented in Models (4) – (6). The two-way interaction terms *Fraction Placed*SW*, *SW*STD(e)*, and *SW*Spread* are negative and statistically significant. The positive coefficient on *Fraction Placed* and the negative coefficient on *SW*Fraction Placed*

suggests that the market reacts more positively for larger fractional placements of equity private placements than for special warrant private placements in the period 1993-2001. Intuition may suggest that relatively larger sales of more illiquid placements provide a more credible signal since opportunistic resale is less likely. Moreover, this result is consistent with Hertz and Smith's (1993) information hypothesis. They expect the information effects to be larger when the likely degree of undervaluation is high, which they proxy with *Fraction Placed*. We find this effect to be more positive for equity private placements than special warrant private placements, since the signal is more credible. The positive coefficients on *STD(e)* and *Spread* suggest that greater information asymmetry for firms issuing *equity* private placements in the period 1993-2001 is associated with a more positive market reaction. This is also intuitive, since the commitment by private placement investors to a longer restricted period for issues by firms with greater information asymmetry enhances the credibility of the signal. This is further supported by the negative coefficients on *SW*STD(e)* and *SW*Spread*, which suggests that special warrant private placements by firms with greater information asymmetry are associated with less positive announcement-period abnormal returns than equity private placements. Since privately placed special warrants in the period 1993-2001 had shortened resale restrictions, offerings of special warrant private placements by firms with greater information asymmetry diminishes the credibility of the signal.

[Insert Table 9 about here]

5.4. Implications of MI 45-102

At this point it is worthwhile to discuss the economic implications of the legislative shortening on resale restrictions. Prior to MI 45-102 we document clear issuing cost differences between equity private placements and special warrants private placements. In particular, we

show that equity private placements are associated with higher offer price discounts and more positive announcement-period abnormal returns compared to special warrant private placements. We do not document similar differences after the implementation of MI 45-102, since resale restrictions for equity private placements and special warrant private placements are virtually the same.

In dollar terms, prior to MI 45-102 an average firm in our sample with gross proceeds of C\$6.8 million paid approximately C\$0.6 million $((16.4\% - 7.7\%) \times \text{C}\$6.8 \text{ million})$ more by issuing privately placed equity compared to privately placed special warrants, due to the higher discount. However, current shareholders gained by approximately C\$4.8 million $((7.6\% - 2.0\%) \times \text{C}\$85.8 \text{ million})$ due to the higher market reaction from issuing privately placed equity compared to privately placed special warrants for a firm with an average market capitalization of C\$85.8 million in our sample. Therefore, the net gain is C\$4.2 million for issuing privately placed equity instead of privately placed special warrants prior to MI 45-102. MI 45-102 virtually eliminated the use of privately placed special warrants. Firms that previously issued privately placed equity now pay a smaller discount, and for an average size firm in our sample this translates to cost savings of approximately C\$0.6 million $((16.4\% - 7.0\%) \times \text{C}\$6.8 \text{ million})$. However, the market's positive reaction has also fallen due to the shortened resale restrictions. This translates into an *increased* cost of approximately C\$3.5 million $((7.6\% - 3.6\%) \times \text{C}\$85.8 \text{ million})$. Therefore, the net loss from MI 45-102 is C\$2.8 million for a firm that issued privately placed equity before MI 45-102 came into effect. This suggests that the legislation-induced reduction in special warrant private placements increased the costs of issuing private placements for firms that prior to MI 45-102 issued privately placed equity instead of privately placed special warrants.

On the other hand, a firm with average gross proceeds of C\$19.9 million that issued special warrant private placements before MI 45-102 saved approximately C\$1.7 million $((16.4\% - 7.7\%) \times C\$19.9 \text{ million})$ compared to issuing privately placed equity, due to the smaller discount. The cost to issuing privately placed special warrants before MI 45-102 is the smaller positive market reaction compared to privately placed equity, which translates to a loss of C\$6.1 million $((7.6\% - 2.0\%) \times C\$107.7 \text{ million})$ for a firm with an average market capitalization of C\$107.7 million in our sample. The net loss is C\$4.3 million. When MI 45-102 came into effect, firms that previously issued special warrant private placements now issue equity private placements. The discount and market reaction virtually stays the same for this group, so that there is no significant impact to firms that previously issued privately placed special warrants but now issue equity private placements.

The economic implications suggest that MI 45-102 had a negative impact on those firms that previously issued privately placed equity, since the market's reaction is no longer as positive. This lends support to our earlier proposition. The signal that existed before MI 45-102 is no longer available. This hurts those firms that would otherwise have issued privately placed equity if MI 45-102 did not come into effect. In some sense, this is an example of a market failure in which firms that offered equity private placements before MI 45-102 are now driven out of the market. Table 10 offers further insight into this conjecture. First, we estimate a logistic regression in the period 1993-2001, before MI 45-102 came into effect, to determine the likelihood of making a privately placed special warrant offer. We use the parameter estimates from this logistic regression and imply predicted probabilities of firms that would issue privately placed special warrants in the period 2002-2005, had MI 45-102 not come into effect. The results are presented for various cutoff points. Predicted probabilities below the cutoff point are treated

as predictors of equity private placements and predictors at or above the cutoff point are considered to be predictors of special warrant private placements. A cutoff point of 0.50 is often chosen. Consistent with our intuition, the results illustrate that the majority of the offerings would be special warrant private placements if MI 45-102 did not come into effect. Only a cutoff point of 0.90 yields a majority of equity private placements. This further supports our inconclusive findings for hypothesis H5, and the intuition that equity private placements after MI 45-102 are not the same as equity private placements before MI 45-102. More importantly, from a policy perspective, the legislative change seems to have suppressed the signaling mechanism.

[Insert Table 10 about here]

6. Conclusion

This paper highlights the importance of resale restrictions and the associated illiquidity in the market for private placements. Taking advantage of unique features in the Canadian market, we exploit a natural experiment during the sample period 1993 to 2005 to examine the effect of a change in resale restrictions on private placement discounts and announcement effects. First, we examine the impact of Multilateral Instrument 45-102 (MI 45-102), a legislative change that came into effect on November 30, 2001 that shortened resale restrictions on privately placed equity. Second, we examine the use of special warrants, a unique Canadian type of private placement. These are private/public hybrid offerings that are issued as private placements but promise the filing and receipt of a prospectus thereby allowing the placed shares to become freely tradable.

We show that before MI 45-102 came into effect, privately placed special warrants comprised approximately 83% of all private placements to financial investors. We argue that the frequency of special warrant private placements compared to equity private placements in the

period 1993-2001, and the subsequent decline in the frequency of privately placed special warrants after MI 45-102 came into effect suggests that investors are concerned with liquidity. Consistent with these findings, we find that firms making special warrant private placements, similar to public offerings, have lower information asymmetry than firms making equity private placements. This says that firms with high information asymmetry tend to reduce information production costs by issuing equity privately instead of issuing special warrants. We further document higher discounts for *equity* private placements before MI 45-102 compared to after, when resale restrictions were shortened, and smaller discounts and less positive announcement-period abnormal returns for privately placed special warrants compared to equity private placements in the period 1993-2001.

We also discuss the economic implications of MI 45-102 and argue that firms that previously issued equity private placements are made worse off by the change in legislation and firms that previously issued special warrant private placements are made no worse off by the change in legislation. The intuition rests on Akerlof's (1970, 2002) lemons principle. Before MI 45-102 came into effect issuing firms could signal quality by the type of issue – privately placed equity or privately placed special warrants – which were associated with different resale restrictions. Equity private placements prior to MI 45-102 were associated with longer resale restrictions than special warrant private placements. The cost to a firm for making an equity private placement was the higher discount it had to offer to investors. These costs were justified due to the more positive market reaction equity private placements received compared to special warrant private placements. This signaling mechanism disappeared once MI 45-102 came into effect since equity private placements are now associated with the same resale restrictions as

special warrant private placements. This has further led to the gradual disappearance of special warrant private placements.

In summary, our results confirm the importance of resale restrictions and the associated illiquidity in the market for private placements.

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Yearly Number of Privately Placed Equity and Privately Placed Special Warrant Offerings

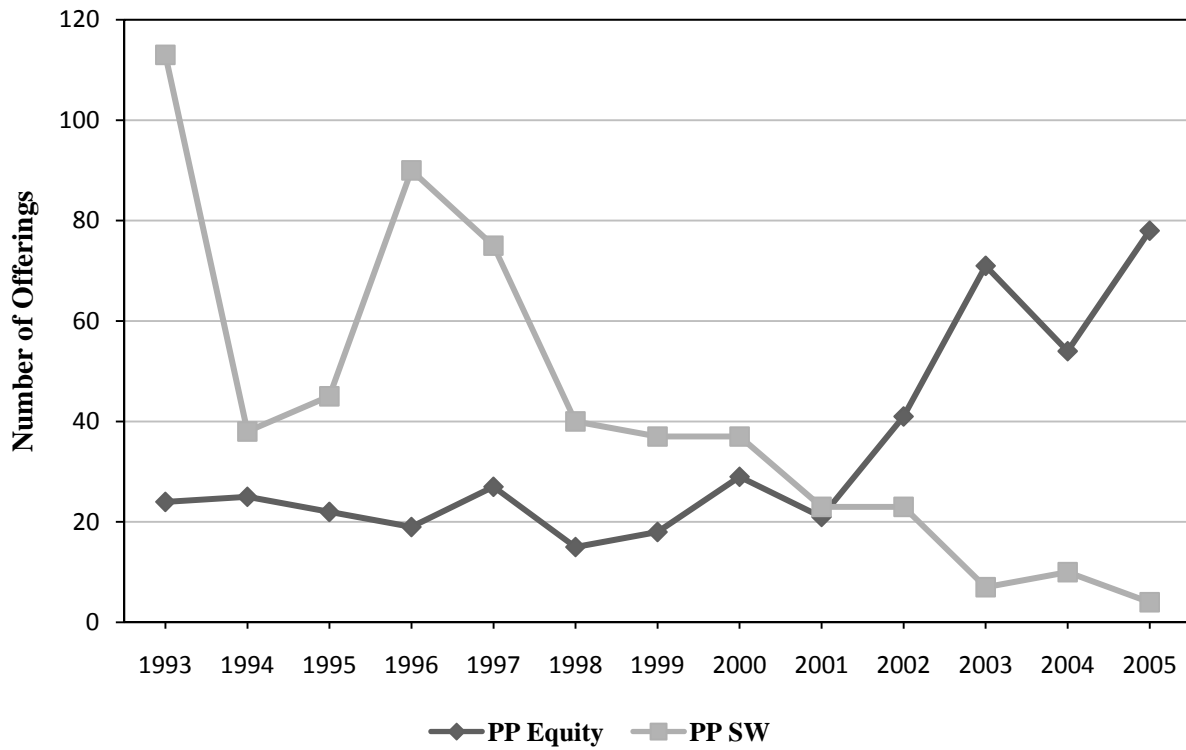


Figure 1: Yearly Number of Privately Placed Equity and Privately Placed Special Warrant Offerings

This figure displays the yearly number of offerings for a sample of 986 equity private placements (PP Equity) and special warrant private placements (PP SW) from 1993-2005 by TSX-Listed Firms.

Table 1: Number of Privately Placed Equity Issues and Privately Placed Special Warrant Issues and Gross Proceeds Raised by Year, 1993-2005

This table reports the annual number of privately placed equity (PP Equity) and privately placed special warrants (PP SW) issued and gross proceeds raised by TSX-listed firms between 1993 and 2005. Only primary and combined primary and secondary offerings are included. Pure secondary offerings are excluded.

Year	PP Equity		PP SW		Total	
	Number	Gross Proceeds (Million C\$)	Number	Gross Proceeds (Million C\$)	Number	Gross Proceeds (Million C\$)
1993	24	103.8	113	1,843.5	137	1,947.3
1994	25	102.7	38	794.1	63	896.7
1995	22	142.9	45	662.1	67	805.0
1996	19	166.3	90	2,029.1	109	2,195.4
1997	27	250.2	75	2,014.2	102	2,264.4
1998	15	285.3	40	652.8	55	938.1
1999	18	241.8	37	632.3	55	874.1
2000	29	171.2	37	910.0	66	1,081.2
2001	21	157.0	23	303.9	44	460.9
2002	41	528.1	23	536.8	64	1,064.9
2003	71	1,681.4	7	205.1	78	1,886.5
2004	54	752.7	10	282.5	64	1,035.2
2005	78	1,883.2	4	184.4	82	2,067.7
Total	444	6,466.6	542	11,050.7	986	17,517.3

Table 2: Summary Statistics for the Purchaser of Equity and Special Warrant Private Placements

This table reports summary statistics for a sample of 986 equity (PP Equity) and special warrant private placements (PP SW) segmented by the time period and the type of purchaser. Panel A reports offerings between January 1, 1993 and December 31, 2005. Panel B reports offerings between January 1, 1993 and November 30, 2001. Panel C reports offerings between December 1, 2001 and December 31, 2005. *Financial* refers to purchasers that are undisclosed, arms length investors. *Strategic* refers to purchasers that are strategic alliance partners, joint venture partners and/or customers. *Active* refers to purchasers that are nominated to the board of directors upon purchase of the private placement. *Insider* refers to purchasers that are managers and/or existing shareholders. *Venture/Private Capital* refers to a purchase by a single venture capitalist or private equity firm.

Purchaser Type	PP Equity	% of Purchaser Type	PP SW	% of Purchaser Type	Total	% of Total Purchasers
Panel A: Jan 1/1993-Dec 31/2005						
Financial	335	38.6	533	61.4	868	88.0
Strategic	25	96.2	1	3.8	26	2.6
Active	18	94.7	1	5.3	19	1.9
Insider	37	88.1	5	11.9	42	4.3
Venture/Private Capital	29	93.5	2	6.5	31	3.1
Total	444		542		986	100.0
Panel B: Jan 1/1993-Nov 30/2001						
Financial	102	17.3	488	82.7	590	85.6
Strategic	22	95.7	1	4.3	23	3.3
Active	15	93.8	1	6.3	16	2.3
Insider	28	84.8	5	15.2	33	4.8
Venture/Private Capital	26	96.3	1	3.7	27	3.9
Total	193		496		689	100.0
Panel C: Dec 1/2001-Dec 31/2005						
Financial	233	83.8	45	16.2	278	93.6
Strategic	3	100.0	----	0.0	3	1.0
Active	3	100.0	----	0.0	3	1.0
Insider	9	100.0	----	0.0	9	3.0
Venture/Private Capital	3	75.0	1	25.0	4	1.3
Total	251		46		297	100.0

Table 3: Descriptive Statistics for Equity and Special Warrant Private Placements

This table reports descriptive statistics for equity and special warrant private placements segmented by the time period. Panel A reports statistics for offerings between January 1, 1993 and December 31, 2005. Panel B reports statistics for offerings between January 1, 1993 and November 30, 2001. Panel C reports statistics for offerings between December 1, 2001 and December 31, 2005. *Offer Price* is the offer price per share. *Shares Offered* is the total number of shares, excluding over-allotment taken. *Gross Proceeds* is the total amount raised by the issue, before deduction of issue expenses and cash fees, excluding the proceeds from any over-allotment taken. *Speed* is the number of days between the announcement date and the closing date of the offer. *Market Cap* is the market value of equity and is calculated as the stock price at the end of the month prior to the announcement of the equity offer multiplied by the number of shares outstanding at that time. *Fraction Placed* is the amount of shares offered scaled by the firm's total number of shares outstanding in the month prior to the announcement of the equity offer, scaled up by a factor of 100. *STD(e)* is the standard deviation of market-model residuals measured over a 230-day period beginning 250 days prior to the announcement of the offering. *Turnover* is defined as the average daily trading volume as a percent of shares outstanding measured over the 60 trading days prior to the announcement of the equity offer. *Spread* is defined as the average percentage bid-ask spread scaled by the midpoint of the two quotes that define the spread over a 60-day period prior to the announcement of the equity offer. β is estimated from the market-model over a 230-day period beginning 250 days prior to the announcement of the offering. *STD(R_m)* is the standard deviation of the CFMRC/TSX value-weighted market return index over the 60 trading days prior to the announcement of the equity offer.

		PP Type	N	Mean	Median	StdDev	Test of Differences (P-Value)		
								Mean	Median
Panel A: Jan 1/1993-Dec 31/2005									
Offer Price	Equity		307	3.6	2.2	4.5	(0.0001)	(0.0001)	
(C\$)	SW		514	6.4	4.1	6.9			
Shares	Equity		307	7.2	3.8	14.7	(0.0819)	(0.0390)	
Offered	SW		514	5.7	3.0	9.1			
(million)									
Gross	Equity		307	13.3	8.3	19.4	(0.0001)	(0.0001)	
Proceeds	SW		514	20.6	12.8	24.0			
(million C\$)									
Speed (days)	Equity		307	19.5	16.0	17.7	(0.0501)	(0.1672)	
	SW		514	17.9	16.0	10.0			
Market Cap	Equity		307	100.5	62.5	115.4	(0.1396)	(0.1649)	
(million C\$)	SW		514	115.9	66.0	159.1			
Fraction	Equity		307	20.3	13.2	25.1	(0.0034)	(0.0001)	
Placed	SW		514	26.1	19.6	28.3			
STD(e)	Equity		307	5.3	4.3	4.8	(0.3472)	(0.9703)	
	SW		514	5.1	4.4	3.0			
Turnover	Equity		307	0.3	0.2	0.3	(0.2561)	(0.3228)	
	SW		514	0.3	0.2	0.3			
Spread	Equity		307	4.2	3.0	4.6	(0.0415)	(0.5286)	
	SW		514	3.7	3.0	2.7			
β	Equity		307	0.6	0.6	1.7	(0.3215)	(0.3067)	
	SW		514	0.7	0.7	1.3			
STD(R_m)	Equity		307	0.7	0.6	0.3	(0.1377)	(0.9825)	
	SW		514	0.7	0.6	0.4			
Panel B: Jan 1/1993-Nov 30/2001									
Offer Price	Equity		95	3.7	1.5	6.1	(0.0001)	(0.0001)	
(C\$)	SW		470	6.6	4.4	7.0			
Shares	Equity		95	4.7	3.0	5.3	(0.7400)	(0.4441)	
Offered	SW		470	4.9	3.0	7.2			
(million)									

Gross Proceeds (million C\$)	Equity	95	6.8	3.8	8.3	(0.0001)	(0.0001)
	SW	470	19.9	12.4	23.6		
Speed (days)	Equity	95	21.7	13.0	23.8	(0.0155)	(0.0921)
	SW	470	18.1	16.5	10.1		
Market Cap (million C\$)	Equity	95	85.8	38.5	126.2	(0.1675)	(0.0001)
	SW	470	107.7	64.2	143.8		
Fraction Placed	Equity	95	21.8	14.1	28.4	(0.1351)	(0.0001)
	SW	470	26.7	19.9	29.1		
STD(e)	Equity	95	7.4	5.7	7.6	(0.0001)	(0.0001)
	SW	470	5.1	4.4	3.1		
Turnover	Equity	95	0.2	0.1	0.2	(0.0416)	(0.0223)
	SW	470	0.3	0.2	0.3		
Spread	Equity	95	6.4	4.3	6.8	(0.0001)	(0.0001)
	SW	470	3.8	3.0	2.8		
β	Equity	95	0.4	0.6	2.2	(0.0396)	(0.4262)
	SW	470	0.7	0.7	1.3		
STD(R_m)	Equity	95	0.8	0.6	0.4	(0.0653)	(0.1963)
	SW	470	0.7	0.6	0.4		

Panel C: Dec 1/2002-Dec 31/2005

Offer Price (C\$)	Equity	212	3.5	2.5	3.5	(0.8692)	(0.8590)
	SW	44	3.6	2.7	3.7		
Shares Offered (millions)	Equity	212	8.3	4.0	17.2	(0.0450)	(0.0005)
	SW	44	14.1	7.1	18.8		
Gross Proceeds (million C\$)	Equity	212	16.2	10.1	22.1	(0.0019)	(0.0001)
	SW	44	28.1	19.4	26.8		
Speed (days)	Equity	212	18.5	16.0	14.1	(0.3393)	(0.3346)
	SW	44	16.4	15.0	8.7		
Market Cap (million C\$)	Equity	212	107.2	69.6	109.9	(0.0001)	(0.0022)
	SW	44	204.1	101.0	260.7		
Fraction Placed	Equity	212	19.7	13.2	23.6	(0.9305)	(0.1944)
	SW	44	20.0	16.8	16.8		
STD(e)	Equity	212	4.4	4.0	2.1	(0.2355)	(0.0778)
	SW	44	4.9	4.3	2.1		
Turnover	Equity	212	0.3	0.2	0.3	(0.8135)	(0.9421)
	SW	44	0.3	0.2	0.3		
Spread	Equity	212	3.3	2.5	2.8	(0.3023)	(0.4935)
	SW	44	2.8	2.4	1.6		
β	Equity	212	0.7	0.6	1.3	(0.2757)	(0.2517)
	SW	44	0.5	0.4	0.6		
STD(R_m)	Equity	212	0.6	0.6	0.2	(0.0001)	(0.0001)
	SW	44	0.8	0.7	0.3		

Table 4: Pearson Correlation Coefficients of Firm and Offer Variables

This table reports correlations between firm and offer variables for the sample of 821 special warrant and equity private placements between 1993 and 2005. *Fraction Placed* is the amount of shares offered scaled by the firm's total number of shares outstanding in the month prior to the announcement of the equity offer, scaled up by a factor of 100. *Firm Size* is the logarithm of the firm's market capitalization in the month prior to the announcement of the equity offer. *Turnover* is defined as the average daily trading volume as a percent of shares outstanding measured over the 60 trading days prior to the announcement of the equity offer. *Spread* is defined as the average percentage bid-ask spread scaled by the midpoint of the two quotes that define the spread over a 60-day period prior to the announcement of the equity offer. *STD(e)* is the standard deviation of market-model residuals measured over a 230-day period beginning 250 days prior to the announcement of the offering. *Prior Issue* is defined as the number of issues that the firm had between January 1, 1993 and the current issue, where the issues were of the same type as the current issue. β is estimated from the market-model over a 230-day period beginning 250 days prior to the announcement of the offering. *STD(R_m)* is the standard deviation of the CFMRC/TSX value-weighted market return index over the 60 trading days prior to the announcement of the equity offer. *Time* is a binary variable taking on the value of 1 for offerings between December 1, 2001 and December 30, 2005, and zero for offerings between January 1, 1993 and November 30, 2001. *SW* is a binary variable taking on the value of 1 for privately placed special warrants, and zero for privately placed equity.

	Fraction Placed	Firm Size (log)	Turnover	Spread	STD(e)	Prior Issue	β	STD(R _m)	Time	SW
Fraction Placed	1.00									
Firm Size (log)	-0.43	1.00								
Turnover	-0.04	0.14	1.00							
Spread	0.41	-0.67	-0.22	1.00						
STD(e)	0.28	-0.45	0.16	0.67	1.00					
Prior Issue	-0.04	0.17	-0.06	-0.11	-0.08	1.00				
β	-0.06	0.07	0.06	-0.08	0.03	0.00	1.00			
STD(R _m)	-0.02	0.02	-0.02	0.12	0.22	0.03	-0.03	1.00		
Time	-0.12	0.13	0.01	-0.16	-0.13	0.03	-0.04	-0.08	1.00	
SW	0.12	0.07	0.04	-0.06	-0.01	0.02	0.04	0.05	-0.63	1.00

Table 5: Logistic Regression of Offer Type on Firm and Offer Characteristics

In this table, we estimate logistic regressions for the type of private placement. The dependent variable in each model equals one if a firm issues privately placed special warrants, and zero if it issues privately placed equity. *Fraction Placed* is the amount of shares offered scaled by the firm's total number of shares outstanding in the month prior to the announcement of the equity offer, scaled up by a factor of 100. *Firm Size* is the logarithm of the firm's market capitalization in the month prior to the announcement of the equity offer. *Turnover* is defined as the average daily trading volume as a percent of shares outstanding measured over the 60 trading days prior to the announcement of the equity offer. *Spread* is defined as the average percentage bid-ask spread scaled by the midpoint of the two quotes that define the spread over a 60-day period prior to the announcement of the equity offer. *STD(e)* is the standard deviation of market-model residuals measured over a 230-day period beginning 250 days prior to the announcement of the offering. *Prior Issue* is defined as the number of issues that the firm had between January 1, 1993 and the current issue, where the issues were of the same type as the current issue. β is estimated from the market-model over a 230-day period beginning 250 days prior to the announcement of the offering. *STD(R_m)* is the standard deviation of the CFMRC/TSX value-weighted market return index over the 60 trading days prior to the announcement of the equity offer. *Time* is a binary variable taking on the value of 1 for offerings between December 1, 2001 and December 30, 2005, and zero for offerings between January 1, 1993 and November 30, 2001. χ^2 -statistics are in parentheses. Note: *, **, *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2	Model 3
Intercept	1.49*** (24.31)	1.89*** (33.65)	-12.72*** (36.75)
Fraction Placed	0.01*** (8.64)	0.02*** (17.82)	0.02*** (18.77)
Firm Size (log)			0.77*** (44.39)
Turnover	0.84** (5.94)	0.06 (0.03)	
Spread		-0.24*** (41.10)	
STD(e)	-0.15*** (19.85)		
Prior Issue	0.19 (1.75)	0.11 (0.57)	0.01 (0.00)
β	0.07 (0.66)	0.04 (0.20)	0.04 (0.18)
STD(R _m)	0.40 (1.58)	0.33 (1.09)	0.02 (0.00)
Time	-3.34*** (244.41)	-3.50*** (250.94)	-3.58*** (235.86)
N	821	821	821
Pseudo-R ²	0.49	0.52	0.52

Table 6: Descriptive Statistics and the Differences-in-Differences Estimation for the Offer Price Discount

This table reports descriptive statistics for the offer price discount, defined as $(P_{-1} - P_{offer})/P_{offer}$, which is scaled up by a factor of 100, where P_{-1} is the market price the day before the pricing date and P_{offer} is the offer price. Panel A reports descriptive statistics for the periods January 1, 1993 – December 31, 2005; January 1, 1993 – November 30, 2001; December 1, 2001 – December 31, 2005. PP Type *Equity* refers to private placements of equity and PP Type *SW* refers to private placements of special warrants. Panel B reports the univariate results for the differences-in-differences estimation method. In Panel B, *Standard errors* are reported in parentheses.

Offer Price Discount segmented by the Type of Private Placement and by Time Period						
	PP Type	N	Mean	Median	Test of Differences (P-Value)	
					Mean	Median
1993 – 2005	Equity	307	9.9	5.7	(0.0086)	(0.2901)
	SW	514	7.6	5.4		
1993 – 2001	Equity	95	16.4	11.7	(0.0001)	(0.0001)
	SW	470	7.7	5.4		
2002 – 2005	Equity	212	7.0	4.9	(0.8088)	(0.4637)
	SW	44	7.4	5.7		

Differences-in-Differences Estimation			
	1993 – 2001	2002 – 2005	Δ (Discount)
Equity	16.4 (2.09)	7.0 (0.73)	-9.4 (1.78)
SW	7.7 (0.45)	7.4 (1.37)	-0.2 (1.53)
Δ (Discount)	-8.7 (1.37)	0.4 (1.73)	9.2 (2.34)

Table 7: Determinants of the Offer Price Discount

This table reports OLS regression results with the offer price discount as the dependent variable. *Fraction Placed* is the amount of shares offered scaled by the firm's total number of shares outstanding in the month prior to the announcement of the equity offer, scaled up by a factor of 100. *Firm Size* is the logarithm of the firm's market capitalization in the month prior to the announcement of the equity offer. *Turnover* is defined as the average daily trading volume as a percent of shares outstanding measured over the 60 trading days prior to the announcement of the equity offer. *Spread* is defined as the average percentage bid-ask spread scaled by the midpoint of the two quotes that define the spread over a 60-day period prior to the announcement of the equity offer. *STD(e)* is the standard deviation of market-model residuals measured over a 230-day period beginning 250 days prior to the announcement of the offering. *Prior Issue* is defined as the number of issues that the firm had between January 1, 1993 and the current issue, where the issues were of the same type as the current issue. β is estimated from the market-model over a 230-day period beginning 250 days prior to the announcement of the offering. *STD(R_m)* is the standard deviation of the CFMRC/TSX value-weighted market return index over the 60 trading days prior to the announcement of the equity offer. *Time* is a binary variable taking on the value of 1 for offerings between December 1, 2001 and December 30, 2005, and zero for offerings between January 1, 1993 and November 30, 2001. *SW* is a binary variable taking on the value of 1 for privately placed special warrants, and zero for privately placed equity. Robust t-statistics are in parentheses. Note: *,**,*** represent statistical significance at the 10%,5%, and 1% levels, respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	5.52** (2.44)	5.47** (2.37)	34.69*** (3.54)	-1.65 (-0.51)	0.48 (0.17)	23.35** (2.41)
Fraction Placed	0.10*** (3.61)	0.10*** (3.36)	0.12*** (4.12)	0.09*** (3.38)	0.10*** (3.62)	0.37*** (4.49)
Firm Size (log)			-1.41*** (-2.76)			-1.03** (-2.07)
Turnover	1.85 (1.35)	5.73*** (4.12)	4.55*** (3.22)	2.59* (1.86)	5.06*** (3.60)	3.48** (2.52)
Spread		0.94*** (3.22)			1.86*** (3.16)	
STD(e)	1.08*** (4.56)			2.16*** (4.21)		
Prior Issue	-1.03*** (-2.61)	-0.97** (-2.39)	-0.96** (-2.29)	-0.99** (-2.46)	-0.87** (-2.08)	-1.03** (-2.39)
β	0.15 (0.33)	0.38 (0.86)	0.36 (0.79)	0.21 (0.51)	0.61 (1.60)	0.44 (0.98)
STD(R _m)	1.86 (1.28)	3.04** (2.16)	4.04*** (2.75)	1.91 (1.40)	2.49* (1.89)	3.40** (2.46)
Time	-6.63*** (-3.46)	-6.64*** (-3.50)	-7.92*** (-4.00)	-1.77 (-0.47)	-3.08 (-0.87)	-4.79* (-1.95)
SW	-7.59*** (-4.12)	-7.49*** (-4.22)	-8.60*** (-4.54)	2.16 (0.63)	1.06 (0.35)	-1.34 (-0.60)
Time*SW	7.49*** (3.22)	8.06*** (3.51)	9.34*** (3.88)	-2.08 (-0.40)	-2.16 (-0.48)	2.84 (0.97)
STD(e)*SW				-1.59***		

Spread*SW				(-2.92)		-1.78*** (-2.86)	
Fraction Placed*SW							-0.33*** (-3.92)
STD(e)*Time				-0.58 (-0.81)			
Spread*Time						-0.38 (-0.41)	
Fraction Placed*Time							-0.15 (-1.33)
STD(e)*SW*Time				1.51 (1.39)			
Spread*SW*Time						2.48* (1.77)	
Fraction Placed*SW*Time							0.29** (2.17)
N	821	821	821	821	821	821	821
Adjusted R^2	0.20	0.18	0.16	0.22	0.21	0.21	0.21

Table 8: Descriptive Statistics and Differences-in-Differences Estimation for Mean Announcement-Period Cumulative Abnormal Returns

In this table we compare the mean announcement-period abnormal returns for equity private placements (PP Equity) and special warrant private placements (PP SW) segmented by the time period. Abnormal returns are measured as the mean cumulative abnormal returns during the event window (-3, 3). Market-model parameters are estimated from days, $t=-250, \dots, -20$ preceding the announcement date. In Panel A, Boehmer et al. (1991) t-statistics are reported in the first row of parentheses, and cross-sectional t-statistics are reported in the second row of parentheses. Panel B reports the univariate results for the differences-in-differences estimation method. In Panel B, *Standard errors* are reported in parentheses. Note: *, **, *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

CARs segmented by the Type of Private Placement and by Time Period					
	PP Equity		PP SW		Test of Differences (P-Value)
1993 – 2005	4.82%	(N=307)	1.94%	(N=514)	(0.0075)
	(5.31)***		(3.73)***		
	(5.24)***		(3.12)***		
1993 – 2001	7.61%	(N=95)	1.99%	(N=470)	(0.0012)
	(3.36)***		(3.73)***		
	(3.61)***		(3.07)***		
2002 – 2005	3.57%	(N=212)	1.39%	(N=44)	(0.3364)
	(4.17)***		(0.57)		
	(3.84)***		(0.64)		

Differences-in-Differences Estimation			
	1993 – 2001	2002 – 2005	Δ (CAR)
Equity	7.61	3.57	-4.04
	(2.11)	(0.93)	(1.98)
SW	1.99	1.39	-0.61
	(0.65)	(2.17)	(2.22)
Δ (CAR)	-5.61	-2.18	3.43
	(1.73)	(2.27)	(2.97)

Table 9: Determinants of Cumulative Abnormal Returns

This table reports OLS regression results with the 7-day cumulative abnormal return (CAR) as the dependent variable. *Fraction Placed* is the amount of shares offered scaled by the firm's total number of shares outstanding in the month prior to the announcement of the equity offer, scaled up by a factor of 100. *Firm Size* is the logarithm of the firm's market capitalization in the month prior to the announcement of the equity offer. *Turnover* is defined as the average daily trading volume as a percent of shares outstanding measured over the 60 trading days prior to the announcement of the equity offer. *Spread* is defined as the average percentage bid-ask spread scaled by the midpoint of the two quotes that define the spread over a 60-day period prior to the announcement of the equity offer. *STD(e)* is the standard deviation of market-model residuals measured over a 230-day period beginning 250 days prior to the announcement of the offering. *Prior Issue* is defined as the number of issues that the firm had between January 1, 1993 and the current issue, where the issues were of the same type as the current issue. β is estimated from the market-model over a 230-day period beginning 250 days prior to the announcement of the offering. *STD(R_m)* is the standard deviation of the CFMRC/TSX value-weighted market return index over the 60 trading days prior to the announcement of the equity offer. *Time* is a binary variable taking on the value of 1 for offerings between December 1, 2001 and December 30, 2005, and zero for offerings between January 1, 1993 and November 30, 2001. *SW* is a binary variable taking on the value of 1 for privately placed special warrants, and zero for privately placed equity. Robust t-statistics are in parentheses. Note: *, **, *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	3.96 (1.46)	2.00 (0.72)	28.10** (2.35)	-5.39 (-1.02)	-3.82 (-0.98)	17.89 (1.43)
Fraction Placed	0.12*** (3.15)	0.10** (2.50)	0.12*** (3.00)	0.11*** (2.83)	0.10** (2.47)	0.34*** (2.62)
Firm Size (log)			-1.28** (-1.98)			-0.94 (-1.45)
Turnover	-4.98** (-2.19)	-2.66 (-1.15)	-3.62* (-1.67)	-4.11* (-1.77)	-3.45 (-1.52)	-4.44** (-2.07)
Spread		0.80** (2.14)			1.86*** (2.72)	
STD(e)	0.42 (1.20)			1.84** (2.13)		
Prior Issue	-0.25 (-0.44)	-0.06 (-0.10)	-0.03 (-0.05)	-0.23 (-0.42)	0.03 (0.05)	-0.10 (-0.18)
β	-0.26 (-0.36)	-0.13 (-0.19)	-0.15 (-0.21)	-0.19 (-0.26)	0.12 (0.17)	-0.06 (-0.09)
STD(R _m)	-0.64 (-0.33)	-0.61 (-0.33)	0.24 (0.13)	-0.58 (-0.30)	-1.10 (-0.59)	-0.23 (-0.12)
Time	-2.59 (-1.27)	-1.65 (-0.82)	-2.68 (-1.26)	4.68 (0.83)	3.44 (0.86)	2.18 (0.72)
SW	-5.18*** (-2.59)	-4.25** (-2.19)	-5.14** (-2.50)	7.14 (1.38)	5.10 (1.47)	0.48 (0.19)
Time*SW	2.82 (0.90)	2.37 (0.78)	3.44 (1.10)	-6.68 (-0.92)	-8.45 (-1.35)	0.15 (0.03)
STD(e)*SW				-1.99**		

Spread*SW				(-2.06)	-1.91**	
Fraction Placed*SW					(-2.38)	-0.26**
STD(e)*Time				-0.96		(-1.99)
Spread*Time				(-0.83)	-0.73	
Fraction Placed*Time					(-0.70)	-0.24
STD(e)*SW*Time				1.38		(-1.38)
Spread*SW*Time				(0.95)	2.51	
Fraction Placed*SW*Time					(1.30)	0.14
N	821	821	821	821	821	821
Adjusted R^2	0.06	0.07	0.06	0.08	0.09	0.08

Table 10: Implied Number of Equity Private Placements and Special Warrant Private Placements in the period 2002-2005

This table reports the implied number of equity private placements (PP Equity) and special warrant private placements (PP SW) in the period 2002-2005, had MI 45-102 not come into effect. The implied frequency is computed from predicted probabilities based on parameter estimates from a logistic regression in the period 1993-2001. The implied number of PP Equity and PP SW are presented for various probability cutoff points where P(SW) represents the predicted probability that the issue is a special warrant private placement.

Probability	Implied Number of PP Equity	Implied Number of PP SW
P(SW) > 0.50	4	208
P(SW) > 0.60	11	201
P(SW) > 0.70	22	190
P(SW) > 0.80	49	163
P(SW) > 0.90	128	84