CHRISTER PETERSON • LULEÅ UNIVERSITY OF TECHNOLOGY, SWEDEN
JOAKIM FREDRIKSSON • UMEÅ SCHOOL OF BUSINESS AND ECONOMICS, UMEÅ UNIVERSITY, SWEDEN
ANDERS NILFJORD • UMEÅ SCHOOL OF BUSINESS AND ECONOMICS, UMEÅ UNIVERSITY, SWEDEN

Common Stock Repurchases A First Year Swedish Sample and Comparative Reactions on the US and Finnish Markets

Public companies in Sweden were permitted to repurchase their own shares at the beginning of 2000. This paper examines the effects on the prices of the first year Swedish sample. The sample under study consisted of 31 programs, 29 open market repurchases and two tender offers.

The empirical part of the paper examines abnormal returns around the announcement date. The study uses standard event-study methodology, and examines the repurchasing firms during a period of ±10 days. Further, we used *The Market Model* with the period –200 to –11 days as a base to calculate the expected return, and the Swedish Stock Exchange *SX-Generalindex* as a market index and benchmark. We also used a t-test to decide whether a price reaction could be identified or not.

The results of the empirical study show a significant positive price reaction of 1.12 percent on average abnormal returns for open market repurchases; the figure is significant at the 2-percent level. The result of the two tender offers indicates a positive reaction of 4.03 percent on average abnormal returns. However, no general conclusion can be drawn from this figure due to there being only two observations.

Further, the paper compares and discusses the reactions on the Swedish market with those on the US and Finnish markets. The reactions on the Swedish market appear considerably weaker compared to those on the US market. The increase of at least 1 percent on the open market is to be compared to 2 to 5 percent, and the increase of some 4 percent for tender offers could cautiously be related to 11 to 19 percent for the American studies referred to. Judging the differences in price reactions, we conclude that the principal explanation is the differences in institutional rules.

Deregulation motives, as well as general attitudes towards share repurchases, were similar in neighbouring Sweden and Finland, which resulted in relatively prudent guidelines on the way repurchases should be carried out in both countries. So, not surprisingly, the short-term reactions on the Stockholm and Helsinki markets seem to be similar. The average abnormal return in Stockholm is 1.12 percent and in Helsinki 1.08 percent for day 0.

A significant difference between the two

compared samples is the degree of drift prior to the announcement: the Swedish sample describes a slight but positive drift prior to the announcement, while the Finnish sample describes a negative one. The lower price reactions on the Finnish market, as is the case in Sweden, support our view that severe restrictions generate moderating effects on market reactions.