Testing the Signaling Hypothesis of Listing on the Premium Division: Evidence from the Tokyo Stock Exchange*

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Abstract

This paper examines whether being listed on the Prime Market after the restructuring of the Tokyo Stock Exchange (TSE) signals that a firm is of high quality. The Prime Market is the premium division of the TSE, which has stricter criteria for maintaining listing than other divisions. We used the Fama and French factor model to compare firms listed on the prime and standard markets around January 11, 2022, when the firms in the restructured markets were announced and analyzed whether investors' valuations would change. We find three main results. First, the three-factor model estimates indicate no significant difference between firms on the prime and standard markets in their post-restructuring valuations. Second, however, we found that the model with a liquidity factor led to differences between firms in the two markets. Finally, the five-factor plus liquidity model also supported the second result. We conclude that the signaling hypothesis of listing on the premium market is not supported.

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