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Investigating the Effect of Issuing Bonus Share and Subscription Privilege on Stock Return in the Companies Accepted in Tehran Stock Exchange

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ABSTRACT

Background: Capital increase through bonus share and subscription privilege and the market reaction toward them is one of the most significant issues in financial management and investment. **Objective**: The effort in the present study has been to evaluate the effect of capital increase in the mentioned methods. The question is that whether issuing bonus share and subscription privilege have any impact on abnormal stock return or not. **Results**: Theoretically, bonus share does not bring any worthy change by itself. That’s because although the capital of the company increases, the reserves and retained earnings decrease to the same degree, thus no change occurs in the company’s total assets. Subscription privilege is issued to increase capital through the shareholders’ contribution in cash and causes the share to be distributed among the shareholders based on their ownership. The statistical community of the present study was all companies accepted in Tehran stock Exchange of which 82 qualified companies were selected .Gathered data were transferred into Excel software and the hypotheses were tested by SPSS software. **Conclusion**: The findings indicate no influence of bonus share and subscription privilege on stock return whether simultaneously or independently.

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INTRODUCTION

Bonus share is a kind of capital increase issued by approval of extra general meeting after being suggested by the board of directors from retained earnings and reserves. Then the shares are distributed among the regular shareholders based on their ownership. In other words, bonus share is transfer of retained earnings and the company’s reserves to the capital account. Usually the companies look at bonus share as a replacement or complement of cash profit. In some cases capital increase is used to implement development plans. Theoretically, bonus share does not bring about a change in the wealth of the shareholders .That’s because even though the capital of the company increases, the reserves will decrease to the same degree. As a result, no change occurs in the company’s total assets. However, the announcement of issuing bonus share in stock markets affects stock price as it is considered as a sign of company’s prosperity in future .That’s why the bonus share is regarded as a type of output and profit for shareholders as well and the investors are interested in such a stock(Sinaee, Mahmoudi, 2005, p.79)The subscription privilege is one of the sources of external financing based on which in case of capital increase, current shareholders are prior to buy a certain number of shares in nominal price. This means that the company’s shareholders are prior to others in buying new stock. Actually, subscription privilege is one of the ways to gain liquidity in order to develop activities and implement future plans issued to increase capital through shareholders’ cash and causes the shares to be distributed among the shareholders. In Tehran stock market, the reaction of securities market against the announcement of bonus share and subscription privilege is of great significance .Since the issue has faced some variations in the previous studies, the fundamental question in the present research is to answer the following questions: Whether issuing subscription privilege and bonus share has any impact on dividend yield of the companies admitted in Tehran stock market? If yes, to what extent and how?

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Theoretical principles:

Capital increase through issuing bonus share and subscription privilege and the securities market reaction toward them is one of the most crucial issues in financial management and investment. For many scholars and researchers, the pace of adjustment and adapting stock price with this news is a sign of market efficiency. In explaining these two phenomena, it is said that they do not bring value for the company, but the investors in securities market react toward it .This is the topic of a number of studies. In this part of the research, primarily, the theoretical principles of the bonus share and stock priority are being studied and then, the studies made in relation to the topic of this research are reviewed.

The nature of Bonus share:

In fact bonus share or profit share means awarding additional stock (as annual profit) to the company's shareholders without receiving any money. Distributing bonus share is one of the ways in capital increase and it is not anything except a change in the financial structure of the company. The regular shareholders' ownership and the company's net worth remain unchanged. Therefore, the shareholders hold a more number of shares but the earnings of their shares decreases, even though the shareholders' share of the total income of the company remains unchanged. In a very precise look, perhaps the bonus share cannot be considered a dividend payout because no asset is distributed among the shareholders. Nevertheless, bonus share has a considerable significant in practice and has raised lots of debates.(Sahmani Asl, 1996)

Based on the standards of accounting, the investor should not record receiving bonus share in the accounts. The reasoning here is that issuing new shares from retained earnings, is merely a change in the classification of the shareholders' equity and it does not guarantee the transfer of assets to the investor. Anyway, retained earnings is the source for distributing the dividend and its transfer to capital accounts and distributing the shares through it will practically take the opportunity for receiving later cash or non-cash dividends from the shareholders .Moreover, little attention is paid to the impact of ways of recognizing investment income (special value or cost) in contact with bonus share. Based on the method of special value which conforms with the theory of individual ownership, the profit of the investee company-no matter how it is assigned-belongs to the investor. Therefore, supposing that the investor has again invested his share of the profits in the investee company, the investment earning recognizes. In cost method which is based on theory of personality separation, it is supposed that the profit of the investee company belongs to the company itself and only the amount approved by the regular general meeting to be divided belongs to the investor. Therefore, in this method, the investment earning is recognized based on cash dividend not special profit. In special value method, there is no need to record bonus share because the investment earning is recorded based on special profit of the investee company (Rahmani, Accountant, 152, P. 13).

What follow is some fundamental reasons for issuing bonus share.

1. Profit payment at due time and maintain the company's liquidity: In case the companies need financial supply, using the profit is always regarded as a suitable source for them .By distributing bonus share, they both keep the shareholders satisfied and supply the cash they need. Of course this should definitely be in relation with the development of company's activities or for enforcing current assets in the direction of planned goals .For instance it can be a help in enforcing the fund of the company's creditors.(Sinaee(1993)-previous)

2. Stock market price reduction and creating a prosperous trading market:

In case the price of a company's stock goes higher than the normal rate of the market, the average investors won't be eager to buy such a stock. On the other hand, the difference in the price may not be so high that demands share analyzing. Thus in such conditions, they cause price reduction by distributing bonus share so that it is placed in the range of the prices of other shares. (-Sinaee(1993)-previous)

3. Plans for development and perfection: By issuing bonus share as a replacement for dividend the managers can preserve the company's cash and spend it for investment in development and perfection plans .In other words, in order to use the opportunities for profitable investment, they reduce the percentage for dividend payment so that they can financially support part of this profitable investment opportunities through undivided profit. (Sahmani (1996)-previous)

4. Special Conditions: Sometimes stock sale is costly and difficult. In such cases, bonus share is distributed. This means that the company continues the policy of low dividend and at the same time pays bonus share .This prevents the company's stock market value to be seriously influenced due to lack of growth in dividend and the shareholder can-if required-meet his needs for the cash through selling bonus share and on the other hand the company is financially supported without imposing new costs .On the other hand, Sometimes the market conditions does not accept a company's new stock .In this case if the company acts for selling new stock , the situation of the previous shareholders becomes unstable. In this case the logical way is distributing bonus share.

Similarly, in case distributing saving bonds is not possible for the company for any reason, bonus share is used. In cases that there is no special problem, the interest and preference of shareholders can also be the determining factor for distributing bonus share. (Sinaee(1993)-previous)

5. Adjusting the shareholders' expectations: In some cases and for some reasons, the income of a company may have an extraordinary increase, not possible constantly in long-term. This may affect the shareholders' demands and expectation in receiving dividends and the managers find it hard to meet these demands. In this cases, the companies act for distributing bonus share in order to conceal the company's earnings and implicitly declare that the company has no possibility for extra dividends.

- *Subscription privilege:*

In addition to receiving dividend and the right of voting, regular shareholders have another right which is called subscription privilege. Usually, based on the civil law or Islamic Jurisprudence, it is stated in the Article of Associations of the companies that in case new stocks are being issued for sale, the current shareholders are prioritized. This right authorizes all the company's shareholders who have the right of voting or have a claim on the reserves of the company to act for ownership in the shares and underwriting. The issued stock is offered to the shareholders before it is offered for the public. Since the shareholders do demand preservation of their rights and their position in the company, they expect to be prior to other purchasers in capital increase or issuing new stock by the company. They are also free in using or ignoring this right. However, since the suggested price for selling the company's stock is less than the price in stock market,(the underwriting price is usually determined as 15-20% below the market rate at the time priority is announced.) ,the shareholders use this right. The priorities caused by the companies' capital increase can be traded in the stock market like the stocks. In case the shareholder is not willing to receive new stocks, he can refer to the agent and act for selling his subscription privilege certificate in the day rate. Subscription privilege has a short life. In case the shareholders do not act for underwriting or selling subscription privilege certificate, after the termination of underwriting period, the company sells the said certificates in stock exchange and settles the amount of sale to the shareholder's account after reducing the nominal value and related costs. Based on the regulations, the shareholders are equally entitled to receive shares. The companies use these financial resources to implement a new project or payment of current debts .Issuing subscription privilege means offering regular new stock to current shareholders so that they can underwrite new stock to a definite price in the determined price. The aim in awarding subscription privilege is primarily preserving the shareholders' control on company's activities as well as preserving their rights against stock price reduction as the result of issuing new stocks .In case a company offers subscription privilege to its shareholders, they can keep their percentage of their ownership in the company (Management of education-Tehran stock market).

Generally, there are three types of subscription privilege:

1. Subscription privilege to buy new regular stock (extra):The commonest form of subscription privilege is the right for buying new regular stock. Bellack believes that this regular stock which is sold for shareholders based on their ownership is equal to bonus share.
2. Subscription privilege for selling securities changeable to the shares: Subscription privilege for buying bonds and any securities –except regular share-changeable to regular stock is another type of Subscription privilege that companies can issue.
3. Subscription privilege for buying other securities :These Subscription privilege for buying bonds, preferred stocks, subsidiary companies stocks and so on has a closer relationship with dividends or capital distribution compared with Subscription privilege for buying regular stocks .(Management of education-Tehran stock market).

Based on civil law adapted from Islamic jurisprudence, it is stated in the article of associations that in case new shares are issued, current shareholders are prioritized in buying new stocks. This priority is called" pre-emption". This right, authorizes all the company's shareholders who have the right of voting or have a claim on the deposits of the company to act for underwriting for their ownership in the stocks issued later. The aim of pre-emption is supporting minority shareholders against probable misuse by majority shareholders (Mansour, Jahangir 2005).

The board of directors is obliged to submit the suggestion for capital increase accompanied with the justification for necessity of capital increase and the reports to the company's auditors so that they comment on hem in extra general meeting. Extra general meeting is responsible for taking decisions in relation with capital increase and determines the conditions for selling new stocks and paying the price. After capital increase is definite, the board of directors has to inform the Department for Companies Registration and advertise it in the official gazette for public notification while amending the Article of Association within one month. (Katozian, Naser,*et.al*, 2005)

Based on Trade law, the regular shareholders are prioritized in purchasing and underwriting new regular stocks compared to other investors and current shareholders are prioritized in buying new stock based on the shares they hold .This priority can be transferred and the time limit to use this Subscription privilege is 60 days .The certificate for subscription privilagecan be traded in the market .The tax for transferring these trades is half percent. (Katozian, 2005).

Journal of Applied Science and Agriculture, 9(2) February 2014, Pages: 640-650

The background:

Marsh (1979) while studying some of the companies admitted in London Stock Market, who had offered Subscription privilege, found out that positive abnormal return does exist before announcing the stock option. Then with more studies on 1000 cases of issuing Subscription privilege of the companies in London stock market within 1975-1962, he noticed negative abnormal return in one week after announcing Subscription privilege. Similarly within one month of starting the trades with Subscription privilege, the prices raised as they not only compensated negative abnormal return but also the stock gains an abnormal positive return to 1.8%.

Baker *et.al*., (1993) in their study,"why do companies issue bonus share?" showed that bonus share has a positive psychological effect on the shareholders who receive it, in a way that they show a positive reaction toward issuing bonus share .It also causes the stock price to be placed in a desired trading range .The most significant motivation for distributing bonus share indicated that preserving the company's previous routine in paying dividend is in the form of bonus share. Dehar (2008) by studying the market reaction to stock analysis and issuing bonus share –evidences on Indian companies, came to conclusion that although it is often said that stock analysis and bonus share are two superficial and null events, a large number of studies have found the effect of stock analysis and bonus share issuance on stock market. This study has been made based on event study method. In this type of study, the abnormal stock return is measured through pricing capital assts. The significance test is done through T test. Like previous studies, this one also confirms the considerable positive impacts of announcing these two events. Issuing bonus share will cause abnormal return about 1.8% and stock analysis will follow abnormal return about 0.8%. Totally the paper shows evidences of semi-efficiency of Indian stock market. The findings of the study made by Barker (1958) titled,' Stock dividend Assessment", indicate the fact that a strong but short time return will come to the shareholders in early days after distributing bonus share. It also indicates that bonus share does not by itself have any value in stock market .However what determines the value of the company and will eventually lead to increase in the price of each share, is the cash dividend and predicting the company's future profits. Abbasi(1991)made a study titled," The impact of bonus share on stock return rate of the companies admitted in Tehran stock market" the study focused on studying the rate of stock return of the companies admitted in Tehran stock market who have distributed bonus share. The research findings showed that there is a relationship between the percentage of distributing bonus share and abnormal return rate .That is, the higher the percentage of distributing bonus share, the more the return will be. Sinaee (1993) made a study titled," A survey on bonus share and stock analysis in Tehran stock market". His findings show that Tehran stock market is not efficient and the investors are not well informed of the effects of distributing bonus share and stock analysis. Thus distributing stock analysis does not convey any information of the company's future performance to the shareholders. Gholipour (1995) made a study titled," An investigation on the impact of dividend policy on share value ".His findings showed that the wealth of the shareholders of the companies who have paid cash dividends has increased more than the wealth of the shareholders of the companies who have distributed bonus share and even though Iranian shareholder is not so much aware of the nature of the bonus share, it has more value compared to cash dividend. Rohanipour (1999) in a study titled," Investigating affecting factors on issuing stock dividend in Iran" found that lacking finance, the shareholders expectations, the responsibility of the companies managers toward them , sufficient retained earnings in the company's accounts and preserving the company's position in psychological aspect among the shareholders , are among the factors affecting the issuance of bonus share. Mohammadian(1999) in another study titled," Studying the role of bonus share and its effect on development of ownership in the companies admitted in Tehran stock market" showed that issuing bonus share causes development in ownership or, better to say, increase in the number of the company's shareholders and the investors and shareholders react positively toward distributing bonus share. Mehrazin(1999)in a study titled," The information content of announcing bonus share" found that the investigations indicate the market's sensitivity toward announcing bonus share .Therefore emerging abnormal returns that are indicating market's sensitivity toward announcing bonus share can be considered as having information load on the shareholders .Thus by increasing the percentage of the announced bonus share, the abnormal returns will also increase. Shoshtarian(2007) in a study titled," Investigating the effect of capital increase through subscription privilageon the amount of stock trades in Iranian stock market" stated that one of the indices for assessing valid stock markets in the world is the volume of stock trading. It studies the effect of capital increase through stock priority on the volume of regular stock transactions of the companies accepted in Iranian stock market within years 1994 to 2003. The finding first of all shows that there is a significant relationship between announcing the news of capital increase through subscription privilege and the changes in stock transactions. As the average of stock transaction within the week the reduction is announced and in the later week sharply decreased and then the growing trend of trades somehow amended the previous events. However, the volume of transaction is still less compared with what it was before the announcement of capital increase. Secondly, there is no significant relationship between the type of industry and change in the volume of stock transaction caused by announcing capital increase through subscription privilege. This shows that in response to the news for capital increase, the type of industry is less affected in Iranian market.

Journal of Applied Science and Agriculture, 9(2) February 2014, Pages: 640-650

Yahyazadeh (2004) used panel data for his study," investigating the effect of issuing subscription privilege on dividend return of the companies admitted in Tehran stock market ".For this purpose, using stratified random sampling, the information of sample companies within years 2000-2001 were collected and organized. The findings gained from the study hypotheses indicate that issuing subscription privilege has not had a positive and significant impact on the companies' dividend return. Similarly, there has been no significant relationship between the average dividend return of the companies who have increased their capital through subscription privilege with the average dividend return of the companies who have not issued stock option.

Research Method:

Statistical Community, manner of sampling and the samples:

The statistical community is all companies admitted in Stock market. The sample included all companies admitted in stock market holders of the following conditions.

1. The companies' data is available in databanks of stock market within the beginning of the year 2006 up to end of 2010.
2. The company has acted for capital increase through distributing bonus share or subscription privilege or distributing subscription privilege accompanied with subscription privilege in extra general meeting at least once within the years being studied.(2006-2010).
3. The company's stock has been transacted in stock market within 11 months before and after the said event.
4. The company has not held a regular general meeting at the same time with extra general meeting and has not paid any cash dividend.

Based on the information given in table 2-3, within the period being studied (2006-2010), 175 companies have increased their capital in 343 cases through bonus share, subscription privilege or both simultaneously. According to the said conditions, the numbers of 82 companies who have had capital increase in 86 cases were selected as samples.

Research data:

The data are extracted from audited financial statements, justified reports of capital increase and other available reports in Novin Rahavard III software database. Then by transferring the data to Excel software and processing them the research variables were calculated and the related models were tested and estimated using SPSS software.

4-3. Data analysis and hypotheses test(s):

Now our effort is to analyze the observed and gathered data concerning bonus share issuance, issuing subscription privilege and issuing bonus share and subscription privilege simultaneously and abnormal stock return .Primarily, we will describe and elaborate it using statistical methods and form frequency distribution table and have drawn their diagrams in the part for distribution and then they have been surveyed in the part for elaboration using T test.

Since data distribution have been normal based on Kolmogorov-Smirnov, Shapiro-Wilk, the parametric T-test has been used for data analysis.

4-4. Research Hypotheses:

First hypothesis: Issuing bonus share influences stock abnormal return.

Second hypothesis: Issuing subscription privilege influences stock abnormal return.

Third hypothesis: Issuing bonus share and subscription privilege simultaneously influences stock abnormal return.

Independent variables:

The independent variables in this research include:

1. Bonus share or special dividend (SD): means distributing dividend in the form of shares among shareholders of a business unit through not-dividend or earnings that are subject to the approval of extra general meeting according to the amendment of Trade law.
2. Stock option(R) :based on article 166 of the amendment of Trade law ,it is a transferable right which is given to the shareholders of the business unit when they purchase new stocks based on the amount of share they own.

Dependant variable

1. Stock abnormal return :In case a return is awarded to the shareholder as a result of a decision for issuing bonus share or subscription privilege ,it is called abnormal stock return.

The following regression model is used to calculate stock abnormal return offered by brown and Warner(1980).

$$(1)\ R_{i,t} = \alpha + \beta R_{m,t} + e_{i,t}$$

In which

Journal of Applied Science and Agriculture, 9(2) February 2014, Pages: 640-650

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1} + D_{i,t}}{P_{i,t-1}}$$

$$R_{m,t} = \frac{I_t - I_{t-1}}{I_{t-1}}$$

$$e_{i,t} = R_{i,t} - \alpha - \beta R_{m,t}$$

And in which:
$R_{i,t}$: is the estimated monthly stock return of the company *i* in month *t*
$R_{m,t}$: the stock market return calculated monthly.
$R_{i,t}$: One stock rate in one month
I_t: The stock market price index in month *t*.
$P_{i,t}$: the price of the stock of the company I at the end of the month *t*.
Di,t: Distributing the profits of stock ownership in month t including dividend, special dividend value and subscription privilege
ei,t: Remained of regression model which is the indicator of the stock abnormal return of the company I in month *t*.
by $R_{i,t(\text{total return})}$ we mean the whole allowances assigned to a share throughout a period. This period can be daily, weekly, monthly or annual or any other period of time. The period in the present study id monthly.
The whole allowances to calculate stock monthly return includes the following:

-Difference in price:
The difference in the price is considered for the first price at the beginning of the month. In case the difference is positive, it is the increasing factor of the overall return and in case it is negative, it will be the decreasing factor of the overall return.
The return caused by difference in price is calculated as follows.

$$r_p = \frac{p_1 - p_0}{p_0}$$ in which:

r_p: return caused by monthly changes of stock price
P_0: the price of stock at the beginning of each month
P_1: the price of stock at the end of each month.

-Dividend of each share:
This share is the suggested dividend approved in general meeting of the shareholders divided on the number of shares at the date it is approved. The return is calculated as follows.

$$r_{DPS} = \frac{DPS}{P_t}$$ in which,

r_{DPS}: return caused by dividend
DPS: dividend of each share
P_t: the price of the month of regular general meeting

-The advantages of stock option:
In case the capital increase is done through the shareholders' cash with nominal price ,the resulting subscription privilege has a value as a privilege belonging to the shareholder in capital increase in total return share calculated in total return rate of the share. The return is calculated as follows.

$$r_R = \frac{(1+\%R)P_2 - (N.P \times \%R) - P_1}{P_1}$$ in which:

r_R: The return caused by stock option
P_2: The price of share after regular general meeting that has increased the capital
P_1: The price of hare before regular general meeting that has increased the capital
R%:The percentage of subscription privilege approved in the meeting
N.P: The nominal price of the share

-The advantages of awarding bonus share(Special dividend):
Capital increase through legal reserves and the shareholders' received claims leads to formation of special dividend or bonus share which holds a value and have to be considered in total return rate of the share.

Journal of Applied Science and Agriculture, 9(2) February 2014, Pages: 640-650

The return resulted by bonus share is as follows.

$$r_{SD} = \frac{(1+\%SD)P_2 - P_1}{P_1}$$

in which:

I_{SD}: return resulted by bonus share

SD: bonus share and SD% meaning the percentage of capital increase through retained earning or deposits

P_2: The first price after extraordinary general meeting

P_1: The last price before extraordinary general meeting

Eventually, the stock return which is the result of the four above-mentioned factors are calculated as follows.

$$R_{I,t} = r_p + r_{DPS} + r_R + r_{SD}$$

After calculating monthly return of each company and market return ,the remained regression models of each company that are indicators of abnormal stock return of each company are gained by the help of model number 1.

4-5. defining the process of test hypotheses:

The plan of test hypotheses:

The average abnormal return (AAR) that is the estimated remained of regression model in the months around the date the extraordinary general meeting is held (provided that the capital is increased) are studied. That is, any of the months in which general meeting is held is considered as zero point(The month of event) and the average of the estimated remained of the sample companies in time interval of 23 months ,that is, 11 months after and 11 months before of the event month are calculated.

The average of the estimated remaining for the month *m* is calculated as follows.

$$\mu_{em} = \frac{\sum_{j=1}^{N_m} e_{jm}}{N_m}$$

M:the month before or after the event($-11 \leq m \leq 11$).

N_m: The number of events whose information is available in month *m*.

e_{jm}: The remaining of regression model of the company's stock j in month *m*

For more analysis ,the Cumulative Average Abnormal Returns(CAAR) around the event month is calculated as follows.

$$U_{em} = \sum_{k=-11}^{m} \mu_{ek} \qquad (-11 \leq m \leq 11).$$

Paires test is used for hypotheses test as follows.

The statistical expression of the hypotheses is as follows.

First hypothesis:

$$\begin{cases} H_0: \mu_d = 0 \\ H_1: \mu_d \neq 0 \end{cases}$$

H_0: issuing bonus share has no effect on the stock abnormal return or

H_1: Issuing bonus share affects the stock abnormal return

d stands for difference among two variables of $_{e0}\mu$ and $_{e1}\mu$

$_{e0}\mu$: The average abnormal return of the stock of the sample companies before issuing bonus share

$_{e1}\mu$: The average abnormal return of the stock of the sample companies after issuing bonus share

confirming the hypothesis means confirming the research hypothesis. The t-student was used as tests hypothesis.

Second Hypothesis:

$$\begin{cases} H_0: \mu_d = 0 \\ H_1: \mu_d \neq 0 \end{cases}$$

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H_0: issuing subscription privilege has no effect on the stock abnormal return or

H_1: Issuing subscription privilege affects the stock abnormal return

Journal of Applied Science and Agriculture, 9(2) February 2014, Pages: 640-650

d stands for difference among two variables of $_{e0}\mu$ and $_{e1}\mu$
$_{e0}\mu$: The average abnormal return of the stock of the sample companies before issuing stock option
$_{e1}\mu$: The average abnormal return of the stock of the sample companies after issuing stock option
confirming the hypothesis means confirming the research hypothesis. The t-statistics was used as tests hypothesis.

Third Hypothesis:
H_0: issuing bonus share and subscription privilege at the same time has no effect on the stock abnormal return or
$H_{1:}$ Issuing subscription privilege affects the stock abnormal return
d stands for difference among two variables of $_{e0}\mu$ and $_{e1}\mu$
$_{e0}\mu$: The average abnormal return of the stock of the sample companies before issuing stock option
$_{e1}\mu$: The average abnormal return of the stock of the sample companies after issuing stock option
confirming the hypothesis means confirming the research hypothesis. The t-student was used as tests hypothesis.

4.6- The descriptive statistics of the data:

The descriptive statistics of the data is shown in table 1.

Table 1: The descriptive statistics of the variables.

Variable	Maximum	Minimum	Average	Standard deviation
Special dividend	43557/14	2.76	3976.04	7012.67
The percentage of capital increase through bonus share(SD%)	150%	2%	53%	34%
Subscription privilege (R)	13696.00	12.76	2013.22	2744.58
The percentage of capital increase through stock option	200%	0.80	73%	41%
The monthly return rate(R_{it})	1.81	-2.40	0.00	0.17
The monthly return rate of stock market(R_{mt})	0.13	0.11	0.01	0.05

5. The research findings:

5-2.The first hypothesis test:

The statistical expression of the hypothesis is as follows.

$$\begin{cases} H_0: \mu_d = 0 \\ H_1: \mu_d \neq 0 \end{cases}$$

$H_{0:}$ $H_{0:}$ issuing bonus share has no effect on the stock abnormal return or
$H_{1:}$ Issuing bonus share affects the stock abnormal return
The outputs tables related to the data test of the first hypothesis in SPSS software:
table 2 shows the t-statistics and its probability.

Table 2: The results of the first hypothesis.

Variable(pair)	t	P-value
The average of abnormal stock return before the month of general meeting(event)-after the month of the meeting	1.239	0.244

According to table No.2, the t-statistics equals 0.244 which is more than 0.05. Thus the null statistics is confirmed and the opposite hypothesis is rejected. In other words, with the level of certainty of 95%, issuing bonus share has no impact on the stock abnormal return and the zero hypothesis is confirmed. In other words: issuing bonus share does not affect the stock abnormal return.(the hypothesis is rejected).

5-2. The second hypothesis test:

The statistical expression of the hypothesis is as follows.

$$\begin{cases} H_0: \mu_d = 0 \\ H_1: \mu_d \neq 0 \end{cases}$$

H_0: issuing subscription privilege has no effect on the stock abnormal return or

Journal of Applied Science and Agriculture, 9(2) February 2014, Pages: 640-650

H_1: Issuing subscription privilege affects the stock abnormal return

Table 3, shows the t-statistics and the related probability

Table 3: t-statistics –the results of second hypothesis test.

Variable(pair)	t	P-value
The average of abnormal stock return before the month of general meeting-after the month of the meeting	2.071	0.065

According to table No. 3, the t-statistics is more than 0.05. Thus the null statistics is confirmed and the opposite hypothesis is rejected. In other words, with the level of certainty of 95%, issuing subscription privilege has no impact on the stock abnormal return and the null hypothesis is confirmed. In other words: issuing subscription privilege does not affect the stock abnormal return.(the hypothesis is rejected).

5-3. The second hypothesis test:

$$\begin{cases} H_0: \mu_d = 0 \\ \qquad\qquad \text{یا} \\ H_1: \mu_d \neq 0 \end{cases}$$

H_0: issuing bonus share and subscription privilege at the same time has no effect on the stock abnormal return or
H_1: Issuing subscription privilege affects the stock abnormal return
table 4, shows the t-statistics and the related probability

Table 4: The results of the third hypothesis test.

Variable(pair)	*t*	*P-value*
The average of abnormal stock return before the month of general meeting-after the month of the meeting	1.986	0.075

According to table No. 2, the t-statistics equals 0.075 which is more than 0.05. Thus the null statistics is confirmed and the opposite hypothesis is rejected. In other words, with the level of certainty of 95%, issuing bonus share and subscription privilege at the same time has no impact on the stock abnormal return and the null hypothesis is confirmed. In other words: Issuing bonus share and subscription privilege at the same time does not affect the stock abnormal return.(the hypothesis is rejected).

4-5-The summary of the test hypotheses:

Table 5 indicates the summary of the research test hypotheses:

Table 5: The results of the test hypotheses.

Hypothesis	t-statistics	Probability	Test result
First hypothesis: issuing bonus share has no effect on the stock abnormal return	1.239	0.244	rejected
Second hypothesis: issuing subscription privilege has no effect on the stock abnormal return	2.071	0.065	rejected
Third hypothesis: issuing bonus share and subscription privilege at the same time has no effect on the stock abnormal return	1.986	0.075	rejected

6. Discussion and Conclusion:

The findings gained by analyzing data and test hypotheses within the years 2006-2010 among the statistical community of all the companies accepted in Tehran stock market among which 82 qualified companies were selected .The primary data were gathered from different sources and the required calculations were done and processed by Excel software, the research variables were calculated and finally the related models were tested and all the three hypotheses were rejected. This means that issuing bonus share and subscription privilege whether independently or simultaneously does not affect stock abnormal return.

Based on the research hypotheses, the average abnormal stock return for 11 months before and 11 months after the general meeting were studied. The findings show that the abnormal stock return before and after the general meeting is held show no significant difference. That is, issuing bonus share and subscription privilege has no impact on abnormal stock return and all suggested hypotheses were rejected. However, the average return in the month general meeting was held has faced considerable drop due to reduction in the share market value. The study made by Baker, *et.al.*, (1993)shows that bonus share has a positive psychological influence on the shareholders who receive it .In a way that the react positively toward bonus share .The bonus share causes the stock price to be placed in a favored trading range. Moreover, the most important motivation for distributing bonus share indicated that preserving the company's previous procedure in paying dividend is in the form of bonus share. Barker(1958) in a research titled," Special Dividend assessment" stated the fact that the shareholders receive a strong but short-term return in the first days after distributing bonus share and the bonus share does not have any value by itself ,what determines the value of the company and eventually causes increase in the price of each share ,is the dividend and the forecast of the company's future profits which is somehow consistent with the present study. In a study titled," A survey on bonus share and stock analysis in Tehran stock market" indicated that Tehran stock market is inefficient and the investors don't have enough information of the effects of distributing bonus share and stock analysis. The bonus share distribution does not convey any information of the company's future performance to the shareholders in a study made by Yahyazadefar(2004) titled," investigating the impact of issuing subscription privilege on the stock return of the companies admitted in Tehran stock market" the findings gained by research test hypotheses indicated that issuing subscription privilege has not had a positive and significant impact on the companies' stock return. Similarly, there was no significant difference between the average stock return of the companies who have increased their capital through subscription privilege and the average stock return of the companies who have not issued stock option. This conforms with the present study.

It was expected that issuing bonus share and subscription privilege have an impact on average stock return, but some factors probably caused no alteration on average stock return including:

1. The symbol of many companies was closed so few companies were studied.
2. The information may have been unofficially transferred before official announcement.
3. Theoretically, bonus share is not a cause for a change in the wealth of the shareholders. Because even though the company's capital increases, the retained earnings decrease to the same extent. Thus no change occurs in the companies' total assets.

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