The Microstructure of Australian Takeover Announcements

Martin Bugeja*, Vinay Patel** and Terry Walter***

* School of Accounting, University of Technology, Sydney
** School of Finance, University of Technology, Sydney
*** Corresponding author, School of Finance, University of Technology, Sydney

Abstract

This study examines the behaviour of returns, trading volume, volatility, liquidity and a unique informed trading metric around takeover announcements for both target and acquiring firms, to determine whether informed trading is prevalent within the Australia market. Using intraday data, we find direct and indirect evidence of informed trading. For target firms abnormal returns and volume, widened spreads and increased purchases of target firm shares are observed during the period prior to the takeover announcement. In addition regression analysis finds a statistically significant relationship between abnormal returns and our cumulative informed trading metric. Informed trading is strongly evident within 10-15% of sample target firms. Limited evidence of informed trading is also observed for acquiring firms through negative returns, abnormal volume, widened spreads and selling of the acquiring firm shares prior to the takeover announcement.