

**GOOD NEWS OR BAD NEWS?
INFORMATIONAL VALUE OF CORPORATE BOND
RATING ANNOUNCEMENTS : THE MALAYSIAN
PERSPECTIVE**

FOO MEI YEEN

**FACULTY OF BUSINESS AND ACCOUNTANCY
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Abstract

Studies on informational efficiency in the financial markets have always attracted a large following, both from market players and the research community alike. The relative illiquidity of bond markets however have rendered researches done on the informational content of corporate bond rating announcements and its effects on bond yields to produce mixed findings. Studies on this area within the Malaysian context in recent years too have been small and inconclusive.

This paper aims to study on the presence and effects of informational content in corporate bond ratings announcements (upgrades and downgrades) in the Malaysian context through the application of the market model and the event study methodology.

Results from the analysis found that there are informational content in corporate bond rating downgrade announcements as perceived by the investing public which is also inline with earlier findings. However, it appears from this study that the investing public also perceives the existence of new information in bond rating upgrade announcements which deviates from the majority of findings. Further analysis on the impact of magnitude of rating change over stock returns indicated significant market reaction towards small upgrades (upgrade rating changes of one notch) and big downgrades (downgrade rating changes of two notches and more).

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List of Symbols and Abbreviations

BNM	Bank Negara Malaysia
CAAR	Cumulative Average Abnormal Returns
CMP	Capital Market Masterplan
EMH	Efficient Market Hypothesis
FIPS	Fixed Income Pricing System
GDP	Gross Domestic Product
KLSE	Kuala Lumpur Stock Exchange
MARC	Malaysian Rating Corporation Berhad
OLS	Ordinary least squares
PDS	Private Debt Securities
RAM	Rating Agency Malaysia Berhad
SC	Securities Commission
SIC	Standard Industrial Classification
S&P	Standard and Poor's
SIMM	Single Index Market Model