A COMPARISON OF EVENT STUDY METHODOLOGIES FOR FOREIGN FIRMS LISTED ON THE U.S. EXCHANGES

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ABSTRACT

The rapid integration of international capital markets is manifested by the increasing number of foreign firms listed on the U.S. stock exchanges. In an attempt to facilitate investors' valuation of these firms, the Securities and Exchange Commission requires these foreign firms to have certain accounting information in their financial statements restated from foreign generally accepted accounting principles (GAAP) to U.S. GAAP. A number of studies have examined the valuation effects of the foreign-GAAP and U.S.-GAAP accounting information on foreign firms using event study methodologies. However, some researchers have raised concerns over the choice of event study models in foreign firm studies. By employing actual stock return data in various simulation scenarios, this study compares the power of alternative event study methodologies for foreign firms. The results show that all models and equity indices perform equally well when there is no clustering of event dates. But there are high Type I and Type II errors when there is clustering of event dates.