UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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CORPORATION FINANCE

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THE CHIEF
ECONOMIST

MEMORANDUM

January 10, 1986

TO : Commissioner Cox
Commissioner Peters
Commissioner Grundfest
Commissioner Fleischmann
Jeff Davis
Daniel Goelzer
John Huber
Gregg Jarrell
Richard Ketchum
George Kundahl
Gary Lynch
Mary McCue
Kathryn McGrath
Clarence Sampson
Cecile Srodes
William Stern

FROM : Gregg A. Jarrell *GA Jarrell*
Office of the Chief Economist

In response to the NY Times article "Merger Wave: How Stock and Bonds Fare," and to Commissioner Fleischmann's inquiry, I attach an article measuring how merger transactions affect the market value of the long-term debt securities for targets and acquirers. The study covers 132 mergers between 1962-80. The results are summarized:

Net-of-Market Returns Cumulated from Six Trading Days Before to Six Trading Days After Public Announcement

	Common Stockholders	Convertible Preferred Stockholders	Non-Convertible Preferred Stockholders	Convertible Bondholders	Non-Convertible Bondholders
TARGETS	13.74%	11.75%	12.97%	8.92%	-0.28%
	(2.54)*	(2.22)	(2.68)	(2.38)	(-0.29)
Acquirers	3.24%	4.56%	0.29%	2.45%	-1.12%
	(3.90)	(4.40)	(0.27)	(1.46)	(-1.11)

NOTES: * - t-statistics are in parenthesis. If this measure exceeds two in absolute value, then the returns estimate is different from zero with 95% statistical confidence.

The conclusions from this data are:

- Target security holders all gain, except for non-convertible bondholders, who experience a statistically trivial loss of .28%.

- Acquiring firm common stockholders have positive, statistically significant returns of 3.24%.

- Acquiring firms' preferred stockholders and convertible debtholders gain appreciably.

- Acquiring firms' nonconvertible debtholders lose 1.12%, which is significantly different from zero on statistical grounds.

Although this data is from mergers before 1981, it suggests that, if some bondholders of acquiring or target firms lose, these losses are very small in magnitude relative to the capital gains to common and preferred stockholders and to convertible bondholders.

OCE is measuring the change in bond ratings from three months before to three months after takeover dates for all 1985 (about 40). We are distinguishing between secured and unsecured debt. These results should be available within a short period.