Do Investors Value High Levels of Regulation?[†]

Tim Jenkinson
University of Oxford and CEPR

Tarun Ramadorai
University of Oxford and CEPR

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Abstract

It is often taken as axiomatic that investors prefer high levels of regulation. Yet companies have increasingly chosen to list on stock exchanges with lower regulatory requirements. In this paper we analyse whether investors value high regulatory standards for quoted companies. We use the unusual regulatory environment observed in London – two alternative regulatory regimes with the same trading technology – to analyse these issues. We focus on 218 firms that *chose* to switch their trading 'down' from the highly regulated Main market to the lightly regulated AIM market, and 56 firms that moved 'up' to the Main market. Switching firms on average experience down (up) announcement returns of approximately -4% (+5%). However these initial reactions are reversed over several months after the actual switch. Our results suggest that particular investor clienteles exist for the two markets, and that other investors who place little value on the higher regulatory standards become the relevant marginal investors when companies switch to AIM.

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I. Introduction

It is often taken as axiomatic that investors prefer higher levels of regulation. In recent years many countries have tightened their regulation of public companies, notable examples being the passing of the Sarbanes-Oxley Act in the US and various aspects of the European Union's Financial Services Action Plan. Furthermore, stock exchanges have been increasing and tightening their requirements of listed companies in diverse areas, including firms' compliance with codes of corporate governance, and the information that listed firms must include in their prospectuses. Yet at the same time we see many companies fleeing such regulatory burdens. Recently, there has been a collapse of international listings in the US since the passing of the Sarbanes-Oxley Act, and several US companies have chosen to float on non-US exchanges. A particularly impressive recent development is the enormous growth of the lightly regulated Alternative Investment Market (AIM) segment in London, which attracted close to 1000 new (relatively small) companies during 2005-6, and now includes 60 US companies. The recent success of AIM has resulted in other stock exchanges launching similar segments, such as the Alternext market recently launched by Euronext, and First North, part of the OMX group of exchanges which covers the Nordic and Baltic regrions. AIM's success has also attracted negative attention, prompting comments from the leaders of rival exchanges and regulatory authorities that AIM should raise its regulatory requirements.[1] This leads us to the question we address in this paper: How much do equity investors value regulation?

Financial markets are largely defined by regulation and technology. Regulation includes financial services regulation, company law, and the specific regulations imposed by the markets themselves. Technology relates to the trading systems that allow market participants to interact with each other and to establish prices at which to trade. Comparisons between markets are generally difficult as both technology and regulation differ significantly. However, in this paper we consider the impact of regulation in a very direct way, by analysing the experience of companies that switched

[1] See, for instance, the article in the Financial Times, 27 January, "NYSE chief says AIM must raise standards", which reports that NYSE chief executive John Thain suggested that "London's Alternative Investment Market lacks stringent corporate governance requirements for listed companies and should keep raising its standards." Furthermore, on March 9, again in the Financial Times, SEC commissioner Roel Campos is quoted as saying that AIM "…feels like a casino to me, and I believe investors will treat it as such".

between markets which differ primarily in their levels of regulation. By focusing on the share price movements around companies' announcements of their intentions to switch, and the share price responses when the switch occurs and thereafter, we are able to focus on the impact of regulation on company valuation.

The markets in question are both part of the London Stock Exchange (LSE). The Main Market (MM) comprises *listed* securities. The term "listed" is often used to refer to any company quoted on a stock exchange. However, in this paper we focus on the distinction between the regulatory environments of the two London markets, and so we reserve the use of this term for companies that have satisfied the formal listing requirements of the UK Listing Authority (UKLA). The MM (also referred to as the "Official List") comprises companies that have both satisfied the requirements of the UKLA and continue to abide by the additional rules imposed by the LSE. However, the shares of a company can be traded on the AIM market segment of the LSE *without* it being a listed security. As we explain in the next section, the regulatory environment for AIM is quite different; indeed it is not a "Regulated Market" as defined by European securities laws, but rather an "Exchange Regulated Market". In practice this means that there is a high degree of self-regulation with a key role being played by the company's nominated advisor, which acts as the main quality control mechanism. There are also fewer continuing obligations in terms of reporting, corporate governance etc. However, the trading mechanisms used by AIM companies are essentially the same as those used by listed companies on the MM.

Many countries have second-tier markets, but a number of features of the UK markets make them particularly suitable for our purposes. First, both markets are well-established and have large numbers of companies trading on them: at the end of 2006, there were around 800 companies[2] on the MM, and just over 1600 on AIM. And, of prime importance for our research, there has been a significant flow of companies switching between the markets. Perhaps surprisingly, the net flow of companies switching markets has been very heavily towards AIM. Our sample comprises 218

[2] The headline figure for the number of Main Market companies is considerably higher: there were 1276 entities traded at the end of 2006. But if financial vehicles, such as investment trusts, and duplicate securities, such as preference or convertible shares, are excluded, the number of distinct trading companies falls to around 783.

companies that have switched "down" to AIM, and 56 companies that switched from AIM "up" to the Main Market.

Second, as noted above, the growth and popularity of AIM has been phenomenal in recent years. Although still predominantly a market that attracts smaller companies, over a quarter of AIM companies have market valuations above £50m ($100m). AIM has attracted a growing number of overseas companies onto its market: nearly 400 foreign companies were quoted on AIM at the end of 2006. In contrast to the 500 new companies joining AIM per year during 2005 and 2006 the MM attracted, on average, only 19 IPOs per year during this period.[3] Our research has the potential to shed light on the factors that have made AIM so attractive to companies, both domestic and foreign.

Third, unlike some other markets where the exchange can "de-list" a company for failing to comply with one or more of its standards, the LSE has few on-going standards (e.g., a minimum market capitalisation requirement) that result in companies being obliged to move down to AIM. The main exception is the requirement that at least 25% of the share capital should be in public hands. Except for five of the companies that moved to AIM, the switch was a deliberate choice, rather than a condition imposed upon them by the LSE. Furthermore, the decision to switch markets was at the discretion of the management, and did not require shareholder approval. Whilst there may well be agency issues, it would nonetheless be surprising if the widespread switching that we observe were anticipated to harm shareholder interests.[4]

The literature on the regulation of stock markets has tended to concentrate on evaluating the impact of legal changes or changes in disclosure rules on the performance of listed firms in the long and short run (see Stigler (1964), Simon (1989), Benston (1973), and more recently Greenstone, Oyer and Vissing-Jorgenson (2004), Ferrell (2004) and Mahoney and Mei (2005)). However, relatively few papers have analysed the impact of switching markets on firm performance. A notable exception is Angel *et. al.* (2004) which focuses on those companies that were forced to de-list from Nasdaq and

[3] This figure excludes financial entities (classified by the LSE as equity investment instruments, investment companies, investment entities and real estate).

[4] As an example – albeit more strongly expressed than most – of the reasons given for switching to AIM, the Chairman and Chief Executive of Arbuthnot Banking Group explained to the Financial Times why the company, having been listed on the MM for 17 years, was switching to AIM: "AIM … offers a lighter regulatory touch … it will provide some relief from the regulatory onslaught that is costing us £1.25m a year – a lot for a company whose profits last year were £5.5m." (Financial Times, July 14, 2005).

ended up being traded on the Pink Sheets. They found that "trading down" to the Pink Sheets cost shareholders dearly. However, the Pink Sheets are essentially a quotation service where only broker-dealers can apply to make a market in the securities, rather than a stock exchange.[5] In contrast, although lightly regulated, AIM is a market segment of one of the world's leading stock exchanges, and shares common trading technology with the Main Market.[6]

A related literature, that has relevance to this paper, considers the impact of listing companies on foreign exchanges. In most cases, companies list on foreign exchanges after having conducted IPOs on their local exchanges. The main motivations for these cross-listings that have been suggested in the academic literature include increased liquidity, reducing market segmentation, and a variety of potential corporate governance benefits associated with committing to more stringent legal, regulatory or disclosure rules and thereby overcoming potential agency conflicts (Stulz (1999)). The ultimate effect of cross-listing should show up in the cost of capital, and hence many studies adopt an event study methodology as we do. However, in recent years a number of papers have pointed to the potential drawbacks of cross-listing, including information asymmetry problems, increased cost of compliance with foreign corporate governance and legal systems etc. (see Karolyi (2006) for an excellent survey). The context for this somewhat more sceptical view of the costs and benefits of cross-listings has been the dramatic decline in the number of cross-listed companies. For instance, Karolyi (2006) reports that between 1997 and 2002 the global number of cross-listed stocks fell by more than 50%.

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[5] It should be noted that the quotation services offered by the Pink Sheets and the Nasdaq Over-the-Counter Bulletin Board (OTCBB) in the U.S. differ from AIM (and Alternext) in some important respects. As noted by Macey and O'Hara (2004), the Pink Sheets and OTCBB do not provide issuer listing services but rather provide a quotation service to market makers. In regulatory terminology, Pink Sheets is considered a "non-exclusive securities information processor and inter-dealer quotation system", and is neither an SEC registered exchange nor an NASD regulated broker/dealer (source: www.pinksheets.com), and the OTCBB is a "regulated quotation service" for equity securities that are not listed or traded on Nasdaq, NYSE, or any other national securities exchange. Consequently, issuers cannot conduct an IPO on either Pink Sheets or OTCBB, whereas companies do conduct IPOs on AIM, and are subject to initial and on-going requirements imposed by the London Stock Exchange and other regulators.

[6] Changes to trading technology have been shown to have significant impacts on stock prices. See Jain (2005) and Easley, Hendershott and Ramadorai (2007) for two recent examples.

The number of cross-listings has indeed been falling on London's Main Market in recent years, as well as on the New York exchanges. However, AIM has bucked this general trend and, as noted above, has been attracting overseas listings in increasing numbers. Furthermore, the share of US markets in global IPOs has fallen sharply: Zingales (2006) estimates that the US markets were capturing nearly one-half of all global IPOs in the late 1990s, but only around 8% in 2006. These developments have led to an interesting debate about whether New York is losing competitiveness to London, in particular since the passing of the Sarbanes-Oxley Act in 2002. Doidge, Karolyi and Stulz (2007) estimate that the net benefits of a U.S. cross-listing have remained positive and relatively constant in recent years, whereas they find no significant benefit from being cross-listed on the Main Market in London. They acknowledge the huge growth in overseas companies choosing AIM, but note that the small average size of such companies means they were not likely candidates for a US cross-listing.

Our research design enables us to consider such issues from a rather different angle. Rather than compare the relative benefits of listing across countries, where the differences in legal system, taxation, regulation etc. are often complex, and where it is necessary to control for firm characteristics (such as size, industry, etc.), we focus on switches by a *given* company between market segments within a *single* country. It is unambiguous that the MM is more highly regulated than AIM. The legal and trading systems are the same. The only complexity arises due to the need to investigate the potential impact of tax-driven strategies for changing market segment, although we find no significant impact arising from taxation. Consequently, although our focus is exclusively on companies trading on the London markets, the analysis has broader relevance to the cross-listing debate, and the general policy concern about the impact of regulation – in its various forms – on the competitiveness of markets.

The remainder of the paper proceeds as follows. In the next section we describe the regulatory environment existing in London, and explain how this is well-suited as a test-bed for our research questions regarding the value of regulation. In Section III we provide summary information on the development of the two market segments, which shows the impressive growth of AIM, both in terms of companies switching from the main market as well as IPOs. We also describe how our sample was constructed, and give some descriptive statistics on the switching companies. Section IV contains our

econometric analysis of the impact of switching on company valuation and share turnover. Section V concludes, and identifies the next avenues of research.

II. Alternative regulatory regimes

The Main Market and AIM are the most important markets run by the LSE. Until 2000 the LSE regulated the formal listing requirements for companies, at which point this regulatory function was transferred to the UK Listing Authority (UKLA), itself part of the UK Financial Services Authority (FSA). The Main Market of the LSE is a *regulated market* as defined by the EU Investment Services Directive whereas AIM is designated as an *exchange regulated market.* In practice this means that companies seeking admission to the MM have to obtain prior approval by the UKLA – whose rules have to be consistent with EU legislation[7] – as well as satisfy the requirements of the LSE. In contrast, the rules for admission to AIM are entirely determined by the LSE, and the main principle that has been adopted is that companies seeking admission should engage, and obtain the approval of, a nominated advisor (or "Nomad"), who will guide them through the process and certify that they are appropriate companies to be traded on AIM. Nomads tend to be smaller investment banks or corporate finance advisory boutiques; to date the bulge-bracket investment banks have not entered this market.

A summary of the current admissions criteria and continuing obligations for the two markets is presented in Table I. The MM has admissions criteria that are commonly observed at leading stock exchanges, such the requirement to have an established trading record, minimum market capitalisation and free float rules. To quote the LSE, "A primary listing means the company is expected to meet the UK's gold standard – described as super-equivalent to the EU directives and implemented as part of the Financial Services Action Plan - and as a consequence may enjoy a lower cost of capital through greater investor involvement." This latter claim is indeed the focus of this paper. The main difference is that the MM involves considerably higher levels of compliance with the on-going obligations regarding disclosure and transparency which are extremely detailed and prescriptive. They include rules on the timing, content and frequency of financial reports; the requirement to publish six-monthly management statements; a requirement to comply with the Takeover Code; a requirement to comply,

[7] European regulation is converging such that all EU stock exchanges will admit companies to their regulated markets if they have satisfied *any* recognised EU competent authority for listing.

or explain in a public statement, the extent of any non-compliance with the Combined Code on Corporate Governance; a requirement to notify and/or obtain prior shareholder approval for many types of transactions, including share option plans, secondary issues, and the acquisition or disposal of fixed assets; requirements to issue circulars to shareholders; rules relating to the content of such circulars, and the need to obtain prior approval of the FSA; and a requirement for all management and any employees with access to inside information to comply with the wide-ranging Model Code relating to share dealing. This just gives a flavour of the continuing obligations associated with being on the MM, the full details are contained in the FSA Handbook, in particular the chapters relating to *Listing Rules* and the *Disclosure and Transparency Rules*. In the course of this research, the published explanations for switching markets (where they were given) were analysed, and the most common reason given by companies for their choice to switch to AIM was the burdens imposed by these continuing obligations associated with the MM, and virtually all of these derive from the listing rules.[8] These sorts of rule are very similar to those that apply at most of the major stock exchanges around the world, albeit with differences in detail, emphasis and legal status. Collectively, these are what we refer to as *regulation*. For our purposes, the details of these various aspects of regulation are not important; what matters is the contrast with the regulation of firms quoted on AIM.

This contrast is striking. In terms of the rules regarding admission to the market, it is literally possible to create a new company and have it trading on the AIM market within two to three weeks, provided a Nomad can be found to support the application. The only rules regarding timing are (1) that a company seeking admission to AIM should provide the LSE with basic descriptive information about the company at least 10 business days before the expected date of admission (the "rule 2 announcement"), and (2) that at least 3 business days before admission, an applicant must submit an admission document, a completed application form, and the relevant fee (the "rule 5 application"). Note, in particular, that there are no rules regarding the minimum number of shareholders, unlike, for

[8] The LSE has a few additional obligations that relate to MM (but not AIM) companies, but these are relatively trivial, relating, for instance, to the need to agree with the exchange about timetables for announcements, dividend declarations, and open offers for shares.

example, the New York Stock Exchange and NASDAQ who require a minimum of 2,000 and 400 investors[9] at the IPO respectively.

The continuing obligations regarding AIM companies are also far fewer. Most of the regulations mentioned above for MM companies do not apply, since AIM companies are not subject to the listing rules. The main requirements for AIM companies derive from general company law and securities regulations (including certain aspects of EU legislation, such as the prospectus directive) which apply to all public companies. To a considerable extent, the regulatory burdens are devolved to the Nomads in the case of AIM companies. The Nomad has to certify that the company is of an appropriate type to be traded on public markets and that its management understand their obligations. Until early 2007 no rule book existed for Nomads, who were guided only by very general principles. The first rulebook has recently been published.[10] However, this codification of the requirements for Nomads confirms the continued relative lack of regulation of AIM companies, beyond some basic rules regarding providing information to investors in a timely fashion, and abiding by securities regulations regarding insider trading. This lack of formal regulation lies behind the somewhat tendentious comments about AIM noted in the introduction.

An important consideration for the purposes of this paper is that, during the sample period that we consider – which covers companies switching until the end of 2006 – the decision to switch between the MM to AIM could be made by management. In the case of switches from the MM to AIM, perhaps surprisingly, such decisions were not a matter upon which the listing rules required shareholder approval. There was similarly no requirement for companies switching from AIM to the MM to obtain shareholder approval, although clearly such companies required the approval of the UK Listing Authority. This situation changed in 2007 in respect of those switching from the MM to AIM, and it is now necessary for such decisions to obtain the approval of a majority of the shareholders. But for all the companies in our sample, when the management announced their intention to switch to AIM, the decision was within their power.

[9] The regulations are formally stated in terms of "round-lot holders" of at least 100 shares.

[10] See the *AIM Rules for Nominated Advisors*, February 2007, available from the LSE website.

Why do companies choose to switch market, especially those that are choosing to move to AIM? A typical statement (from Bradstock Group plc) is as follows:

> "We continue in our endeavours to identify new activities that will enable the Group to develop its business. We are, however, currently restricted in the transactions that we can undertake due to the high costs that would need to be incurred to meet the stringent UKLA rules. We have concluded, therefore, that it would be in the best interests of the Company for it to transfer its listing to the AIM. The AIM rules are less prescriptive than the UKLA's rules and we believe that it is appropriate for the Company to move to AIM to enable it to take advantage of the greater flexibility afforded by that market."

More recently the reasons given by many companies have stressed the positive benefits of the AIM market. For instance, Abbey plc (a housebuilding company operating in the UK and Ireland, incorporate in Ireland, and previously on the Official Lists of the London Stock Exchange and the Irish Stock Exchange) transferred to AIM in November 2004 and stated:

> "AIM is a fast growing market focussed on growing companies. AIM companies enjoy wide investor support. AIM is gradually attracting an increasing number of international companies and is, the Board believes, well placed to become the European market of choice for successful growth companies. All AIM companies, irrespective of their origin, are included in the FTSE AIM index, in direct contrast to the UK FTSE Indices for the UKLA Official List companies which generally exclude non UK registered companies. The inclusion of Abbey in the AIM index should of itself encourage significant additional interest in the Company. The UK authorities continue to support the development and growth of the market, in particular by maintaining a significantly more attractive fiscal regime for UK investors in AIM companies than is accorded to investors in UKLA Official List companies. Overall the regulatory regime attaching to AIM companies is better matched to their circumstances as small successful growing companies than that attaching to the larger companies on the UKLA Official List." [RNS announcement, 15/10/04].

This statement is interesting in drawing attention to the possible increased investor interest that might result from being traded on AIM. In part this might result from inclusion in stock market indices, as noted in the above quotation, and we investigate in this research whether such index-inclusion effects are important.

Mention is also made in the above quotation (as well as in Table I) of certain tax differences that exist for companies on AIM relative to the MM. Although the main differences between being on the Main Market or AIM relate to what we term governance issues, at various times in our sample period there have been some differences in the way in investors are taxed. In the main these relate to a decision implemented in 2000 to treat AIM companies as "unquoted", which resulted in them receiving a similar tax treatment to privately-held companies. There are advantages and disadvantages to this treatment.

The first main advantage is that most AIM companies are treated as "business assets" which benefit from lower rates of capital gains tax (CGT) if they are held for a number of years.[11] This "taper relief" has varied in generosity and timescale during our sample period. When this tax relief was first applied to AIM companies in April 2000, investors' CGT liability was reduced by 12.5% for each of the first two years they held an investment, and by 25% for the next two years, therefore reaching a maximum of 75% after 4 years. The speed with which taper relief accrues was increased from April 2002 so that the maximum relief is achieved after a holding period of just 2 years.[12]

Clearly this is only of benefit if the investors are liable to CGT and are taxed in the UK. Many investors are tax-exempt and for such pension funds, endowments etc. the relief has no impact. However, for individuals (who are subject to taxation in the UK) the relief could be of value. The CGT rate has (since 1999) been aligned with the tax rates on interest and dividend income with basic and higher rate taxpayers paying 20% and 40% respectively. At these rates, and with the original taper schedule, the impact of taper relief on a higher-rate taxpayer was to reduce the CGT rate after 4 years to 10%. However, it is important to note that generous annual exemptions exist for individuals regarding capital gains: in 2000 the first £7200 of capital gains were tax-free. This reduced the effective marginal rate of CGT to zero for most individuals, and therefore the benefits of taper relief mainly accrued to entrepreneurs (with significant stakes in affected businesses) and rich individuals who regularly realised capital gains larger than the annual exemption.

The second potential advantage to individual investors is that AIM companies can be included in Venture Capital Trusts (VCTs), which are portfolios of smaller, more speculative investments. Individuals can offset investments in VCTs against income tax, and obtain certain other benefits. However, the maximum size of company that is eligible to be included in a VCT, and the size of the minimum stake that is required, imply that few existing companies are likely to attract VCT investment on switching to AIM. A third advantage is that holdings of AIM companies are exempt from Inheritance Tax, although again the value of this to individual investors will depend upon whether they are liable to inheritance tax (in addition to a sizeable zero-rate allowance, there are well-established

[11] Only that proportion of a company's assets that are "business" assets – those associated with trading – is eligible to benefit from capital gains tax taper relief. Non-business assets – such as securities in quoted companies – are not eligible for taper relief.

[12] More information on CGT rates and reliefs can be found at www.hmrc.gov.uk/stats/capital_gains/00ap_a7.htm

ways to reduce inheritance tax liability). There are certain other tax benefits which apply to investors in AIM companies, but these are associated with shares issued at an IPO, or were held prior to the IPO, and so do not apply to companies switching markets after the IPO.

Against these potential benefits there are some important tax disadvantages associated with AIM companies. In particular, since 2006 – the last year of our sample – shares in AIM companies cannot be included in tax-favoured Individual Savings Accounts (ISAs). Individuals can invest around £7000 a year in such accounts, which typically invest in a portfolio of shares or bonds. The investment management companies running ISAs would have to dispose of their holdings in any company switching down to AIM.

It is difficult to judge the net impact of these tax issues. Clearly, the impact will differ according to the tax status of the individual investor. However, due to the various exemptions and tax planning opportunities that exist for individual investors – which reduce the value of the tax benefits significantly – and the fact that the benefits only accrue in the (uncertain) event of capital gain, we would anticipate that the impact on share prices would be negligible. Furthermore, it seems unlikely that the relevant marginal investor will be an individual investor, rather than an institutional investor to whom these tax distinctions do not apply. Nonetheless, we report later that as one of our robustness checks we estimated whether the impact of switching differed across the three main tax regimes associated with CGT (pre-5 April 2000; 6 April 2000-5 April 2002; and 6 April 2002 onwards).

Having discussed the differences between the two market segments, in the next section we describe how the sample was constructed, before providing our initial results regarding the impact of switching in section IV.

III. The sample and descriptive statistics

The Main Market in London is long-established, with roots that can be traced back to the 17th century. However, AIM is much more recent phenomenon, having been launched in June 1995. The London Stock Exchange had previously created a market segment for smaller companies – the Unlisted Securities Market (USM) – which was only modestly successful. When AIM was launched, companies

that were on the USM were given the option of switching onto AIM, which many of them took.[13] The growth of AIM can be seen in Table II, which shows the number of new admissions (which include IPOs and switches from the MM), the number of overseas companies joining AIM and the trends in terms of money raised. As can be seen, the number of companies on AIM grew steadily until 1999, at which point the growth accelerated. From 347 companies trading on the market in 1999, the number at the end of 2006 stood at 1634. Of course, the market valuation of the MM companies still swamps that of AIM, which attracts mainly small, growing companies. But there has been an increase in the economic significance of AIM as a source of capital, with nearly £16 billion being raised by AIM companies in 2006. Furthermore, the growth of international companies choosing AIM has been very impressive, especially since 2004, since when 305 new overseas companies have joined the market.

In this paper we focus on the companies that switched between market segments. To construct our sample, we first identified all companies that had switched from the Main Market to AIM, and vice versa, using data from the LSE which classifies all AIM admissions from its inception in June 1995 to the end of 2006. In total 267 companies switched down to AIM, and 74 switched up from AIM to the MM.

Of the down switchers, we excluded one investment trust, and five companies whose primary listing was not in London. We then searched on Datastream for information on the remaining companies and could find data for all except six. This resulted in a base sample of 245 companies that moved down to AIM.

We then conducted news searches on all companies to identify the first announcement of the intention to switch market segments. We know the date of the actual switch from the LSE database, but typically an announcement from the management is made a few weeks prior to the switch. For each company a search was conducted for the year prior to the actual switch date using Factiva, which encompassed newspapers, newswires, and the Regulatory News Service (RNS) provided by the London Stock Exchange. As noted earlier, there was no necessity, during our sample period, for management to seek approval from shareholders to switch market segments. In the case of switches

[13] This can be seen from Table I, where the 123 new admissions to AIM in 1995 raised only £70m. This is because most of the companies who joined AIM in 1995 were switching from the USM, rather than conducting an IPO.

down to AIM, provided the company has the support of its nominated advisor, AIM admission is assured. In the case of those switching up to the MM, it is necessary to obtain the approval of the UKLA, although normally the company would not announce a switch without first having checked that they satisfied the UKLA requirements. Consequently, although the typical announcement is expressed in terms of a future *intention* to switch market segments (such as "the company intends to transfer its listing to AIM" or "the company will be seeking admission to AIM" or "the board has resolved to transfer to the Main Market"), in effect these are more or less equivalent to announcing a firm decision to switch markets. As a potentially price-sensitive decision, the switching announcement should occur on the RNS first and this is indeed what we find. This results in a very precise definition of the announcement event, with very few cases of prior leakage of news.[14]

The news searches were also used to check whether any concurrent news or events occurred at the same time as the decision to switch to AIM was first announced. These concurrent announcements fall into four main categories (a) the announcement of financial or trading results, (b) share issues or capital restructurings, (c) acquisition and disposals, and (d) violation of one or more of the Listing rules. The latter were the least frequently observed. In only 2% of down switching cases was the decision to switch to AIM essentially forced onto the company as a result of a prior or anticipated violation of the Listing rules (typically the violation related to the requirement for 25% of the company's shares to be in public hands). We leave such companies in the sample but control for the potentially involuntary nature of the switch to AIM.[15] A striking feature of the sample, however, is that the vast majority of companies *chose* to switch. Some example of the reasons given for switching are provided in the previous section.

The most frequently observed concurrent announcements relate to updates on trading or financial performance, which occurred in 32% of the down sample. In most cases these were routine updates – as opposed to major deteriorations or improvements in performance – where the company had taken advantage of the necessity for an RNS announcement in respect of the switch to AIM to

[14] There are two companies where the announcement was made at a shareholder meeting and was subsequently reported to the RNS the next day and four days later, respectively.

[15] We say *potentially* involuntary as there appear to at least one case where the violation of the rule – via the exercise of an option by a large shareholder/executive – was a deliberate strategy to require the company to move from the Main Market, possibly against the will of the other executives.

provide a periodic trading/financial statement. However, in these cases new information may have been provided to the market, and it will be important in our empirical work to control for such a possibility.

The other two categories of concurrent announcements are rather more varied within the sample. In many cases the transactions were rather minor in nature: for instance, the announcement of the disposal of a relatively small asset or business, or the issuance of new equity in relation to a new stock option plan. In these cases we generate dummy variables to pick up the fact that such other events occurred at the same time as the switch to AIM was announced. However, in some more complex cases the announcements are highly significant to the company. For instance, in some cases there was an announcement of a major acquisition or disposal that would transform the overall composition of the company. We are concerned to isolate, as far as possible, the impact of the switch to AIM, and in the case of such major concurrent transactions this will clearly be impossible. This begs the question as to what criterion should be used to assess whether a transaction is "major". In general we used the filter that where transactions were of a size that required shareholder approval they were excluded from the sample. Furthermore, in some cases the announcement of the switch to AIM occurred whilst a major transaction was in process. In such cases, the shares were suspended at the time of the first announcement, and again we exclude them from our sample. These filters have the effect of excluding a variety of companies who announced their switch to AIM at the same time as (or during) major transactions such as reverse takeovers, significant changes in corporate control (including takeovers, or issuance of options that, if exercised, would gain control), the sale of a main businesses, or where a company was, or became, a cash shell. There are 27 companies that are excluded from the down switchers sample on the basis that there were concurrent major transactions. The same filter excludes 18 companies from the up sample.

For the remaining 218 (56) companies, the switch to AIM (MM) was not swamped in significance by other concurrent announcements, and in 54% of down switching cases the announcement only referred to the intention to switch markets. In most cases, the announcement to switch is accompanied by a short statement rationalising the decision. Most point to the lower costs (both financial and "continuing obligations"); many companies claim that AIM is a more appropriate market for a company of their size ("greater likelihood of attracting longer-term investor support");

and some companies point to the lower cost of future corporate transactions (as AIM does not charge for subsequent issues).

The flow of these switchers can be seen in Figure I, along with the evolution of the market indices. This shows an interesting pattern, whereby in the early days of AIM the switches tended to be "up" to the MM, whereas from the end of 2000 onwards the flow has been very strongly in the opposite direction. There is no obvious relationship between the relative performance of the two market segments and the gross, or net, flows of companies.

Summary statistics for the final sample are presented in Table III. In terms of the distribution of the sample over time, switching has increased considerably in recent years: two-thirds of the companies that have switched to AIM did so between January 2002 and December 2004.

The market capitalisation of these companies at the point they switched to Aim varies a great deal. The largest company had a market value in excess of £500m, and a few such large companies result in the average market capitalisation of £16.7m being considerably above the median of £7.4m. As noted above, there is no on-going market capitalisation requirement for the MM, and so none of these companies were required to transfer to AIM. In contrast, the analysis of Angel *et. al.* (2004) considers only those who violated one or more of Nasdaq's listing requirements, and for their sample, the mean and median market capitalisation at the time of delisting were considerably smaller, at $12.7m and $4.4m respectively.

The median announcement date for the companies was 33 days prior to the switch to AIM occurring. There are a few companies where the first announcement was several months before the actual switch, resulting in a mean lag between announcement and switch of 47 days. Table III also includes information on the frequency with which companies announced their intention to switch to AIM at the same time as other corporate announcements. As noted earlier, it is quite common for companies to provide updates on their trading when they announce the switch to AIM; this occurred in 32% of our sample. Obviously, the impact of the announcement will depend on how the news relates to prior expectations, which could be positive or negative. Announcements of actual or potential listing rule violations are rare, being observed in only 2% of the companies. Announcements regarding minor transactions are somewhat more common: 12% of the companies also announce share issues or other

capital restructurings, and 7% announce actual, or intended, acquisitions or disposals. 52% of companies made no other simultaneous announcements.

In the case of those switching up to the Main Market the gap between announcement and switching is slightly longer, on average 57 days with a median of 40 days. Half the companies simultaneously announced financial results, and so a slightly smaller proportion – 38% - of the announcements were purely about the intention to switch. Not surprisingly, the average size of those companies switching up is much larger than those switching down: median market capitalisation is £103m versus just under £9m.

IV. The impact of switching markets on valuation

A. Methodology

The standard technique employed to analyse the effects of events such as the one we consider is the event-study methodology pioneered by Fama, Fisher, Jensen and Roll (1969). Generally, researchers identify two dates for each event: the announcement date (we identify this as the first RNS listing which reports the firm's intention to move to the AIM market), and the implementation date (we call this the 'switch date,' as firms stop trading on the MM, and switch to trading on the AIM market on this date). Using both the announcement and switch dates, we line stocks up in event time, and analyze their abnormal returns over a 52 week window surrounding the event. We divide up this event window into various blocks of weeks prior to, during and after the event week, namely [-78,-27] (the estimation window), [-26,-14], [-13,-2], [-1,0,+1], [+2,+13] and [+14,+26]. At this stage we employ a data-availability filter: we require all companies to have weekly returns available for at least 20% of the estimation window. This results in six (one) very thinly traded companies being excluded from the down (up) switchers sample, thereby reducing the final sample used in the remainder of the paper from 218 to 212 companies switching down, and 56 to 55 companies switching up.

Table IV presents summary statistics about the raw return data we employ. Panel A shows these data for the down switchers. These stocks perform poorly in the year prior to the announcement data, with an average cumulative return of -7.2%. They then take a further beating in the three weeks surrounding the announcement, with an average cumulative return of approximately -5% over this period. However, in the six months following the switch, they exhibit a cumulative return of 16.7% on

average. Panel B reveals almost the reverse pattern for up switchers. These stocks do remarkably well in the year prior to announcing their switch from AIM to the Main market, with a cumulative return, on average, of 58.6%. They experience a further 4.5% boost upon announcement of the switch in the three weeks surrounding the announcement. This is then followed by negative -3.5% in the six months post-switch. While these numbers are indicative at this stage, they present an intriguing picture. To go further, we must risk adjust, and compute cumulative abnormal returns.

These abnormal returns are constructed in two steps. First, we estimate event parameters over an estimation window using a factor model. We employ Carhart's (1993) four factor model, employing the FTSE All-Share index, and SMB, HML and Momentum (UMD) factors constructed using all FTSE All-Share index constituents over the sample period.[16] We regress each firm's stock returns on the four factors in a 52-week estimation window prior to the event window ([-78,-27]). We employ the Dimson (1979) correction in our regressions, to mitigate potential biases arising from non-synchronous trading. Writing $r_{i,t}$ for the returns of firm *i* at date *t* in the estimation window, we estimate:

$$
\begin{aligned}
r_{i,t} &= \alpha_i + \Sigma_{k=-1}^{1} \beta_{i,FTSE}^{k} r_{FTSE,t+k} + \beta_{i,SMB}^{k} r_{SMB,t+k} + \beta_{i,HML}^{k} r_{HML,t+k} + \beta_{i,UMD}^{k} r_{UMD,t+k} + \varepsilon_{i,t} \\
\beta_{i,FTSEDIM} &= \beta_{i,FTSE}^{-1} + \beta_{i,FTSE}^{0} + \beta_{i,FTSE}^{+1} \\
\beta_{i,SMBDIM} &= \beta_{i,SMB}^{-1} + \beta_{i,SMB}^{0} + \beta_{i,SMB}^{+1} \\
\beta_{i,HMLDIM} &= \beta_{i,HML}^{-1} + \beta_{i,HML}^{0} + \beta_{i,HML}^{+1} \\
\beta_{i,UMDDIM} &= \beta_{i,UMD}^{-1} + \beta_{i,UMD}^{0} + \beta_{i,UMD}^{+1}
\end{aligned}
\qquad (1)
$$

We then save the estimated parameters $\hat{\alpha}_i, \hat{\beta}_{i,FTSEDIM}, \hat{\beta}_{i,SMBDIM}, \hat{\beta}_{i,HMLDIM}, \hat{\beta}_{i,UMDDIM}$ for each firm. We present summary statistics on the estimated parameters in Table V. On average, down switchers have positive loadings on SMB and a negative loading on HML, reflecting the fact that these are small growth firms. Up switchers also have positive loadings on SMB, and strongly positive loadings on UMD, reflecting their strong momentum in the year prior to the event window.

To create abnormal returns, we subtract the estimated fitted value from realized firm returns for dates *t* in the event window:

[16] We have also employed a range of alternative factor models, including simple market adjustment using both the FTSE All-Share and the AIM index, a one-factor market model, and a two-factor model using both the FTSE All-Share index and the AIM index. Our results are qualitatively unaffected by these different methods of risk adjustment.

$$r_{i,t}^{abnormal} = r_{i,t} - \hat{\alpha}_i - \hat{\beta}_{i,FTSEDIM} r_{FTSE,t} - \hat{\beta}_{i,SMBDIM} r_{SMB,t} - \hat{\beta}_{i,HMLDIM} r_{HML,t} - \hat{\beta}_{i,UMDDIM} r_{UMD,t} \quad (2)$$

We then sum computed abnormal returns over the event window, to create cumulative abnormal returns (CARs). These CARs are a measure of abnormal price increases. We then test whether the CARs are statistically different from zero around the announcement and switch dates. In order to do this, we estimate standard errors for the point estimates in two ways. First, we employ the White (1980) method, estimating heteroskedasticity consistent standard errors. Second, we employ the delete-cross-section jackknife estimator, in the spirit of Shao and Wu (1989) and Shao (1989).[17] The jackknife does not require normality, is consistent in the presence of heteroskedasticity and cross-correlation of firm returns in event time. This is equivalent to clustering all firm residuals in each event time period.

B. Baseline Results

Table VI presents cumulative abnormal returns estimated over the event window around down switches. Panel A reveals that on average relative to the four factor model, the firms in our sample experienced a total negative return of around 4% in the three weeks surrounding their announcement of a move from the LSE main market to the AIM market. This point estimate is statistically significant at the 5% level using both the White and jackknife standard errors. In the [+14,+26] window there also appears to be a positive return of 12.2%. Figure II, Panel A, reproduces the results from Table VI, Panel A, plotting the CARs over the [-26,+26] week window surrounding the event. The decline in abnormal returns and the subsequent bounce following the announcement are both evident from the figure. Panel B of the same table shows that there is a significant upward movement in abnormal returns in the six-month period following the switch, of approximately 19%. Figure II, Panel B reproduces this result. Effectively, the bounce cancels out any negative return impact of the trading switch from the LSE Main list to the AIM market.

Table VII shows the results for firms that switched up to the Main market from the AIM market. The up switchers have strong positive abnormal returns in the weeks surrounding their announcement, and the quarter immediately after the announcement. However, Panel B of the table

[17] To compute the jackknife standard error for an estimator, we form the estimator for *T* delete-cross-section jackknife data samples, constructed by deleting all stocks *i* for each event time period *t* in *T*. The standard deviation of the resulting jackknife trials, appropriately scaled, is the jackknife standard error of the estimator.

reveals that there is a significant negative return experienced by these firms in the quarter immediately following the switch. A visual representation of these results is in, Figure III Panels A and B.

We also inspect the impact of switching on a measure of liquidity. Figure IV shows the impacts of the switch on abnormal turnover (relative to mean turnover in the [-78,-27] pre-event window). Panel A clearly shows an increase in abnormal turnover for down switchers in the six months prior to the event. While abnormal turnover reduces over the six-month period following the switch from its peak around the switch date, at the end of the six-month period, it is still greater than zero, suggesting that if anything, liquidity increases for down switchers. For up switchers, the pattern is less clear, but if anything, there is some evidence of a decline in turnover for stocks following their listing on the Main market.

The next subsection presents robustness checks pertaining to our return results.

C. Robustness Checks

Table VIII and Table IX present the first of a series of robustness checks of our results. We remove 42 (7) firms from the down (up) switchers sample, which simultaneously announced capital restructuring, share issuances, listing rule violations or acquisitions or disposals at any time during the event window. The results are if anything stronger when we remove these firms and re-estimate the CARs around the announcement and switch dates.

Table X and Table XI re-estimate the abnormal returns around the switch date for firms separated into two groups: those in the top and bottom terciles of average turnover in the [-78,-27] pre-event window. Table X reveals an interesting finding – for the down switchers, while the post-switch bounce occurs for both high and low turnover stocks, for the high turnover stocks, all of the bounce occurs in the quarter immediately following the switch. For the low turnover stocks, in contrast, returns increase in both quarters post-switch. The slow drift upwards following the switch seems to be driven by the least liquid stocks in the sample. For more liquid stocks, it seems that the bounce occurs quite quickly after the switch. Figure V plots CARs for the low and high turnover stocks, and for the entire sample, and confirms the picture found in Table X. Table XI does not yield much in the way of insights – which is not surprising, perhaps, given that dividing a 55 stock sample into terciles generates small sub-samples and limited power to detect patterns in the CARs.

Table XII and Table XIII present CARs around the switch date, when returns are set to zero in the three days surrounding any index inclusion or deletion event. The indices we consider are the FTSE AIM, FTSE Fledgling, FTSE Small Cap, FTSE All Share, FTSE 250 and the Hoare-Govett Small Companies. Together, these indices represent the major small company indices in the UK market. Panel A in both tables reveals that additions to and deletions from these indices do not affect our results for down and up switchers. Panel B shows that additions and deletions in the period surrounding the switch do not have large return effects. This suggests either that the effects documented in the literature are swamped by the event of switching market segments, or that index inclusions and deletions are not as important for small companies as they are, for example, for companies entering and leaving the S&P 500. Either way, our results on the post-switch CARs are unaffected by controlling for index inclusion and deletion effects.

Finally, Table XIV and Table XV repeat our earlier analysis, but split the sample according to the three tax regimes identified earlier. It should be noted that our samples are not evenly spread between these period. In particular, nearly 70% of our sample of companies switching from MM to AIM did so in the most recent tax regime, whereas nearly 60% of the companies switching in the other direction did so in the first tax regime. Bearing in mind the limited samples upon which some of the estimates are based, the results exhibit no obvious differences between the various tax regimes. This suggests that the results we identify in this paper are associated with the more general governance and regulation differences between the two market segments.

V. Discussion and conclusions

In this paper we question whether investors perceive value in high levels of regulation of publicly traded companies. We exploit the unique environment that exists in London, where there are two market segments with different levels of regulation that use identical trading technology to find the answer to this question. London has seen a large number of companies that have chosen to switch between the segments. This provides an excellent test-bed for analysing the impact of high versus low levels of regulation on firm value. Our analysis is highly pertinent to current debates in the US and EU regarding the appropriate extent of regulation given the observed flight of many companies away from

highly-regulated markets, and may also help to provide an explanation for the enormous growth in the popularity of AIM.

We find a large and significant announcement effect associated with the decision to switch to AIM. The initial price drop is large, averaging around 3 to 4%, depending on the method of risk adjustment. There is clear evidence, therefore, that the initial response of investors to the news of a switch is negative. Intriguingly, however, this is not the end of the story. There is typically a gap of about 30-40 trading days between the announcement of the intention to switch and the move to AIM actually occurring. We demonstrate that there is a prolonged and significant bounce in the share prices once the companies start trading on AIM. The estimated abnormal returns differ somewhat depending on which factor model is employed, but generally lie within the 10-20% range. This outperformance occurs over the six month period following the switch date. The net result, looking at a wide event window of six months before and after the switch, appears to be positive. Similar conclusions would apply if the event window was narrowed to three months either side of the switch.

Our results are robust to controls for index inclusions and exclusions over the event period, to the removal of companies which made other significant announcements such as acquisitions or disposals over the event window, and different tax regimes. Clientele effects are one possible explanation for the observed pattern of performance. The longer-term positive effect that we observe in some of our results could conceivably be a combination of a changing investor base and reduced costs of compliance, which for many companies can be very significant relative to their profitability. Finally, we extend the sample, looking at companies which moved in the other direction, up from AIM to the Main market. These companies exhibit similar effects to the down switchers, but almost exactly the reverse, that is, there is an initially positive return on the announcement of the switch, but negative abnormal returns in the six-month period following the switch. Again, it seems as if the net effect of switching up is zero, or slightly negative.

Our results have implications for the value of high levels of regulation of publicly traded companies. They suggests that while particular investor clienteles exist for highly regulated stocks, other investors – who place little value on the higher regulatory standards – become the relevant marginal investors when companies switch market segments.

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Table I

Comparison of the Main Market and AIM

Panel A: Admissions requirements	
Main market	*AIM*
Minimum 25% shares in public hands	No minimum shares to be in public hands
Normally 3 year trading record required	No trading record requirement
Pre-vetting of admission documents by the UKLA, or another recognised EU authority - admission takes several months	Admission documents not pre-vetted by Exchange or any listing authority - admission can be achieved within 2 weeks
Minimum market capitalisation on entry (£700K)	No minimum market capitalisation
	Nominated adviser required at all times
Sliding scale admission fees: e.g. £16K, £49K, £142K respectively for £10m, £100m and £1bn market cap at issue	Flat rate admission fee: £4K
Panel B: Continuing Obligations	
Main Market	*AIM*
Prior shareholder approval required for substantial acquisitions and disposals	No prior shareholder approval for transactions
Sponsors needed for certain transactions	
Companies are subject to extensive continuing obligations as required by the UKLA	
Sliding scale annual fees: e.g. £8K, £8K, £20K respectively for £10m, £100m and £1bn market cap	Flat rate annual fee: £4K
Panel C: other costs and benefits	
Main Market	*AIM*
Fees charged for subsequent issues	No charge for subsequent issues
	Aim companies enjoy some tax benefits - since UK tax authorities treat most AIM companies as unquoted “business” assets

Table II

The growth of the AIM market

This table shows the development of the AIM market since its inception in 1995. Ten companies previously on the Unlisted Securities Market were transferred to AIM when it opened. The first block of columns shows the total number of companies quoted at the year end; international companies are those from outside the UK. New admissions comprise IPOs and transfers from the Main Market. We do not report those companies that left the market – either due to takeovers, switches to the MM, or cancellations – although this flow can be inferred from the difference between the first two blocks of figures. Money raised is split into funds raised at the time of the IPO or on transfer from the Main Market, and further issues by AIM quoted companies. Source: London Stock Exchange AIM market statistics, December 2006.

	Companies at year end		**New admissions**		**Money raised (£m)**		
	Total	… of which international	Total	… of which international	on entry to AIM	further issues	Total
1995	121	3	123	3	69.5	25.3	94.8
1996	252	17	145	14	514.1	302.3	816.4
1997	308	22	107	7	344.1	350.2	694.3
1998	312	21	75	7	267.5	290.1	557.6
1999	347	22	102	6	333.7	599.8	933.5
2000	524	31	277	12	1,754.1	1,319.7	3,073.8
2001	629	42	177	15	593.1	535.3	1,128.4
2002	704	50	160	13	490.1	485.8	975.8
2003	754	60	162	16	1,095.4	999.7	2,095.2
2004	1021	116	355	61	2,775.9	1,880.2	4,656.1
2005	1,399	220	519	120	6,461.2	2,481.2	8,942.4
2006	1,634	306	462	124	9,943.8	5,734.3	15,678.1
Total			**2,664**	**398**	**24,642.5**	**15,003.9**	**39,646.4**

Table III

Sample distribution

This table shows the sample of companies that switched from the Main Market to AIM from the inception of AIM in 1995 until the end of 2006. Companies that made major acquisitions or disposals – the impact of which would dominate the switch – have been excluded from the sample (see discussion in Section III for details). Companies are classified by year according to the date of announcement, rather than the date of the actual switch. Days pre-announced refers to the gap between the first public announcement of the intention to switch market and the actual date of the switch. Other announcements are items that were included in the regulatory news filing at the same time as the announcement of the intention to switch to AIM. Some companies made simultaneous announcements in more than one category, hence the proportions to not add up to 100%.

MAIN-AIM	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**Total**
Number of companies	5	2	6	14	28	37	42	21	35	28	218
Days pre-announced											
- mean	32	22	30	35	48	35	42	52	58	67	47
- median	17	22	30	33	32	31	33	32	53	61	33
Market cap on transfer											
- mean (£ m)	8.7	34.4	4.2	46.8	11.2	9.9	16.2	23.9	31.0	24.0	21.0
- median (£ m)	8.6	34.4	3.6	8.4	6.5	5.8	8.7	10.0	16.9	17.7	8.6
Other announcements											
- financial results											32%
- listing rule violation											2%
- share issue or restructuring											12%
- minor acquisition or disposal											7%
No announcements											52%

AIM-MAIN	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**Total**
Number of companies	0	16	10	10	6	4	3	2	2	3	56
Days pre-announced											
- mean	0	42	38	63	110	57	59	44	56	85	57
- median	0	34	32	75	38	44	70	44	56	75	40
Market cap on transfer											
- mean (£ m)		61.1	119.9	217.5	94.2	125.8	261.1	145.0	268.6	283.7	175.2
- median (£ m)		42.5	46.5	101.6	107.8	123.3	163.4	145.0	268.6	274.2	102.9
Other announcements											
- financial results											50%
- listing rule violation											0%
- share issue or restructuring											11%
- minor acquisition or disposal											2%
No announcements											38%

Table IV

Summary Statistics

Table I presents descriptive statistics about the return data employed in the study. The data comprise 210 firms which switched down from the London Stock Exchange main list (Main) to the Alternative Investment Market (AIM) between 1997 and 2006; and 53 firms which switched up from AIM to the LSE main list between 1997 and 2006. The rows highlight the weeks in event time (relative to the announcement or actual switch week) over which cumulative returns are computed (thus [-78,-27] shows the total return over the estimation window, from 78 weeks prior to the announcement/switch until 27 weeks prior to the announcement/switch). The columns present, in order, the cross-sectional mean, median, and standard error of the mean, of cumulative returns. Panel A shows summary statistics for the Down switchers (Main to AIM), and Panel B for the Up switchers (AIM to Main).

Panel A: Down Switchers

Announcement Date	**Mean**	**Median**	**s.e.(Mean)**
Total Returns			
[-78,-27]	-7.703	0.000	4.569
[-26,-2]	0.835	1.696	3.558
[-1,0,1]	-5.059	-2.161	1.530
[+2,+26]	11.281	8.450	3.551
Switch Date	**Mean**	**Median**	**s.e.(Mean)**
Total Returns			
[-78,-27]	-6.928	0.000	4.589
[-26,-2]	-4.604	-1.116	3.738
[-1,0,1]	-1.307	-0.565	1.069
[+2,+26]	17.535	16.338	3.150

Panel B: Up Switchers

Announcement Date	**Mean**	**Median**	**s.e.(Mean)**
Total Returns			
[-78,-27]	59.863	52.923	15.307
[-26,-2]	21.437	10.818	9.389
[-1,0,1]	4.842	2.546	2.804
[+2,+26]	7.603	5.966	7.021
Switch Date	**Mean**	**Median**	**s.e.(Mean)**
Total Returns			
[-78,-27]	69.217	53.995	13.985
[-26,-2]	13.056	9.441	7.290
[-1,0,1]	5.654	1.623	2.041
[+2,+26]	-3.356	-2.414	6.891

Table V

Four-Factor Model Parameters in Estimation Window

Table II presents descriptive statistics on the factor loadings of the firms during the estimation window of [-78,-27] weeks prior to the announcement or switch. The data comprise 210 firms which switched down from the London Stock Exchange main list (Main) to the Alternative Investment Market (AIM) between 1997 and 2006; and 53 firms which switched up from AIM to the LSE main list between 1997 and 2006. The rows show the intercept, Dimson-corrected betas (with a one week lead and lag), and adjusted R-squared statistics from a multiple regression of firm returns on three Fama-French factors computed for weekly UK data (MKT, SMB and HML), as well as a Momentum factor (UMD). The columns present, in order, the cross-sectional mean, median, and standard error of the mean, of these parameters. Panel A presents these data for the Down switchers, and Panel B for the Up switchers.

Panel A: Down Switchers

Announcement Date	**Mean**	**Median**	**s.e.(Mean)**
Alpha	0.001	0.001	0.001
Beta(MKT)	0.580	0.450	0.083
Beta(SMB)	0.995	0.851	0.178
Beta(HML)	-0.388	-0.028	0.168
Beta(UMD)	1.524	0.880	1.361
Adjusted Rsq	0.044	0.026	
Switch Date	**Mean**	**Median**	**s.e.(Mean)**
Alpha	0.000	0.001	0.001
Beta(MKT)	0.631	0.470	0.083
Beta(SMB)	0.781	0.755	0.167
Beta(HML)	-0.257	-0.053	0.160
Beta(UMD)	1.068	1.079	1.290
Adjusted Rsq	0.037	0.015	

Table V (Continued)

Four-Factor Model Parameters in Estimation Window

Panel B: Up Switchers

Announcement Date	**Mean**	**Median**	**s.e.(Mean)**
Alpha	0.006	0.003	0.002
Beta(FTSE)	0.836	0.436	0.234
Beta(SMB)	1.680	1.172	0.541
Beta(HML)	0.305	0.152	0.508
Beta(UMD)	7.502	2.862	3.681
Adjusted Rsq	0.066	0.078	
Switch Date	**Mean**	**Median**	**s.e.(Mean)**
Alpha	0.005	0.004	0.002
Beta(FTSE)	0.878	0.563	0.204
Beta(SMB)	1.089	1.171	0.475
Beta(HML)	-0.360	-0.146	0.482
Beta(UMD)	6.627	0.580	4.247
Adjusted Rsq	0.118	0.120	

Table VI

Cumulative Abnormal Returns: Down Switchers

This table presents four factor model adjusted returns in event time for 210 firms which switched from the London Stock Exchange main (Main) list to the Alternative Investment Market (AIM) between 1997 and 2006. The rows indicate the weeks in event time relative to the event week. The columns show, in order, the cross-sectional mean factor-model-adjusted abnormal return in percent accruing in each of the return windows; White heteroskedasticity consistent standard errors for these abnormal returns; and cross-correlation and heteroskedasticity consistent jackknife standard errors for the abnormal returns. All intercepts and betas are estimated over the 52-week period ([-78,-27]) prior to the beginning of the event window, and employ the Dimson correction. In Panel A, the event is the first public announcement by the firm that it intends to switch from Main to AIM (announcement date). Thus in Panel A, [-1,0,1] is the three weeks surrounding the first official announcement by the firm. In Panel B, the event is the actual switch of trading from Main to AIM (switch date). Thus in Panel B, [-1,0,1] is the three weeks surrounding the first week of trading on AIM of the firm's shares. CARs significant at the 10% level using the jackknife estimator are in **bold**.

Panel A: Announcement Window Abnormal Returns

Relative to Announcement Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	2.419	*0.944*	*0.863*
[-13,-2]	-0.493	*-0.206*	*-0.263*
[-1,0,1]	**-3.930**	*-2.734*	*-2.142*
[+2,+13]	1.598	*0.663*	*0.752*
[+14,+26]	**12.202**	*4.319*	*3.535*

Panel B: Switch Window Abnormal Returns

Relative to Switch Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	2.824	*1.163*	*1.025*
[-13,-2]	-3.415	*-1.340*	*-1.215*
[-1,0,1]	-0.708	*-0.568*	*-0.433*
[+2,+13]	**9.752**	*3.857*	*3.410*
[+14,+26]	**9.112**	*3.569*	*2.960*

Table VII

Cumulative Abnormal Returns: Up Switchers

This table presents four factor model adjusted returns in event time for 53 firms which switched from the Alternative Investment Market (AIM) to the London Stock Exchange main (Main) list between 1997 and 2006. The rows indicate the weeks in event time relative to the event week. The columns show, in order, the cross-sectional mean factor-model-adjusted abnormal return in percent accruing in each of the return windows; White heteroskedasticity consistent standard errors for these abnormal returns; and cross-correlation and heteroskedasticity consistent jackknife standard errors for the abnormal returns. All intercepts and betas are estimated over the 52-week period ([-78,-27]) prior to the beginning of the event window, and employ the Dimson correction. In Panel A, the event is the first public announcement by the firm that it intends to switch from AIM to Main (announcement date). Thus in Panel A, [-1,0,1] is the three weeks surrounding the first official announcement by the firm. In Panel B, the event is the actual switch of trading from AIM to Main (switch date). Thus in Panel B, [-1,0,1] is the three weeks surrounding the first week of trading on Main of the firm's shares. CARs significant at the 10% level using the jackknife estimator are in **bold**.

Panel A: Announcement Window Abnormal Returns

Relative to Announcement Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	**13.933**	*2.086*	*2.068*
[-13,-2]	-5.575	*-1.123*	*-1.026*
[-1,0,1]	**4.771**	*1.647*	*2.254*
[+2,+13]	**9.202**	*1.803*	*1.649*
[+14,+26]	-1.830	*-0.310*	*-0.319*

Panel B: Switch Window Abnormal Returns

Relative to Switch Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	0.713	*0.134*	*0.162*
[-13,-2]	3.891	*0.753*	*0.773*
[-1,0,1]	2.633	*0.883*	*0.388*
[+2,+13]	**-12.612**	*-2.445*	*-2.209*
[+14,+26]	-5.151	*-0.772*	*-1.178*

Table VIII

Cumulative Abnormal Returns: Down Switchers, No Confounding Events

This table presents four factor model adjusted returns in event time for 168 firms which switched from the London Stock Exchange main (Main) list to the Alternative Investment Market (AIM) between 1997 and 2006. These firms were selected from the total sample of 210 firms, conditional on their making no announcements of capital restructuring, share issuance, listing rule violations, acquisitions or disposals at any time during the event window. The rows indicate the weeks in event time relative to the event week. The columns show, in order, the cross-sectional mean factor-model-adjusted abnormal return in percent accruing in each of the return windows; White heteroskedasticity consistent t-statistics for these abnormal returns; and cross-correlation and heteroskedasticity consistent jackknife t-statistics for the abnormal returns. All intercepts and betas are estimated over the 52-week period ([-78,-27]) prior to the beginning of the event window, and employ the Dimson correction. In Panel A, the event is the first public announcement by the firm that it intends to switch from Main to AIM (announcement date). Thus in Panel A, [-1,0,1] is the three weeks surrounding the first official announcement by the firm. In Panel B, the event is the actual switch of trading from Main to AIM (switch date). Thus in Panel B, [-1,0,1] is the three weeks surrounding the first week of trading on AIM of the firm's shares. CARs significant at the 10% level using the jackknife estimator are in **bold**.

Panel A: Announcement Window Abnormal Returns

Relative to Announcement Week	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-26,-14]	1.414	*0.539*	*0.486*
[-13,-2]	-0.453	*-0.180*	*-0.229*
[-1,0,1]	**-3.147**	*-2.171*	*-1.658*
[+2,+13]	1.475	*0.568*	*0.523*
[+14,+26]	**11.155**	*3.609*	*3.144*

Panel B: Switch Window Abnormal Returns

Relative to Switch Week	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-26,-14]	1.858	*0.752*	*0.673*
[-13,-2]	-2.402	*-0.930*	*-0.706*
[-1,0,1]	-0.655	*-0.482*	*-0.391*
[+2,+13]	**11.810**	*4.182*	*3.179*
[+14,+26]	**8.301**	*3.065*	*2.576*

Table IX

Cumulative Abnormal Returns: Up Switchers, No Confounding Events

This table presents four factor model adjusted returns in event time for 48 firms which switched from the Alternative Investment Market (AIM) to the London Stock Exchange main (Main) list between 1997 and 2006. These firms were selected from the total sample of 53 firms, conditional on their making no announcements of capital restructuring, share issuance, listing rule violations, acquisitions or disposals at any time during the event window. The rows indicate the weeks in event time relative to the event week. The columns show, in order, the cross-sectional mean factor-model-adjusted abnormal return in percent accruing in each of the return windows; White heteroskedasticity consistent t-statistics for these abnormal returns; and cross-correlation and heteroskedasticity consistent jackknife t-statistics for the abnormal returns. All intercepts and betas are estimated over the 52-week period ([-78,-27]) prior to the beginning of the event window, and employ the Dimson correction. In Panel A, the event is the first public announcement by the firm that it intends to switch from AIM to Main (announcement date). Thus in Panel A, [-1,0,1] is the three weeks surrounding the first official announcement by the firm. In Panel B, the event is the actual switch of trading from AIM to Main (switch date). Thus in Panel B, [-1,0,1] is the three weeks surrounding the first week of trading on Main of the firm's shares. CARs significant at the 10% level using the jackknife estimator are in **bold**.

Panel A: Announcement Window Abnormal Returns

Relative to Announcement Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	**8.232**	*1.311*	*1.819*
[-13,-2]	-4.750	*-0.906*	*-0.857*
[-1,0,1]	3.831	*1.241*	*1.103*
[+2,+13]	6.789	*1.226*	*1.016*
[+14,+26]	-7.933	*-1.280*	*-1.438*

Panel B: Switch Window Abnormal Returns

Relative to Switch Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	0.817	*0.149*	*0.147*
[-13,-2]	3.173	*0.569*	*0.552*
[-1,0,1]	2.628	*0.807*	*0.340*
[+2,+13]	**-15.123**	*-2.733*	*-2.260*
[+14,+26]	-10.598	*-1.542*	*-1.533*

Table X

Cumulative Abnormal Returns: Down Switchers, High and Low Turnover Stocks

This table presents four factor model adjusted returns in event time for 190 firms which switched from the London Stock Exchange main (Main) list to the Alternative Investment Market (AIM) between 1997 and 2006. These firms are a subset of the total sample of 210 firms, for which turnover data in the pre-switch [-78,-27] window is available. These firms are further divided into two groups based on their average turnover during this period. High (low) turnover firms are those which have above (below) the 70th percentile (30th percentile) of average turnover in this window. The rows indicate the weeks in event time relative to the switch week. The columns show, in order, the cross-sectional mean factor-model-adjusted abnormal return in percent accruing in each of the return windows; White heteroskedasticity consistent t-statistics for these abnormal returns; and cross-correlation and heteroskedasticity consistent jackknife t-statistics for the abnormal returns. All intercepts and betas are estimated over the 52-week period ([-78,-27]) prior to the beginning of the event window, and employ the Dimson correction. Panel A (B), presents the results for high (low) turnover firms. CARs significant at the 10% level using the jackknife estimator are in **bold**.

Panel A: Abnormal Returns, High Turnover Stocks

Relative to Switch Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	-1.551	*-0.263*	*-0.270*
[-13,-2]	-11.240	*-1.634*	*-1.332*
[-1,0,1]	**2.289**	*0.874*	*3.134*
[+2,+13]	**15.438**	*2.464*	*2.086*
[+14,+26]	1.687	*0.307*	*0.223*

Panel B: Abnormal Returns, Low Turnover Stocks

Relative to Switch Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	**5.497**	*1.580*	*1.648*
[-13,-2]	0.991	*0.257*	*0.299*
[-1,0,1]	-0.171	*-0.070*	*-0.049*
[+2,+13]	**11.745**	*3.262*	*2.497*
[+14,+26]	**14.622**	*3.564*	*4.138*

Table XI

Cumulative Abnormal Returns: Up Switchers, High and Low Turnover Stocks

This table presents two-factor-model adjusted returns in event time for 50 firms which switched from the Alternative Investment Market (AIM) to the London Stock Exchange main list (Main) between 1997 and 2006. These firms are a subset of the total sample of 53 firms, for which turnover data in the pre-switch [-78,-27] window is available. These firms are further divided into two groups based on their average turnover during this period. High (low) turnover firms are those which have above (below) the 70th percentile (30th percentile) of average turnover in this window. The rows indicate the weeks in event time relative to the switch week. The columns show, in order, the cross-sectional mean factor-model-adjusted abnormal return in percent accruing in each of the return windows; White heteroskedasticity consistent t-statistics for these abnormal returns; and cross-correlation and heteroskedasticity consistent jackknife t-statistics for the abnormal returns. All intercepts and betas are estimated over the 52-week period ([-78,-27]) prior to the beginning of the event window, and employ the Dimson correction. Panel A (B), presents the results for high (low) turnover firms. CARs significant at the 5% level using the jackknife estimator are in **bold**.

Panel A: Abnormal Returns, High Turnover Stocks

Relative to Switch Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	2.292	*0.202*	*0.232*
[-13,-2]	9.075	*1.105*	*1.031*
[-1,0,1]	10.342	*2.068*	*1.047*
[+2,+13]	-8.450	*-0.956*	*-0.929*
[+14,+26]	15.981	*1.259*	*1.304*

Panel B: Abnormal Returns, Low Turnover Stocks

Relative to Switch Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	2.053	*0.217*	*0.271*
[-13,-2]	**20.209**	*1.971*	*2.044*
[-1,0,1]	1.099	*0.158*	*0.110*
[+2,+13]	-15.226	*-1.233*	*-0.968*
[+14,+26]	-17.348	*-1.120*	*-1.192*

Table XII

Cumulative Abnormal Returns: Down Switchers, Index Events Removed

Panel A of this table presents four factor model adjusted returns in event time around the switch date for 210 firms which switched from the London Stock Exchange main (Main) list to the Alternative Investment Market (AIM) between 1997 and 2006. We set returns in the three week period surrounding index addition and deletion events (i.e., a [-1,0,1] window around such events) to zero. Panel B shows four factor model adjusted returns accruing to firms in the three weeks around addition and deletion events. The rows indicate the weeks in event time relative to the switch week. The columns show, in order, the cross-sectional mean factor-model-adjusted abnormal return in percent accruing in each of the return windows; White heteroskedasticity consistent-statistics for these abnormal returns; and cross-correlation and heteroskedasticity consistent jackknife t-statistics for the abnormal returns. In Panel B, we also report the number of inclusion and deletion events. All intercepts and betas are estimated over the 52-week period ([-78,-27]) prior to the beginning of the event window, and employ the Dimson correction. CARs significant at the 5% level using the jackknife estimator are in **bold**.

Panel A: Down Switchers, Abnormal Returns, Index Events Removed

Relative to Switch Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	2.828	*1.165*	*1.025*
[-13,-2]	-3.319	*-1.303*	*-1.164*
[-1,0,1]	-0.432	*-1.614*	*-1.335*
[+2,+13]	**10.811**	*4.640*	*3.594*
[+14,+26]	**9.395**	*3.734*	*3.028*

Panel B: Returns Around Index Events

Period	CAR	White T-Stat	Jackknife T-Stat	Number
Remaining Weeks	**0.294**	*2.763*	*2.153*	
Addition Weeks [1,0,1]	**-0.863**	*-2.110*	*-2.137*	573
Deletion Weeks [1,0,1]	-0.517	*-1.156*	*-0.728*	611

Table XIII

Cumulative Abnormal Returns: Up Switchers, Index Events Removed

Panel A of this table presents four factor model adjusted returns in event time around the switch date for 56 firms which switched from the Alternative Investment Market (AIM) to the London Stock Exchange main (Main) list between 1997 and 2006. We set returns in the three week period surrounding index addition and deletion events (i.e., a [-1,0,1] window around such events) to zero. Panel B shows four factor model adjusted returns accruing to firms in the three weeks around addition and deletion events. The rows indicate the weeks in event time relative to the switch week. The columns show, in order, the cross-sectional mean factor-model-adjusted abnormal return in percent accruing in each of the return windows; White heteroskedasticity consistent-statistics for these abnormal returns; and cross-correlation and heteroskedasticity consistent jackknife t-statistics for the abnormal returns. In Panel B, we also report the number of inclusion and deletion events. All intercepts and betas are estimated over the 52-week period ([-78,-27]) prior to the beginning of the event window, and employ the Dimson correction. CARs significant at the 5% level using the jackknife estimator are in **bold**.

Panel A: Up Switchers, Abnormal Returns, Index Events Removed

Relative to Switch Week	CAR	White T-Stat	Jackknife T-Stat
[-26,-14]	0.713	*0.134*	*0.162*
[-13,-2]	3.891	*0.753*	*0.773*
[-1,0,1]	0.195	*1.003*	*0.816*
[+2,+13]	**-11.712**	*-2.311*	*-2.066*
[+14,+26]	-6.286	*-0.967*	*-1.467*

Panel B: Returns Around Index Events

Period	CAR	White T-Stat	Jackknife T-Stat	Number
Remaining Weeks	0.301	*1.285*	*1.234*	
Addition Weeks [1,0,1]	0.535	*0.446*	*0.427*	85
Deletion Weeks [1,0,1]	1.246	*1.286*	*1.014*	153

Table XIV

Cumulative Abnormal Returns: Down Switchers, Tax Change Sub-Periods

Table XIV presents cumulative abnormal returns for down switchers in three subsamples, stocks which switched between 1997 and 5th April 2000 (first period); between 6th April 2000 and 5th April 2002 (second period) and from 6th April 2002 until the end of 2006 (third period). Panel A presents CARs in the three weeks surrounding the announcement, and Panel B, for various weeks surrounding the actual trading switch date. CARs significant at the 5% level using the jackknife estimator are in **bold**.

Panel A: Returns Around Announcement Date

First Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-1,0,1]	**-4.173**	*-2.815*	*-2.271*
Sample Fraction	**6.881%**		
Second Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-1,0,1]	**-3.247**	*-2.051*	*-1.902*
Sample Fraction	**23.853%**		
Third Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-1,0,1]	-4.894	*-1.707*	*-1.207*
Sample Fraction	**69.266%**		

Panel B: Returns Around Switch Date

First Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-26,-14]	2.488	*0.997*	*1.039*
[-13,-2]	-4.504	*-1.723*	*-1.441*
[-1,0,1]	-0.794	*-0.630*	*-0.551*
[+2,+13]	**8.508**	*3.284*	*2.930*
[+14,+26]	**7.970**	*3.134*	*2.101*
Second Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-26,-14]	**6.541**	*2.304*	*2.196*
[-13,-2]	-0.043	*-0.015*	*-0.013*
[-1,0,1]	-0.734	*-0.526*	*-0.339*
[+2,+13]	**11.363**	*4.561*	*3.967*
[+14,+26]	**9.882**	*3.723*	*3.651*
Third Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-26,-14]	-5.465	*-1.289*	*-1.012*
[-13,-2]	**-8.522**	*-1.801*	*-1.737*
[-1,0,1]	-0.375	*-0.149*	*-0.119*
[+2,+13]	**9.536**	*1.590*	*1.852*
[+14,+26]	**10.694**	*1.789*	*1.844*

Table XV

Cumulative Abnormal Returns: Up Switchers, Tax Change Sub-Periods

Table XV presents cumulative abnormal returns for up switchers in three subsamples, stocks which switched between 1997 and 5th April 2000 (first period); between 6th April 2000 and 5th April 2002 (second period) and from 6th April 2002 until the end of 2006 (third period). Panel A presents CARs in the three weeks surrounding the announcement, and Panel B, for various weeks surrounding the actual trading switch date. CARs significant at the 5% level using the jackknife estimator are in **bold**.

Panel A: Returns Around Announcement Date

First Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-1,0,1]	5.378	*1.270*	*1.014*
Sample Fraction	**57.143%**		
Second Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-1,0,1]	**4.115**	*1.358*	*3.838*
Sample Fraction	**19.643%**		
Third Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-1,0,1]	5.131	*1.443*	*1.591*
Sample Fraction	**23.214%**		

Panel B: Returns Around Switch Date

First Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-26,-14]	0.171	*0.020*	*0.018*
[-13,-2]	-4.014	*-0.549*	*-0.531*
[-1,0,1]	9.255	*2.248*	*1.186*
[+2,+13]	-0.433	*-0.046*	*-0.055*
[+14,+26]	-0.289	*-0.020*	*-0.030*
Second Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-26,-14]	1.738	*0.327*	*0.366*
[-13,-2]	6.271	*1.130*	*1.182*
[-1,0,1]	0.683	*0.210*	*0.100*
[+2,+13]	**-13.618**	*-2.918*	*-2.603*
[+14,+26]	-3.341	*-0.665*	*-1.009*
Third Period	**CAR**	**White T-Stat**	**Jackknife T-Stat**
[-26,-14]	-0.066	*-0.010*	*-0.011*
[-13,-2]	5.407	*0.862*	*0.928*
[-1,0,1]	1.319	*0.368*	*0.210*
[+2,+13]	**-17.672**	*-2.808*	*-2.726*
[+14,+26]	-9.435	*-1.188*	*-1.477*

Figure I

Performance of the Main Market and AIM, and the Number of Firms Switching Markets

This figure shows the performance of the Main Market (as measured by the FTSE All Share Index) and AIM (as measured by the FTSE AIM Index), along with the number of companies switching between markets from 1997 until the end of 2006. Both market indices measure total returns, including reinvested dividends. The AIM index was introduced in May 1997. Companies are classified by quarter according to the date of the actual switch.

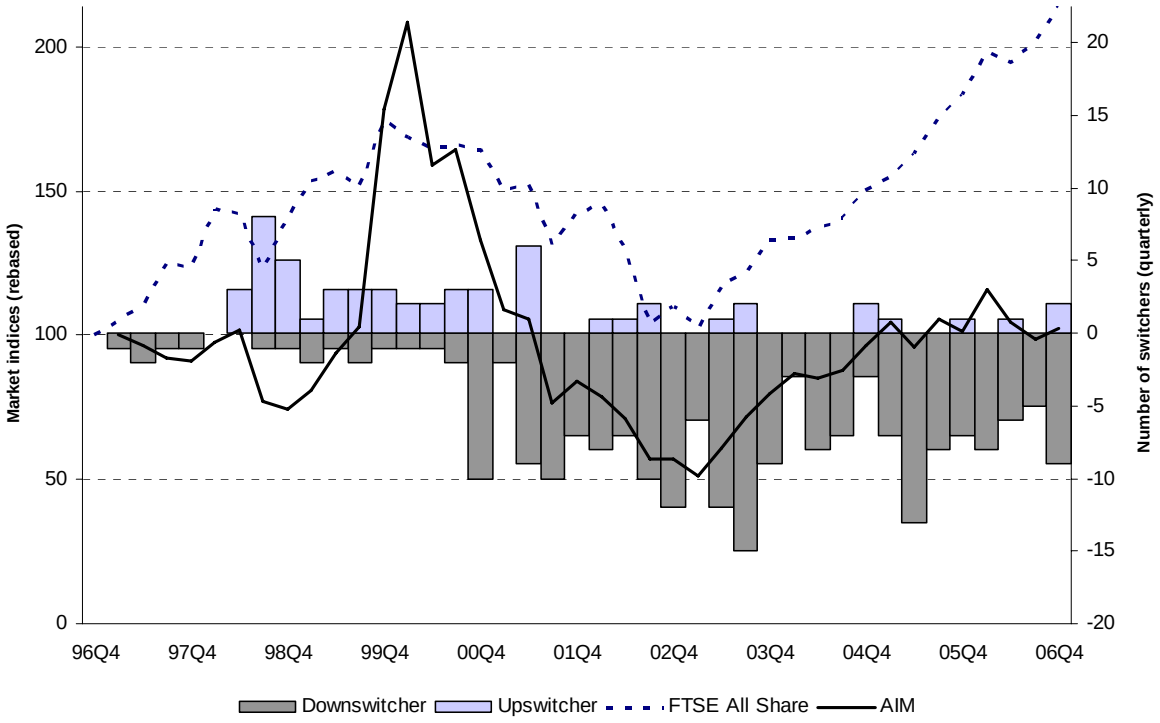
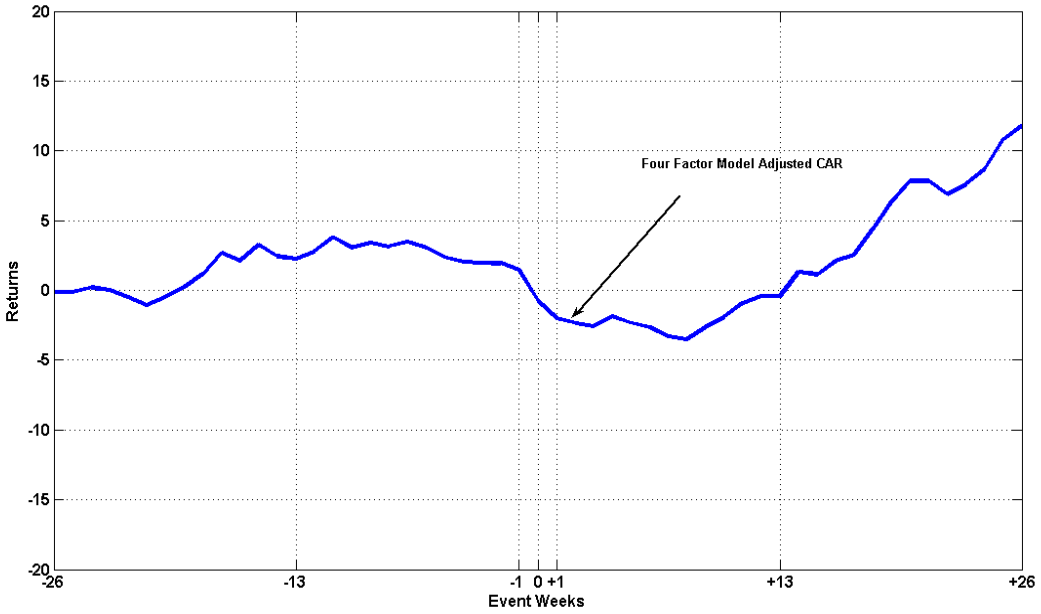


Figure II

Cumulative Abnormal Returns: Down Switchers

Panel A (B) of this figure plots cumulative abnormal returns for the firms switching from Main to AIM in our sample around the announcement (switch) dates, constructed using a two-factor Dimson-corrected model.

Panel A: Cumulative Abnormal Returns Around Announcement Date



Panel B: Cumulative Abnormal Returns Around Switch Date

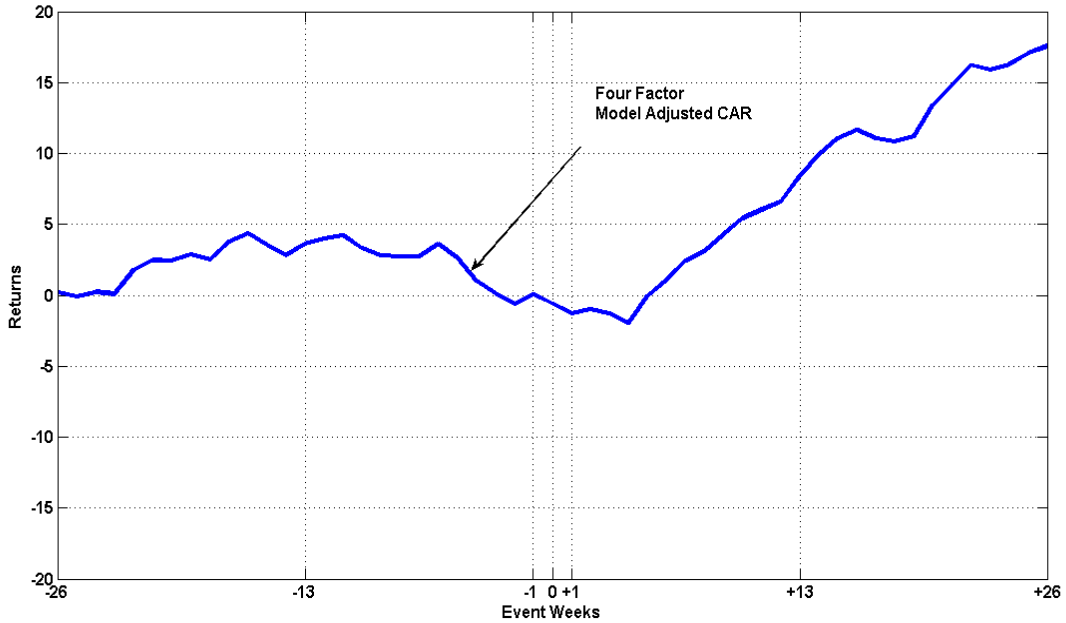
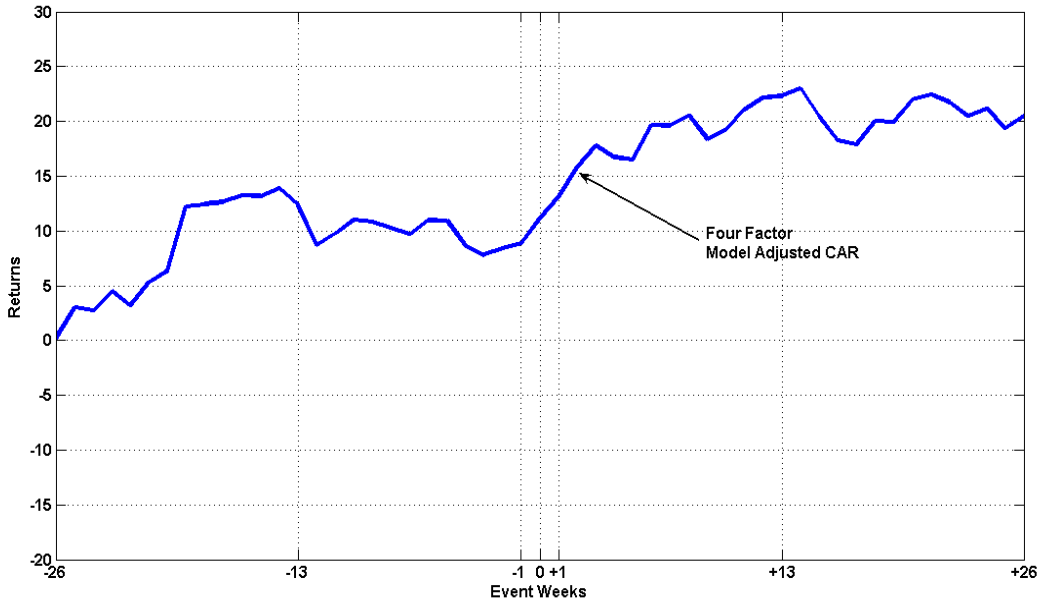


Figure III

Cumulative Abnormal Returns: Up Switchers

Panel A (B) of this figure plots cumulative abnormal returns for the firms switching from AIM to Main in our sample around the announcement (switch) dates, constructed using a two-factor Dimson-corrected model.

Panel A: Cumulative Abnormal Returns Around Announcement Date



Panel B: Cumulative Abnormal Returns Around Switch Date

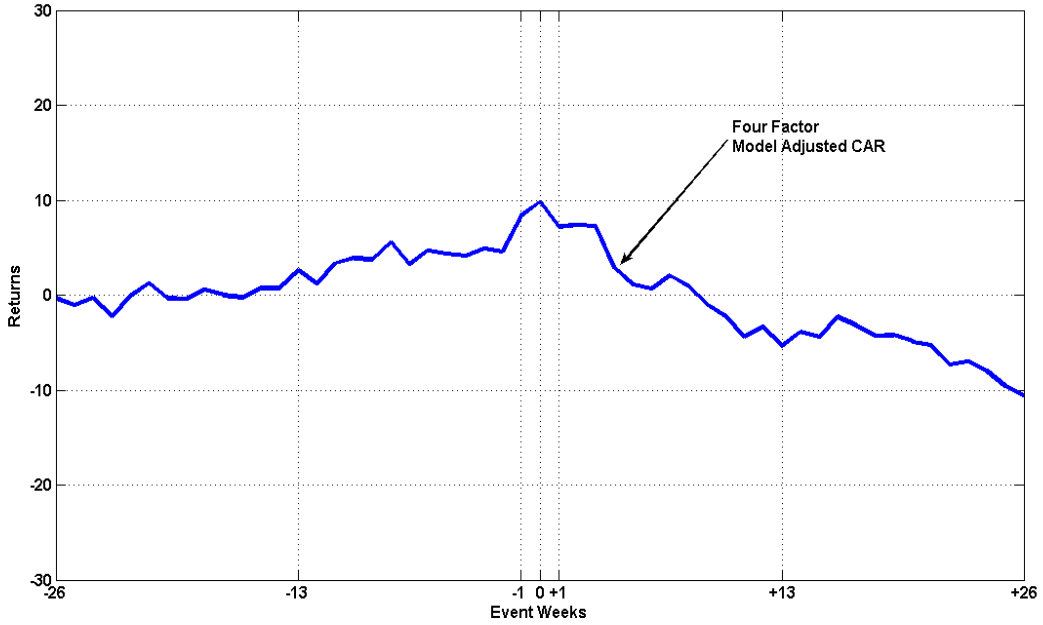
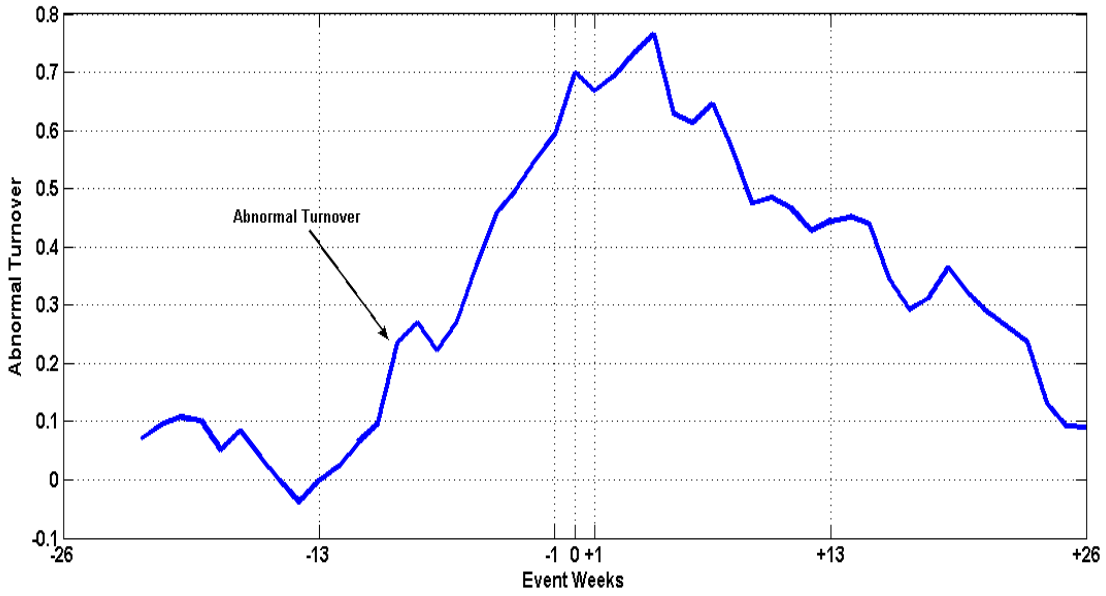


Figure IV

Smoothed Abnormal Turnover Around Switch Date

This figure plots abnormal turnover (relative to estimation period mean turnover), smoothed using a 5-week backward-looking moving average for the firms in our sample. Panel A presents these data for the Down switchers, and Panel B for the Up Switchers.

Panel A: Down Switchers: Smoothed Abnormal Turnover Around Switch Date



Panel B: Up Switchers: Smoothed Abnormal Turnover Around Switch Date

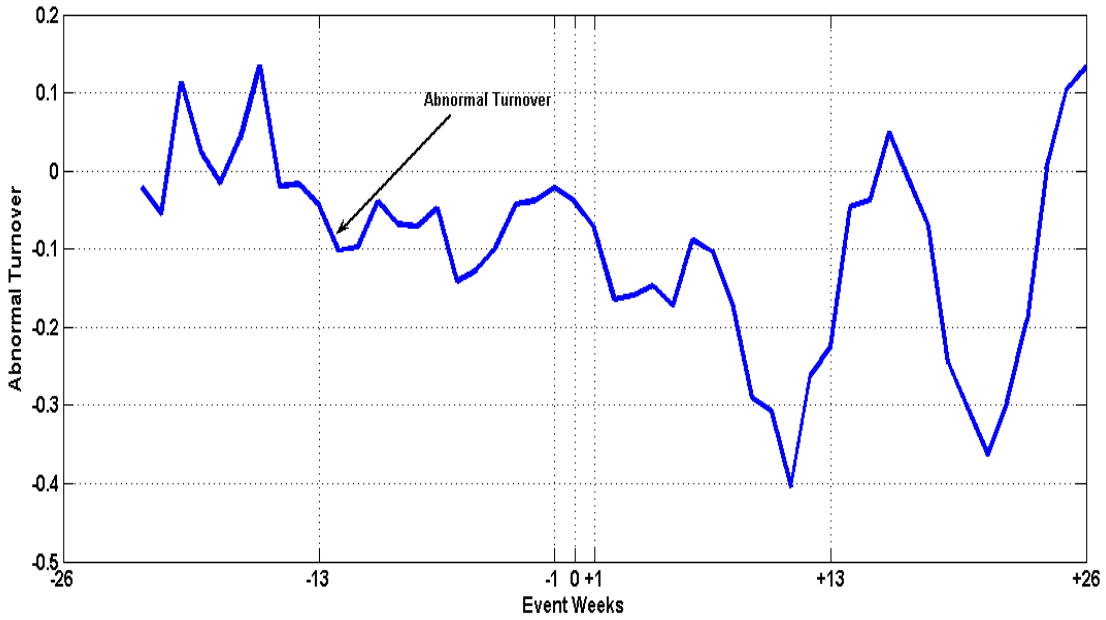


Figure V

Cumulative Abnormal Returns: Down Switchers, High and Low Turnover

This figure plots cumulative abnormal returns for the firms in our sample switching from Main to AIM around the switch date, separately for high and low turnover firms, corresponding to the specifications in Table VII.

