

The Stock Market Reaction to the 2005 Non-Tradable Share Reform in China

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Abstract

During 2005-2006, the Chinese government implemented a reform aimed at eliminating the so-called non-tradable shares (NTS), shares typically held by the State or by politically connected institutional investors that were issued at the early stage of financial market development. Our analysis, based on the time series of risk factors and on the cross section of abnormal returns, confirms that the NTS reform affected stock prices, particularly benefiting small stocks, stocks characterized by historically poor returns, stocks issued by companies with less transparent accounts and poorer governance, and less liquid stocks. Historically neglected stocks also witnessed an increase in the volume of trading and market prices.