

**The Impacts of Warrants Issuance on the Price and
Trading Volumes of the Underlying Stock:
The Call Warrants Case of Taiwan Stock Exchange**

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Abstract

This paper is to investigate the impacts of derivative warrants issuance from January, 1997 to April, 2001 on both price and trading volumes of underlying stock around the announcement date in Taiwan stock market. The findings on price and trading volumes behaviors suggest that there may be substantial purchases of the underlying stock by the issuers at one day before the announcement date of derivative warrants issuance for meeting the hedging demand, and there may be substantial purchases of the underlying stock by the issuer/informed-trader for the last 10 minutes prior to market closure on the announcement date of derivative warrants issuance for meeting price manipulating/information leaking demands. Nevertheless, the findings on price and trading volumes also suggest that there may convey an unfavorable signal about the reactions to the issuers' perception of future performance of the underlying stock by the public investors during two days after the announcement date of derivative warrants issuance, which underlying stock underperforms the whole market.

Keywords: Warrants, Hedging Effect, Price Manipulation/Information Leakage Effect, Event Study Method.