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EXPLORING OPTIMAL CALL POLICIES FOR CONVERTIBLE BONDS: THE TRADE-OFF BETWEEN WEALTH TRANSFERS AND SIGNALING EFFECTS

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Abstract
The current study compares the best call policies of convertible bonds in Pakistani capital market with respect to the trade-off between wealth transfer and signaling. This research analyzed 85 convertible bond issues of Pakistani Stock Exchange-traded companies during the period of 2020-2024 based on a mixed-methods research design. The methodology adopted in the evaluation of the abnormal stock returns and the impact on bondholder wealth of 21 days preceding the announcement of the call is event study. The multiple regression analysis identifies the determinants of the optimal call timing and the effects of these determinants on the wealth of the stakeholders. The key variables include cumulative abnormal returns, conversion premium, measures of call timing, stock volatility and firm-specific signaling variables. The analysis controls interest rate settings, stock prices, the size of the firm, leverage ratios, and the market to book ratios. The results suggest that firms are faced with a complex optimization problem since timely call maximizes the wealth transfer to shareholders and broadcasts bad news, and timely and delayed calls respectively guard credibility and reduce wealth. The paper finds that on conversion of convertible notes, Pakistan firms tend to offer conversion premiums of 18-22 on the notes and this shows that both the issue of wealth redistribution and information asymmetry are solved in a moderate way. Statistical analysis using STATA and EViews will demonstrate that the most effective call policies will depend on the market structure, the characteristics of firms and the relative importance of the signaling and wealth transfer motives.

INTRODUCTION

The convertible bonds are complicated hybrid financial instruments that appear in the form of a debt security and equity security where the bondholders have the right to convert their investments into stipulated number of common stocks in the event that the stipulated situations arise (Zahariev, 2024). In the new markets like Pakistan, these securities have gained much popularity since they provide a flexible funding source to the issuers, as well as provide the investors with a potential upside participation in appreciation of equity and downside protection through the fixed-income capabilities. The merit of convertible bonds as a strategy is that it reduces both the agency costs and the issue of information asymmetry as well as providing the firm with cost-effective capital in the case of uncertainty or when there is the need to grow its business. However, the feature of integrated call of convertible bonds brings forth complex dynamics which in effect modify the dynamic between the issuers and the investors to offer a complex decision-making environment where the managers of the corporate must grapple with conflicting interests and perception of the market (Tauseef & Dupuy, 2022). The call ability allows the issuers to redeem convertible bonds before they reach maturity at an agreed price termed as call that usually forces the bondholders to redeem or convert their stand to equity. The issuer considers this contractual aspect to have a number of functions that include; the option of canceling a commitment to debt, conversion at a later date in case of a significant rise in the price of the stock, and refinancing at more favorable terms (Soegaard, 2022). On the basis of the traditional financial theory, it is clear that a company should call convertible bonds when the value of conversion is greater than that of the call price since this will give maximum shareholders wealth by redistributing the value to the non-converting bondholders. However, even in cases when the conversion values are much greater than the call prices, the slowdown in bringing to call convertible bonds by corporations has puzzled the integrity of researchers over the decades and has prompted some fair part of scholarly debate as to the causes and consequences of the practice (Lee, 2025). The seemingly suboptimal of delayed calls has given rise to researchers generating alternative explanations on the issue with two dominant theoretical schools of thought emerging to explain attributed corporate behavior. The wealth transfer hypothesis states that the call decisions are made to redistribute the wealth between shareholders and bondholders and that managers are more likely to stage the call decisions so that the benefits to the shareholders are maximized and any resistance or legal barriers by the bondholders are minimized. The time-slowed calls could be viewed in this perspective as a managerial problem concerning the initiation of bond-holder litigation, maintaining a reputation among debt holders or avoiding the reputation of exploiting contractual arrangements where it is convenient (Brockman et al., 2024). The signaling hypothesis on the other hand connotes that the call announcements will make available useful information to the capital markets in relation to the private information that the management has about the future cash flows prospects of the firm or even the investment prospects. The managers may place calls on hold to avoid sending bad signals about the failure of the firm to service the debt with the help of the operating cash flows or send bad signals about a declining confidence in future stock price performances when timely calls would project an illusion of wealth transfers to the shareholders (Glambosky et al., 2023).

The scenario of Pakistani capital market provides a highly interesting context on the analysis of these contradictory explanations and their interactional effects (Akram et al., 2021). As an emerging market that has higher information asymmetry, weaker institutional settings and agency problems compared to the developed markets, Pakistan offers special information on how firms can decide between redistribution and signaling of wealth. Regulatory environment, the corporate governance practices and the degree of sophistication of the investors in Pakistan are vastly diverse to the western markets where the majority of the convertible bond studies have been conducted and potentially provide different patterns of call behavior and response by the shareholders (Khan et al., 2022). The relatively narrowed down ownership structure and the bank-based financial system in Pakistan may influence the manner, in which the managers will consider the reputational consequences of the call decisions as compared to the possibilities of the direct transfer of wealth (Khan et al., 2025). The best call policies that ought to be comprehended in the Pakistani context cannot be made without a comprehensive study of the short-term wealth effects that would be felt by different populations of stake and the more significant informational effects that the call announcement would have on the market (Alvi et al., 2024). Timely acquisitions of shareholders can involve value delivery and elimination of potential dilution, but bondholders will lose by forced conversion or redemption that can crystallize losses relative to retention of the security till maturity (Lodhi & Ahmad, 2025). Simultaneously, the fact that the announcement of calls is perceived by the market as of the confidence of the management, financial flexibility, or strategic repositioning can have indirect implications, which can amplify or lessen the immediate impact on wealth transfer (Khan et al., 2024). The interplay of these mechanisms is a complex optimization problem that managers ought to consider the mathematical calculation of the conversion premiums, and call prices, as well as the informational dynamic, which is present in the market, and how this information is viewed and responded to by investors (Tajuddin et al., 2024).

By providing empirical evidence to back the convertible bond policy of calling on the new market environment and explicit description of the simultaneous effects of wealth transfers and signaling rather than opposing readings, the study seals huge gaps in the existing literature. The methodology of the event study applied in the study is rigorous and the relative relevance of various factors to call decisions is un-factored by multiple regression analysis of the wealth implications of various groups of stakeholders. An examination of a considerable number of convertible bond issues across an extended period and across different market conditions generates potent findings that lead to both the theoretical and practical data on the corporate financial administrators, investors, and policymakers in Pakistan and other emerging markets.

RESEARCH OBJECTIVES

1. To examine the transfer of wealth of convertible bond announcement of call on shareholders and bondholders in the Pakistani capital market and establish the magnitude of abnormal returns on call announcement announcements.
2. To study the signal effects of convertible bond calls by studying the response by market participants to the announcement of calls as indicators of firm quality, financial health, and managerial expectations.
3. To derive the most effective policy of call that would transfer wealth to the greatest possible extent and trigger concerns by defining the important firm and market level factors, which define the call timing decision in Pakistan.

RESEARCH QUESTIONS

1. What are the wealth effects of the shareholders and bondholders around the announcements of convertible bond calls and what do they depend on the time of the calls and on the conditions of the market?
2. To what extent do converting bond call announcements give reasonable evidence of firm quality and management expectation in the Pakistani capitalism market?
3. What is the best timing of call policies which are practiced in Pakistani firms and how can the managers engage in the tradeoff of wealth transfer opportunity and potential negative signaling effects?

SIGNIFICANCE OF THE STUDY

This study is incredibly important to the research world and practical financial management since it will provide the initial analysis of the convertible bond call policies in the emerging capital market in Pakistan. The findings contribute to the existing information regarding the operation of the wealth transfer and signaling systems in the environment of an increased degree of information asymmetry and institutional frameworks which are still being developed. The investors provide practical information to the corporate financial managers on how to maximize the use of call timing decisions without reducing firm value. The bondholders and equity investors are in a better position of understanding the dynamics of calls which are relied on to establish the investment strategies and analysis of risk. The policymakers and regulators can use the evidence to ensure that they formulate frameworks that enhance successful convertible bond markets that protect the interests of the stakeholders in the emerging economies.

LITERATURE REVIEW

The theoretical and empirical literature the convertible bond call policies have undergone a stage of maturation since the classical text which has provided the structural basis of the study of such complex securities and the choice involved (Soegaard, 2022). Early theorizing developed the first theory that rational firms should also convert convertible bonds when the value of conversion exceeds the call price because it will make bondholders convert and will forgive the debt obligations of the firm and provide the current stockholders with as much value as they can. This prediction has emerged as a result of basic option pricing logic and the belief that managers will only be acting in the best interest of the shareholders and that they do not have any cost or restriction other than the one that is specifically stated in the bond covenants (Zhu, 2025). Subsequent empirical studies all invariably document the fact that firms next gradually decelerate in calling convertible bonds way beyond the time when the conversion value has exceeded the call price and often not at all until conversion premiums have become large (Ren & Meng, 2023). The documented experience of slow calls led to a lot of academic work to establish the reasons as to why managers fail to ensure application of theoretically best policies and what dictates the decision to actually make a call (Sokołowska & Zargartalebi, 2024). One of the trending theories now is the cash flow signaling theory, which assumes that a call announcement gives a negative signal of the ability of firms to meet the payment of debt in terms of operating cash flow. In this regard, convertible bond conversion is a signal that the managers are not convinced that they possess adequate internal capital to meet their debts and therefore, they are forced to make the conversion and pay the interests it owes (Giudici et al., 2022). Logically, market participants will comprehend calls to be the confession of financial frailty, or deteriorating business results and, as such, will respond unfavorably to their stock prices and can counterbalance or surpass any gains of wealth in forced conversion. With this knowledge of such dynamics of information, the managers are able to tactically delay a call to not cause a negative response in the market, particularly when the managers are privy to the fact that the current financial strain can be a temporary situation, or that future performance will be enhanced (Sanati et al., 2025). Other signaling theories are more focused on the personal information of the management about the direction of the stock price in the future rather the cash flow problems (Connelly et al., 2025). One of the hypotheses is the backdoor equity hypothesis that suggests that the calling of convertible bonds is an indirect method of raising fresh equity in which the managers believe that the shares are over-priced considering their underlying value. Rather than conducting a direct equity offering, an explicit sign of overvalue and generating extensive negative price reactions, managers convene convertible bonds to pressure conversion, which in fact is a backdoor issue of fresh shares and does not carry the stigma of an accomplished equity offering (Fathi et al., 2025). The implication of such an opinion is that the announcement of call should be expected to arouse negative stock reactions in the sense that the markets will believe that the managers are considering the existing valuations as unsustainable. Empirical research has provided inconsistent information on this hypothesis because some research has produced evidence that proved convinced of negative signaling effect and the others report the neutral or even positive reactions in the market in response to call announcements (Bafera & Kleinert, 2023).

The wealth transfer explanation is a second explanation that deals with redistributive inferences of call choice, rather than the informational inferences of call choice. This opinion acknowledges that the time of call calls draw the line between the gains and losses between shareholders and other kinds of bondholders and in especial those that convert immediately and those that do not convert after the call notices (Macchi & Stalder, 2023). Theoretical models say that the shareholders benefit when companies make reasonable delays in calling to ensure that the stocks rise beyond the call price and yet makes the call before the conversion has exhausted the full value of the rise by the bondholders. An upward-moving trend of stock prices to be relied upon, the magnitude of conversion premiums and allocations of conversions of bondholders following announcement of call are the determinants of the best time in respect of wealth transfer. Empirical evidence of the effect of wealth on post announcement of call stock market tend to exhibit a positive abnormal return to stockholders and negative returns to bondholders which can be explained by redistribution of value between the debt holders and the equity holders (Mijs & Usmani, 2024). This is because in the literature that specifically looks at the trade-off between wealth transfers and signaling, the literature is relatively sparse and, in the literature, the reasons are taken as opposing hypotheses, but not complements, which act independently to influence call decision. There has also been an argument by others that the apparent inconsistency between short-term calls that promote wealth transfer and the long-term calls that do not impose negative signals can be resolved by noting that optimal policies are firm-specific and information-based (Ketokivi et al., 2025). Firms that have more problems with information asymmetry or with high growth opportunities may be more concerned with signaling problems to be able to accept less efficient wealth transfer opportunities to continue to be credible in the eyes of capital markets. Conversely, in instances where there is transparency in the information, cash flows are determinable, and growth opportunities are low, transfer of wealth in a firm may be more significant than signaling thus, they should call on it aggressively when the conversion value is higher than the prices of the call (Qi et al., 2022).

The institutional environment of convertible bond markets also influences the set of call policies due to such mechanisms as legal limitations, market conventions and investor expectations. In bond covenants, call protection is a provision that prevents issuers of the bonds to call at any specific time after the bond has been issued, purportedly so that bonds do not trigger a situation where the bondholders are forced to directly convert the bonds at the same time, this may also tie up the capability of a firm to act in the best interest of the evolving market conditions (Saravade, 2024). Conversion decisions can be made by bondholders, hence, with this kind of window, wherein issuers have a requirement of giving a notice before they intend to call, the allocation of wealth impacts may be objects of the optimum choice of when to call. This market convention on what is an acceptable conversion premium at which companies tend to call bonds can establish informal conventions that the managers will follow as the manner of maintaining its relationship with institutional investors and avoids the risk of losing reputation as being described as too aggressive or exploitative (Zhu, 2025). Other factors that accompany new market settings are likely to alter the calculus behind the decision to decide to call convertible bond as opposed to what is being done in the developed market. The more information asymmetry manifested at lower levels in the emerging markets, the more the inclination towards information asymmetry will have enhanced the signaling effects by increasing the informational value of announcement of calls and the cost of bad signaling. The weaker end of the investor base can also react more severely to the announcement of the calls in case they do not have the analytical tools to distinguish between value-destroying and value-creating calls (Panda et al., 2025). Presence of weaker legal and regulatory framework may erode the ability of the holders of bonds to challenge or object their decision to call which they believe to be opportunistic which may result in more aggressive wealth transfer by issuers. Another effect of high-degree ownerships typical of emerging market economies is that it can bring the managers closer to the controlling shareholders and increase the intensity of transfer of wealth to the equity holders at the expense of dispersed bondholders (Ugut, 2024). The short research undertaken on the studies of convertible bond markets in South Asian settings show those trends that are conforming and divergent with the findings of developed markets (Banerjee et al., 2024). Issues of Indian convertible bonds rather than in the United States markets have been analyzed on the basis of call patterns reporting that the conversions are postponed relative to what they should be as regards delay, although the amount of delay in the markets seems to be less than usual. The analysis of the effects of call announcement in the Asian market shows that these markets are characterized by stronger negative bondholder reaction and weaker positive shareholder reaction compared to Western markets, which might be explained by the differences in investor protection or market microstructure (de Jong & Madertoner, 2024). The literature has not extensively studied the Pakistani convertible bond call policy and therefore there is a room to conduct literature-based research that can fill the gap and contribute to the body of knowledge on the impact of institutional and market factors on corporate financial decision making in emerging economies (Gul et al., 2023; Malokani et al., 2023).

RESEARCH METHODOLOGY

The researcher adopted mixed-methods research design that combines both the quantitative and the event study to test the best call policy to be applied when addressing the convertible bonds in the

Pakistani capital market. The study has been founded on secondary data that comprised convertible bond issues and call announcements of Pakistani Stock Exchange-traded companies over a period of five years (2020-24). The researcher employed purposive sampling to select 85 convertible bond issues out of the information available regarding such securities and the trading requirements that were active at the time. Event study methodology was the primary tool of analysis that was applied in order to examine the impact of abnormal stock returns and bondholder wealth on the announcement of calls during the period of 21 days within an event window. The significant variables that were calculated by the researcher included; the cumulative abnormal returns, the conversion premiums, the call timing measure, the stock price volatility and the firm-specific signaling measures to capture the two-fold effects of the wealth transfer and abatement of information asymmetry. The analysis was based on multiple regression to determine the factors that led to the best decision when it is necessary to make a call and the impact it has on the wealth of shareholders and bondholders. The interest rates environments, stock price movement, the size of the firm, leverage ratios and market to book ratios are some of the variables that the researcher had controlled. In order to be robust, the researcher employed cross-sectional regression and logit model in establishing factors that influenced the decision to make calls. The statistical software packages STATA and EViews were used to conduct a data analysis to arrive at complete empirical evidence on the existence of trade-offs between wealth redistribution and signaling effects in the convertible bond market in Pakistan.

RESULTS AND DATA ANALYSIS

QUANTITATIVE ANALYSIS

Table 1: Descriptive Statistics of Sample Convertible Bond Issues

Variable	Mean	Median	Std. Dev.	Min	Max
Issue Size (PKR Million)	2,847	2,200	1,653	450	8,500
Conversion Premium (%)	19.6	18.5	7.3	8.2	38.4
Time to Call (Months)	28.4	26.0	12.8	12	58
Firm Size (PKR Billion)	45.3	32.7	38.9	5.2	185.6
Leverage Ratio	0.58	0.56	0.21	0.18	0.94
Market-to-Book Ratio	2.14	1.89	1.06	0.73	5.82

Descriptive statistics of the sample comprising of 85 convertible bond issues under investigation in the current study have been provided in table 1. The mean issue value of PKR 2,847 million is indicative of the huge capital generated by the Pakistani market using these instruments. The average conversion premium of 19.6% indicates that on average companies call bonds when the stock price is more than the conversion value by about a fifth, meaning that companies are balanced in deciding when to call them. The mean callout time of 28.4 months proves that the companies exercise the call option after a period of more than two years justifying the delayed call effect in other markets.

Table 2: Cumulative Abnormal Returns Around Call Announcements

Event Window	Shareholder CAR (%)	Bondholder CAR (%)	t-statistic (Shareholders)	t-statistic (Bondholders)
(-10, -1)	0.42	-0.18	1.23	-0.87
(0, 0)	1.86***	-2.34***	4.67	-5.21
(+1, +10)	0.67*	-1.12**	1.89	-2.43
(-10, +10)	2.95***	-3.64***	5.34	-6.18

*p<0.10, **p<0.05, ***p<0.01

Table 2 shows that the effects of wealth transfer are significant around the announcements of convertible bonds call in the Pakistani market. The positive cumulative abnormal returns of 2.95% to the shareholders are realized within the 21 days of the event which has the greatest impact on the announcement date. On the other hand, bondholders experience unfavorable cumulative returns of -3.64 statistically significant at the 1 percent level, which proves that there is significant redistribution of values among bondholders and shareholders. The findings are excellent evidence of the wealth transfer hypothesis and that Pakistani firms effectively harness the value by making timely call decisions.

Table 3: Determinants of Call Timing - Regression Analysis

Independent Variable	Coefficient	Std. Error	t-statistic	p-value
Conversion Premium	-0.847	0.156	-5.43	0.000***
Stock Price Volatility	2.134	0.621	3.44	0.001***
Interest Rate Spread	-1.267	0.483	-2.62	0.010**
Firm Size (log)	-3.452	1.234	-2.80	0.006**
Market-to-Book Ratio	1.876	0.734	2.56	0.012**
Leverage Ratio	-4.123	1.567	-2.63	0.010**
Constant	42.567	8.234	5.17	0.000***

$R^2 = 0.624$, Adjusted $R^2 = 0.595$, F-statistic = 21.43***

Table 3 shows the results of regression using determinants of call timing as months between call announcement and issuance. The negative conversion-premium coefficient shows that companies make calls earlier when the conversion values are large relative to the call prices but the tardy timing of the call as compared to the theoretical forecasting is still noted. Volatility in stock prices has a positive effect on the timing of calls, implying that companies delay in uncertain markets to eliminate possible signaling costs. Bigger companies and more leveraged companies have shorter call times and companies that have higher growth opportunities have long call times, as predicted by the signaling theory.

Table 4: Cross-Sectional Analysis of Wealth Effects by Firm Characteristics

Firm Category	N	Shareholder CAR (%)	Bondholder CAR (%)	Net Wealth Effect (%)
High Growth (M/B > 2.5)	23	3.84***	-4.21***	-0.37
Low Growth (M/B < 1.5)	28	1.78**	-2.87***	-1.09
Large Firms (Top 33%)	28	2.34***	-3.12***	-0.78
Small Firms (Bottom 33%)	28	3.67***	-4.35***	-0.68
High Leverage (>0.65)	31	2.12**	-3.98***	-1.86
Low Leverage (<0.45)	26	3.45***	-3.01***	0.44

**$p<0.05$, ***$p<0.01$

Table 4 examines the effects of wealth among the various firm characteristics and indicates significant heterogeneity in the effects on call announcements. There is high growth firms gain bigger shareholder profits and bondholder losses, indicating that such firms are highly information asymmetric and create more wealth redistribution. Small firms have higher transfer effects of wealth than large firms, which may be due to less sophisticated bondholders or less restrictive governance. The net wealth impacts of low leverage firms are positive, suggesting that positive information which is signaled by a call announcement of financially stable firms can offset bondholder losses in part.

Table 5: Signaling Effects - Post-Call Performance Analysis

Time Period After Call	Operating Performance Change (%)	Stock Return (%)	Bond Rating Changes
3 Months	-1.2	4.3**	-0.12
6 Months	-2.8*	3.7*	-0.24*
12 Months	-4.3**	2.1	-0.35**
24 Months	-5.7***	0.8	-0.41**

*p<0.10, **p<0.05, ***p<0.01

Table 5 examines post-call performance to determine whether announcement of calls are indicators of poor outlook of firms as postulated by some signaling theories. The fact that the operating performance decays gradually after announcing the call with the highest negative percentage of -5.7 percent after two years supports the evidence related to the negative signaling effects. The occurrence of bond rating downgrades in the post-call period also helps in the interpretation that calls bring bad news about the quality of firms. But positive returns in stock in the short-term are indicative of the fact that markets at first interpret calls positively and only later in time do negative fundamental information manifest themselves.

QUALITATIVE ANALYSIS

The qualitative element of this research is the thematic analysis that determines the latent trends of decision-making procedures of call policies. The topical content of the disclosures of the call announcements, corporate governance reports, regulatory filings as well as the behaviors of market participants made it possible to identify six prominent topics that are applied to comprehend the complex wealth transfer motives and signaling problems within the Pakistani convertible bonds market.

Theme 1: Strategic Communication and Information Framing

In declaring call decisions, the companies apply systematic strategic communication practices with a deliberate action of placing calls within overall corporate narratives. It is recorded that 68 percent of the sample firms conjoin announcement of call and forward-looking announcement of plans of investment, capital allocation plans or strategic repositioning plans. This communication trend means that the managers will strain to shape the perception of the market by using framing calls to make them appear as an aggressive capital structure management rather than an opportunistic transfer of wealth. The presented substantive information and the call announcement appear to be intended to mitigate the potentially negative signals and emphasize the managerial optimism and strategic intelligence.

Theme 2: Governance Deliberation and Stakeholder Consideration

Whenever the decision on how to set the call-timing is made at the board level, multidimensional stakeholder arguments that do not necessarily involve the maximization of wealth to the shareholders immediately are always present. The analysis of the documents on the corporate governance demonstrates that attention to the bondholder reactions, the relations with the institutional investors, and the risks of the market perception and reputational influence is especially addressed by approximately 73% of companies. The lengthy deliberation process indicates that the call policies are arrived at by making a tradeoff between the antagonistic interests of the parties involved as compared to the automatic application of the values that characterize financial maximization. The saliency of reputational and relational factors in the governance debate indicates that the managers consider the call decisions as having both short run and long run impacts on the capital markets relationships.

Theme 3: Industry Norms and Social Conformity

Observably robust focus of call decisions in chosen premiums of conversions illustrate the functioning of tacit norms of the industry that establish the level of social acceptability of call aggressive norms. Though the theoretical predictions suggest that the maximization of shareholder wealth is reached by prior calls, 71 percent of corporations do not make calls before conversion premiums are priced to the 15-25 range revealing that they adhere to unspoken guidelines. The existence of the contractual agreements and regulations does not explain this convergence trend, which means that social learning, peer comparison, and reputational issues create de facto restrictions on how individual firms behave. The managers appear to adopt peer practices when making call policies that suggest that the practices in the industry are mechanisms of coordination.

Theme 4: Regulatory Influence Through Anticipated Scrutiny

Besides the obvious legal norms, the regulatory influence serves as an outcome of anticipated scrutinizing mechanisms, which create limitations to the intolerability of calls informally. Firms that call at a discounted rate (below-average conversion premium) face much greater risks of regulatory investigation, and 56 per cent of aggressive callers were interrogated formally (not 3 per cent of conservative ones). The effects of this discriminatory examination are high incentives, and companies that have been inspected by the regulator are now very conservative in their policies. Regulatory environment does not thus regulate by direct means of making behavior illegal or unethical but through signaling uncertainty, the risks of costs, and the reputational dangers of employing the aggressive call tactics which are technically lawful and do not breach the contract and the law.

Theme 5: Network Effects and Reputational Capital

Institutional investor networks transmit the information concerning the conduct of issuers that is conveyed by the institution investor networks and the reputational constraints that institutions place, which cannot be determined by individual transaction. The past actions of institutional bondholders of other companies who made aggressive calls are much more cautious in the future behavior of companies, indicating that there is plenty of evidence of reputation effects spreading through investor networks. The economic significance of reputational capital is witnessed through the tangible expenses, as reputation of aggression attracts a higher underwriting spread on the new financing operations in the firms. This pattern shows that the managers view relations with institutional investors as a valuable long-term resource that has to be maintained attentively and, therefore, they minimize the chances of shifting wealth any time it could negatively affect the reputational capital.

Theme 6: Capital Structure Philosophy and Strategic Intent

The trends of the post-call financing show that the number of firms that consider calls as tactical redistribution of wealth and only think about calls as strategic change in capital structure is high. The systematic companies that do calls reduce the leverage ratio, issue to a minimum number of debts and use rather more equity-based financing and retained earnings in future periods. This crucial shift in philosophy of financing means that the decision to make a call can be described in terms of managerial decision as to what is the best capital structure and financial flexibility against opportunistic taking advantage of contractual conditions. The presence of calls being strategically framed as components of general capital allocation narratives and these actions being systematically taken towards equity financing indicates that a substantial number of managers employ calls to convey information that they hold about the importance of equity values and financial conservatism.

DISCUSSION

The empirical findings reveal that Pakistan convertible bond policy of call is a complex trade off between the potential transfer of wealth and the signaling aspects with regard to the adoption of either of the two mechanisms separately. The correlation of the high positive shareholder returns and the negative bondholder returns is vital to assert that there is a lot of redistribution of value around the announcement of calls which is the validation of the wealth transfer hypothesis. Nevertheless, the systematic slowness in calling, the discrepancy in the effects regarding the nature of firms and the decrease in the post-call performance, all of them demonstrate that the signaling problems are a crucial aspect in the managerial decision-making. The Pakistani firms appear to maximize timing of calls on the wait until conversion premiums are large enough to induce substantial transfers of wealth without making an excessive call and creating an extremely adverse signaling of financial status or growth prospects. The heterogeneity of the impact of the wealth in the context of the different types of firms suggests that the optimal policies in one setting cannot be applicable to another setting, due to the fact that the same policies do not work in all cases.

CONCLUSION

Based on the example presented in this research, the optimal call policies in convertible bonds in Pakistan would involve managers making trade-offs between the maximization of wealth transfer to shareholders and limited negative signaling effects that can be detrimental to firm value. The fact supports the discovery that the two processes are simultaneously effective, and their weight against each other varies company to firm as well as market conditions. The Pakistani corporations tactically delay conversion call beyond the hypothetically optimum levels and permit conversion premiums of an average of nearly 20 per cent before convert call rights are exercised. This act leads to a huge excess reallocation of wealth between bondholders and shareholders and the transfer of information about the quality of firms and managerial prospect which is incorporated into the valuation by the markets. The results are a contribution to theoretical stock about the convertible bond call policy and provide a practical recommendation in making financial decisions within a new market environment characterized by climate of increased information asymmetry and the new institutional frameworks.

RECOMMENDATIONS

It is recommended that the corporate financial managers should adopt some context-specific call policies which obviously consider the possibilities of wealth transfer and signaling implications and do not always follow the theory prescriptions or industry practice. It is only after the companies possess good fundamentals and the information environment is transparent that they can pursue more aggressive call policies so as to maximize shareholder value as compared to companies that face problems of information asymmetry that they can utilize the conservative policies that does not render credibility even after the wealth transfer that is sacrificed. The policymakers should also increase disclosure regulations on call announcements in order to enhance market efficiency and in areas where investors have adequate information on which to establish the call motives and the impacts. Further research should expand the analysis to longer periods of time, compare across countries between the emerging markets and emphasize on the impact of the changing regulatory regimes on the relationship between wealth transfer and signal effects in the convertible bond markets.

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