Price Discovery, Investor Distraction and Analyst Recommendations under Continuous Disclosure Requirements in Australia

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by

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in

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CERTIFICATE OF AUTHORSHIP/ORIGINALITY

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

Signature of Student

Acknowledgements

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Abstract

Disclosure rules directly affect the availability of information to investors and therefore influence their choices. Australia has a unique disclosure environment whereby firms are required to immediately disclose any information that could have an effect on the price of the firm's securities. This thesis contributes to the literature on market efficiency and information disclosure by examining three separate questions on the continuous disclosure environment in Australia during the period 2005 – 2009. The first essay (Chapter 2) analyses how disclosure regulation in Australia contributes to the price discovery process. We measure the impact of the frequency of market sensitive announcements (MSAs) on the speed and the accuracy with which prices incorporate new information. We find a favourable impact of disclosure on the speed of price discovery for firms with a disclosure frequency above a minimum threshold. With regards to accuracy, first we find that there is twice as much information contribution on days around market sensitive announcements compared to other days. Secondly, we also provide evidence that the frequency of disclosure contributes to reducing the informativeness of earnings announcements by lowering the level of disagreement among investors and the amount of new information disclosed in the earnings announcement. This last effect highlights the importance of voluntary disclosures in reducing the informativeness of earnings for the smallest firms. The second essay (Chapter 3) tests the investor distraction hypothesis, assessing the impact of concurrent information releases under continuous disclosure requirements (CDRs) in Australia in the market response to firms' information disclosures. Despite having several attributes to increase investor awareness, the magnitude and the speed of the short term market reaction to MSAs released by firms trading on the ASX are adversely affected by the level of investor distraction measured by the total number of MSAs released on the announcement day. The relative order in which MSAs are released during the day also affects the promptness and magnitude of the market reaction. The initial underreaction to MSAs released on high distraction days is followed by a longer delay in the market reaction. Increased delayed market reaction is not caused by either additional information releases by the company or by analyst recommendation revisions made public after the MSA. Our results emphasise the importance of actions taken in the Australian market to reduce the impact of investor distraction that could be emulated in other markets, such as labelling certain announcements as market sensitive and using trading halts to attract investor attention. The third essay (Chapter 4) analyses the information content of analyst recommendations in Australia. Recent literature casts doubt on the contribution of analysts to the information environment of the firms they follow, suggesting only a small portion of the analysts' recommendation is influential or even going as far as to argue they simply piggyback on firms' information disclosures. Our findings support the market's view of analysts as interpreters and disseminators of public information. Recommendation revisions are more likely to be influential when the recommendation is related to smaller firms, released by an experienced analyst and when the change in the recommendation skips a level.

Keywords: disclosure frequency, price discovery, analyst recommendations, investor attention.
JEL classification: G11, G14, G18, G24, G28.

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