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

A Thesis Submitted for the Degree of Doctor of Philosophy

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

In January 2008 my wife and I thought it could be a good idea to have an international experience together and Australia seemed like a wonderful place to live. Within a week of sending my application documents to the PhD in Finance I received a surprising reply from David Michayluk. Not only because it was much faster than expected but also because Dave was in Buenos Aires at the moment and wanted to have an interview to assess my eligibility to the program. From that moment and until today when I’m giving the final touches to my thesis he has always been supportive, enthusiastic and insightful. For accepting to be my supervisor and for believing in me and my work more than anyone else (including myself) I am immensely grateful.

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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 response.
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.
Contents

Chapter 1. Introduction 1
  1.1. Continuous Disclosure Requirements in Australia 1
  1.2. Disclosure Frequency and the Efficiency of Price Discovery 3
  1.3. The Investor Distraction Hypothesis 4
  1.4. Informativeness of Analyst Recommendations 5

Chapter 2. Price Discovery under Continuous Disclosure Requirements in Australia 7
  2.1. Introduction 7
  2.2. Disclosure Environment in Australia 8
    2.2.1. Disclosure Regulation 8
    2.2.2. Disclosure Regulation and Price Discovery 10
  2.3. Sample Description and Methodology 14
    2.3.1. Sample Selection 14
    2.3.2. Timeliness and Accuracy of Price Discovery 15
    2.3.3. Market Sensitive Announcements Classification 19
  2.4. Hypotheses Development 24
  2.5. Results 29
    2.5.1. Disclosure Frequency and the Timeliness of Price Discovery 29
    2.5.2. Disclosure Frequency and the Accuracy of Price Discovery 41
  2.6. Conclusions 58

Chapter 3. Continuous Disclosure Requirements and the Investor Distraction Hypothesis 60
  3.1. Introduction 60
  3.2. Literature Review 60
  3.3. Hypotheses Development and Methodology 65
  3.4. Sample Description 68
  3.5. Results 76
3.5.1. Magnitude of the market response
3.5.2. Speed of the market response
3.5.3. Investor Distraction and the Short Term Response to MSAs
3.5.4. Investor Distraction and the Delayed Response to MSAs
3.5.5. Investor Distraction and Firm Selective Disclosure
3.5.6. Market Mechanisms to reduce Investor Distraction

3.6. Conclusions

Chapter 4. Information Content of Analyst Revisions under Continuous Disclosure Requirements
4.1. Introduction
4.2. Literature Review
4.3. Hypotheses Development and Methodology
4.4. Sample Description
4.5. Results
4.5.1. Information Content of Standalone and MSA-Related Analyst Revisions
4.5.2. Information Content of Pre-MSA, Same-Day and Post-MSA Analyst Revisions
4.5.3. Drivers of Increased Information Content of MSA-Related Analyst Revisions
4.6. Conclusions

Chapter 5. Conclusions
5.1. Summary of the Thesis
5.2. Price Discovery under Continuous Disclosure Requirements in Australia
5.3. Continuous Disclosure Requirements and the Investor Distraction Hypothesis
5.4. Information Content of Analyst Revisions under Continuous Disclosure Requirements
5.5. Directions for Future Research

References

Appendix 1. Types of Information Disclosed under Continuous Disclosure Requirements
List of Tables

Table 2.1. Distribution of Market Sensitive Announcements .......................................................... 21
Table 2.2. Distribution of Market Sensitive Announcements across Firms Grouped by the Direction of the News ....................................................................................................................................... 23
Table 2.3. Market Sensitive Announcements and the Timeliness of Price Discovery ......................... 28
Table 2.4. Non-Periodic Market Sensitive Announcements above Minimum Thresholds and the Timeliness of Price Discovery ......................................................................................................... 30
Table 2.5. Announcement Types and the Timeliness of Price Discovery ........................................ 33
Table 2.6. Announcement Types and the Timeliness of Price Discovery by GICS Sector .......................... 35
Table 2.7. Announcement Types and the Timeliness of Price Discovery for Companies with Analyst Following ........................................................................................................................................... 38
Table 2.8. Announcement Types and the Timeliness of Price Discovery by Size Quintile .................... 40
Table 2.9. Information Content of Market Sensitive Announcements by Sector ..................................... 42
Table 2.10. Information Content of Market Sensitive Announcements by GICS Sector .......................... 43
Table 2.11. Information Content of Market Sensitive Announcements by Size Quintile .......................... 46
Table 2.12. Announcement Types and the Informativeness of Earnings – Abnormal Volume ................. 48
Table 2.13. Announcement Types and the Informativeness of Earnings – Absolute Abnormal Return .......... 49
Table 2.14. Announcement Types and the Informativeness of Earnings by GICS Sector – Abnormal Volume .............................................................................................................................................. 51
Table 2.15. Announcement Types and the Informativeness of Earnings by GICS Sector – Absolute Abnormal Return ........................................................................................................................................ 53
Table 2.16. Announcement Types and the Informativeness of Earnings by Size Quintiles – Abnormal Volume .............................................................................................................................................. 56
Table 2.17. Announcement Types and the Informativeness of Earnings by Size Quintiles – Absolute Abnormal Return ........................................................................................................................................... 57
Table 3.1. Sample and Descriptive Statistics .......................................................................................... 69
Table 3.2. Abnormal Number of Trades in Response to MSAs ............................................................... 78
Table 3.3. Abnormal Trading Volume in Response to MSAs ................................................................. 79
Table 3.4. Speed of Trading in Response to MSAs ................................................................................ 81
<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5</td>
<td>Investor Distraction and the Short Term Market Reaction to MSAs</td>
<td>83</td>
</tr>
<tr>
<td>3.6</td>
<td>Investor Distraction and the Magnitude of the Short Term Market Reaction to MSAs by Announcement Type</td>
<td>84</td>
</tr>
<tr>
<td>3.7</td>
<td>Investor Distraction and the Speed of the Short Term Market Reaction to MSAs by Announcement Type</td>
<td>85</td>
</tr>
<tr>
<td>3.8</td>
<td>Investor Distraction and the Magnitude of the Short Term Reaction to MSAs by Return Quintiles on the Announcement Day</td>
<td>86</td>
</tr>
<tr>
<td>3.9</td>
<td>Investor Distraction and the Speed of the Short Term Reaction to MSAs by Return Quintiles on the Announcement Day</td>
<td>87</td>
</tr>
<tr>
<td>3.10</td>
<td>Investor Distraction and the Delayed Market Reaction to MSAs</td>
<td>89</td>
</tr>
<tr>
<td>3.11</td>
<td>Investor Distraction and the Short Term Market Reaction to MSAs (Before Hours Dummy)</td>
<td>91</td>
</tr>
<tr>
<td>3.12</td>
<td>Investor Distraction and the Magnitude of the Short Term Reaction to MSAs by Announcement Type (Before Hours Dummy)</td>
<td>92</td>
</tr>
<tr>
<td>3.13</td>
<td>Investor Distraction and the Speed of the Short Term Reaction to MSAs by Announcement Type (Before Hours Dummy)</td>
<td>93</td>
</tr>
<tr>
<td>3.14</td>
<td>Investor Distraction and the Short Term Market Reaction to MSAs (After Hours Dummy)</td>
<td>94</td>
</tr>
<tr>
<td>3.15</td>
<td>Investor Distraction and the Magnitude of the Short Term Reaction to MSAs by Announcement Type (After Hours Dummy)</td>
<td>95</td>
</tr>
<tr>
<td>3.16</td>
<td>Investor Distraction and the Speed of the Short Term Reaction to MSAs by Announcement Type (After Hours Dummy)</td>
<td>96</td>
</tr>
<tr>
<td>4.1</td>
<td>Distribution of Analyst Revisions</td>
<td>111</td>
</tr>
<tr>
<td>4.2</td>
<td>Market Reaction to MSA-Related and Standalone Analyst Revisions</td>
<td>114</td>
</tr>
<tr>
<td>4.3</td>
<td>Market Reaction to MSA-Related Analyst Revisions by Period</td>
<td>116</td>
</tr>
<tr>
<td>4.4</td>
<td>Market Reaction to Consistent MSA-Related Analyst Revisions</td>
<td>119</td>
</tr>
<tr>
<td>4.5</td>
<td>Market Reaction to All MSA-Related Analyst Revisions</td>
<td>122</td>
</tr>
<tr>
<td>4.6</td>
<td>Probability of Abnormal Information Content of MSA-Related Analyst Revisions</td>
<td>125</td>
</tr>
</tbody>
</table>
### List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Event windows for calculating the Timeliness Measure (Mc)</td>
<td>14</td>
</tr>
<tr>
<td>2.2</td>
<td>Disclosure Coefficients above Minimum Thresholds of Days with Non-Periodic MSAs</td>
<td>31</td>
</tr>
<tr>
<td>3.1</td>
<td>Distribution and Market Reaction to MSAs</td>
<td>74</td>
</tr>
<tr>
<td>4.1</td>
<td>Weak and Strong forms of Piggybacking</td>
<td>108</td>
</tr>
<tr>
<td>4.2</td>
<td>Distribution of MSA-Related Analyst Revisions</td>
<td>112</td>
</tr>
<tr>
<td>4.3</td>
<td>Distribution of Analyst Revisions around Periodic and Non-Periodic MSAs</td>
<td>113</td>
</tr>
</tbody>
</table>