

**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

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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.

## Contents

<b>Chapter 1. Introduction</b>	<b>1</b>
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
<b>Chapter 2. Price Discovery under Continuous Disclosure Requirements in Australia</b>	<b>7</b>
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
<b>Chapter 3. Continuous Disclosure Requirements and the Investor Distraction Hypothesis</b>	<b>60</b>
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	76
3.5.2. Speed of the market response	80
3.5.3. Investor Distraction and the Short Term Response to MSAs	82
3.5.4. Investor Distraction and the Delayed Response to MSAs	88
3.5.5. Investor Distraction and Firm Selective Disclosure	90
3.5.6. Market Mechanisms to reduce Investor Distraction	96
3.6. Conclusions	97
<b>Chapter 4. Information Content of Analyst Revisions under Continuous Disclosure Requirements</b>	<b>100</b>
4.1. Introduction	100
4.2. Literature Review	101
4.3. Hypotheses Development and Methodology	106
4.4. Sample Description	109
4.5. Results	113
4.5.1. Information Content of Standalone and MSA-Related Analyst Revisions	113
4.5.2. Information Content of Pre-MSA, Same-Day and Post-MSA Analyst Revisions	115
4.5.3. Drivers of Increased Information Content of MSA-Related Analyst Revisions	121
4.6. Conclusions	126
<b>Chapter 5. Conclusions</b>	<b>127</b>
5.1. Summary of the Thesis	127
5.2. Price Discovery under Continuous Disclosure Requirements in Australia	127
5.3. Continuous Disclosure Requirements and the Investor Distraction Hypothesis	129
5.4. Information Content of Analyst Revisions under Continuous Disclosure Requirements	131
5.5. Directions for Future Research	132
<b>References</b>	<b>133</b>
<b>Appendix 1. Types of Information Disclosed under Continuous Disclosure Requirements</b>	<b>141</b>

## 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 3.5. Investor Distraction and the Short Term Market Reaction to MSAs	83
Table 3.6. Investor Distraction and the Magnitude of the Short Term Reaction to MSAs by Announcement Type	84
Table 3.7. Investor Distraction and the Speed of the Short Term Reaction to MSAs by Announcement Type	85
Table 3.8. Investor Distraction and the Magnitude of the Short Term Reaction to MSAs by Return Quintiles on the Announcement Day	86
Table 3.9. Investor Distraction and the Speed of the Short Term Reaction to MSAs by Return Quintiles on the Announcement Day	87
Table 3.10. Investor Distraction and the Delayed Market Reaction to MSAs	89
Table 3.11. Investor Distraction and the Short Term Market Reaction to MSAs (Before Hours Dummy)	91
Table 3.12. Investor Distraction and the Magnitude of the Short Term Reaction to MSAs by Announcement Type (Before Hours Dummy)	92
Table 3.13. Investor Distraction and the Speed of the Short Term Reaction to MSAs by Announcement Type (Before Hours Dummy)	93
Table 3.14. Investor Distraction and the Short Term Market Reaction to MSAs (After Hours Dummy)	94
Table 3.15. Investor Distraction and the Magnitude of the Short Term Reaction to MSAs by Announcement Type (After Hours Dummy)	95
Table 3.16. Investor Distraction and the Speed of the Short Term Reaction to MSAs by Announcement Type (After Hours Dummy)	96
Table 4.1. Distribution of Analyst Revisions	111
Table 4.2. Market Reaction to MSA-Related and Standalone Analyst Revisions	114
Table 4.3. Market Reaction to MSA-Related Analyst Revisions by Period	116
Table 4.4. Market Reaction to Consistent MSA-Related Analyst Revisions	119
Table 4.5. Market Reaction to All MSA-Related Analyst Revisions	122
Table 4.6. Probability of Abnormal Information Content of MSA-Related Analyst Revisions	125

## List of Figures

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