MARKET REACTIONS TO NON-FINANCIAL RESOURCE DISCLOSURES AND REPUTATION EFFECTS OF GEOLOGICAL EXPERTS

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CERTIFICATE OF ORIGINAL AUTHORSHIP

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.

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ABSTRACT

Previous studies in the financial economics literature highlight the value of non-financial information to investors for Internet and telephony stocks (Amir and Lev 1996, Trueman, Trueman and Zhang 2001). Other studies consider the financial performance implications of assurance of non-financial information such as ISO 9000 certification (Corbett, Montes-Sancho and Kirsch 2005) and Total Quality Management awards (Hendricks and Singhal 1997). This thesis provides evidence on the value of non-financial disclosure and assurance in a high information asymmetry setting. Specifically, I examine market reactions to resource/reserve disclosures by Australian Mining Development Stage Entities (MDSEs) and the reputational effect of geological experts associated with these disclosures. I might expect geological assurers to matter given that the information environment of MDSEs is characterised by high information asymmetry and the reality that non-financial technical information supersedes financial statement information in terms of importance in firm valuation. In contrast however, the litigation risk attached to such disclosures is argued to be very low, given the absence of cases involving geological attesters. This aspect of the setting suggests the absence of any insurance effect, which might suggest geological assurers won’t matter to the market.

Public accounting firms audit and review financial figures compiled by a client. Essentially, the role of auditors is to ensure compliance with Generally Agreed Accounting Principles (GAAP). In contrast, geological assurers are unique in that they receive mineral assay data from clients and then compile the resource estimates that are subsequently announced by the client firm to the market. Thus geological assurers have an information generation role along with a compliance role in that they are required to produce estimates in accordance with the Joint Ore Reserve Committee (JORC) code.
In this thesis I document a significant, positive market reaction to resource/reserve disclosures by MDSEs. Using size of geological experts as a proxy for their reputation, I find weak evidence of greater abnormal returns when these disclosures are assured by larger geological experts. Further, a measure of expert specialisation based on commodity cluster leadership produces the strongest positive and significant results. In supplementary analysis, I test for the implications of switching geological experts and find that firms experience significant, positive abnormal returns when their successor expert is larger. Overall, the weak evidence I documents in this thesis is consistent with an insurance effect interpretation, in that the reputation of geological assurers doesn’t matter to the market where litigation risk is low.
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