

Disclosure Overload?

Where, How and Why Does it Matter?

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BEE DIE SCHOOL OF BUSINESS
SIMON FRASER UNIVERSITY



PRME
Principles for Responsible
Management Education

References

- Hrazdil, K., D. Chung, J. Novak & N. Suwanyangyuan.

Does the large amount of information in corporate disclosures hinder or enhance price discovery in the capital market?*

Journal of Contemporary Accounting and Economics,
2019. Vol. 15, Issue 1, pp. 36–52.

- Chung, D., K. Hrazdil & N. Suwanyangyuan.

Disclosure quantity and the efficiency of price discovery: Evidence from the Toronto Stock Exchange.*

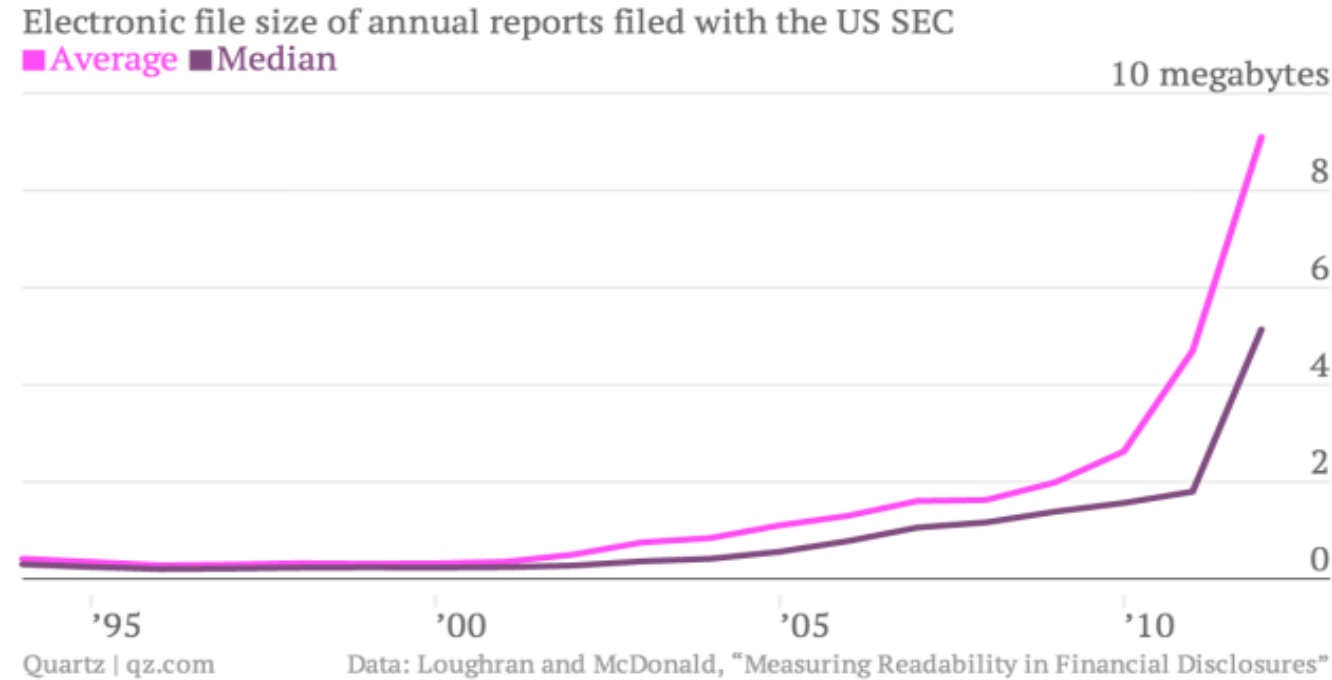
Review of Accounting and Finance,
2016. Vol. 15, Issue 2, pp. 122–143.

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Motivation

In 2013, the SEC chair, Mary Jo White, raised concerns:

“Whether investors needs are optimally served by the detailed and lengthy disclosures about all of the topics that companies currently provide in the reports they are required to prepare and file with us.”



Source: www.qz.com : The fatter a company's annual report, the shakier its stock price.



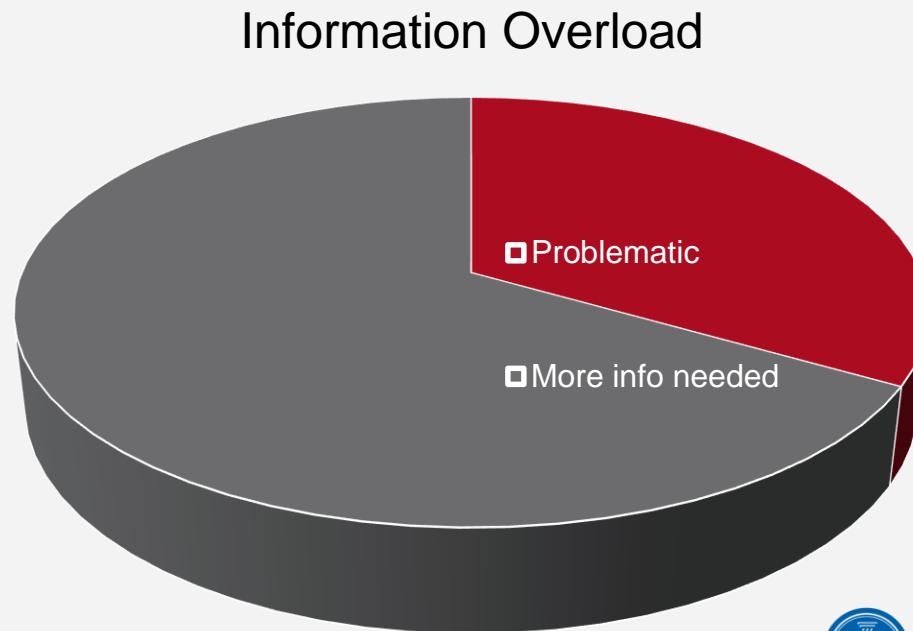
Quotes from Practitioners

- “I am puzzled with what investors and others are doing with the mountains of information they are now getting.”
- “I am concerned that I am charging society a lot of money for providing a lot of information that I suspect investors are not making any use of.”

Recent Surveys

- Deloitte survey of annual reporting showed that “the quality and integrity of financial reporting has never been higher” (Deloitte, 2012).
- CFA Institute survey indicated that “80% of investors do not see the volume of company disclosure as a significant concern” (CFA, 2013).
- Drake et al. (2019)

“Little consensus about what should be done to improve financial reporting”



Research Questions

- How does the **quantity** of information in corporate disclosures affects the efficiency with which investors incorporate new information into stock prices?
 - How does **qualitative** and **quantitative** disclosure affect the price discovery process?
 - How does the **quality** (readability / complexity) of textual disclosure affect the pricing efficiency?

Research Challenges

- Funding

- PhD Student
- Data
- Research Equipment

\$100,000

- Research Process

- Conferences, Seminars...

\$25,000

- Publication Process

- Submissions, Editing, Open Access...

Key Results

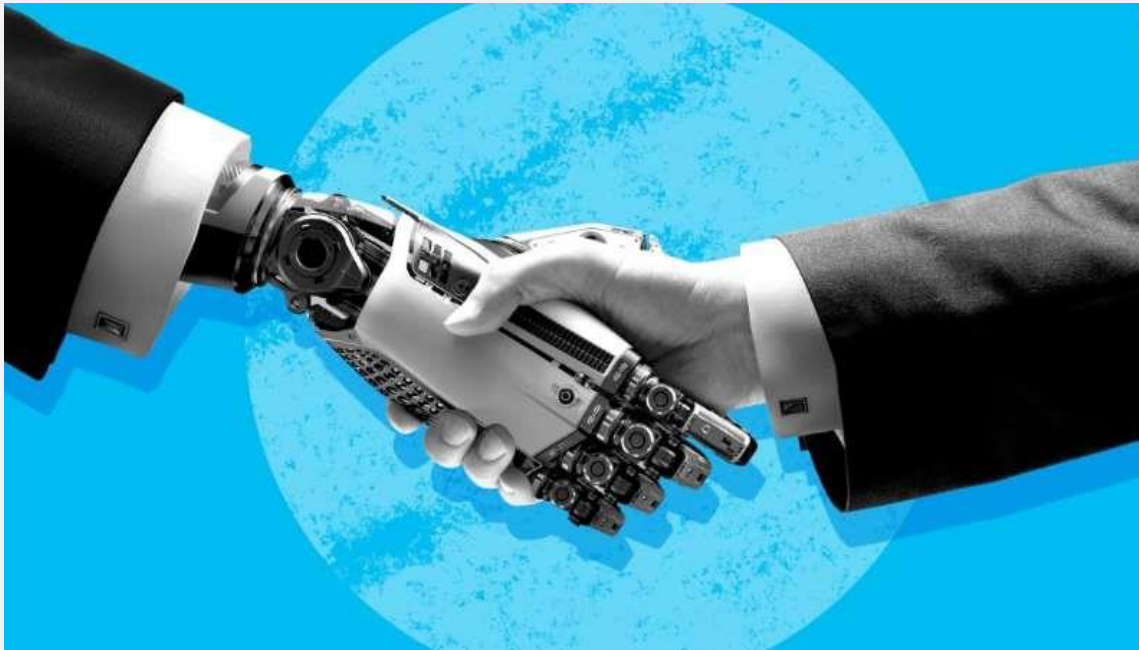
- Both textual and numerical quantity lead to
 - Reduced information asymmetry, lower trading costs, higher trading activity, and improvement in the efficiency of new information price discovery
- Textual and numerical information are complements
- Reports that are more difficult to read or more complex result in lower pricing efficiency

Implications for practice



How elite investors use artificial intelligence and machine learning to gain an edge

By Matt Egan, CNN Business 2/17/2019



“Investors use Natural Language Processing (NLP) applications and advanced data analytics tools mine disclosure documents.”

Implications for practice

In 2016, KPMG began collaborating with universities to build a data and analytics focus for their existing accounting master's programs. As of January, 2018 the program has expanded to:

- The Ohio State University Max M. Fisher College of Business
- Villanova School of Business
- Arizona State University's W.P. Carey School of Business
- Baylor University's School of Business
- The University of Georgia's Terry College of Business
- The University of Mississippi's Patterson School of Accountancy
- The University of Missouri's RJT, Sr. College of Business
- The University of Southern California, School of Accounting
- Virginia Tech's Pamplin College of Business
- **SFU, Beedie School of Business**