The “15 days” debate: the value of an early release of information (evidence from 10-K submissions)

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Introduction

What are the implications of disclosing information earlier? How does private information impact security returns? When would an active trader deem information acquisition to be too costly?

I exploit a regulation change that allows me to shed some light on the questions above.

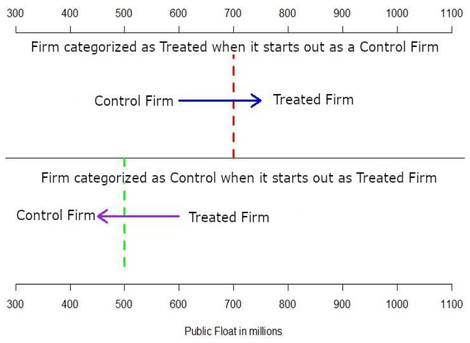

Figure 1. Post 2006 the SEC required firms with public float above $700 million to submit their 10-K within 60 rather than 75 days

Hypothesis

Hypothesis 1: 10-Ks issued by treated firms will have greater absolute abnormal returns

Hypothesis 2: Information asymmetry will be lower for treated firms

Hypothesis 3: Treated firms will make more mistakes in their 10-K

Empirical Design

A combination of event study and regression discontinuity design:

1. I show there is no sorting around the $700 threshold using McCrary Density Test
2. Discontinuity in treatment variable due to the $700 million threshold as shown in Figure 3

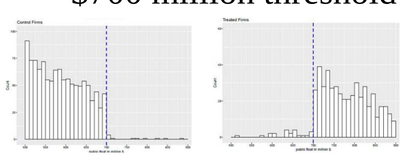

Figure 3. Count of firms that categorized themselves into a specific category based on public float

Results

Will investors value information, 10-K, released by treated firms more as proxied by standardized absolute cumulative abnormal return (CAR)? YES

Table 7

	Standardized Absolute Cumulative Return (-1,1)			
	Main Analysis (2007-2015)		Placebo Test (1997-2005)	
Treated	0.855*	1.296**	0.085	0.132
	(0.515)	(0.574)		(0.576)
Controls	X	X	X	X
Public Float Terms	X	X	X	X
Industry FE		X		X
Year FE		X		X
Observations	1,875	1,875	1,887	1,887
Adjusted R^2	0.006	0.023	0.001	0.013

Table 7 shows that the market reaction to 10-K released by treated firms is both statistically significant and economically significant. The absolute CAR for treated is 1.3% higher than control firms which is more than 50% of control firms average absolute CAR. This results does not exist before implementing the regulation.

Will treated firms experience a lower information asymmetry as proxied by bid-ask spread and Amihud illiquidity? YES

Table 8

	Dependent variable:	
	Amihud Illiquidity	Bid-Ask Spread
Treated	-0.089**	-0.216**
	(0.039)	(0.093)
Controls	X	X
Public Float Terms	X	X
Industry FE		X
Year FE		X
Observations	1,467	1,467
AIC/Adjusted R^2	AIC: 30.952	R^2: 0.589

Table 8 shows that treated firms experience 5.5% lower bid-ask spread and 16.5% lower Amihud illiquidity relative to control firms. Both are statistically significant and indicate treated firms have lower information asymmetry.

Results

Will treated firms make more mistakes in their 10-K due to the newly enforced 60 days deadline? NO

Table 10

	Amendment Dummy		
	All Observations	Newly Treated Firms	Constrained Treated Firms
Treated	0.132	1.372**	1.176***
	(0.247)	(0.634)	(0.451)
Controls	X	X	X
Public Float Terms	X	X	X
Industry FE	X	X	X
pseudo R-Squared	0.067	0.119	0.197
Observations	1204	662	380

Table 10 shows that treated firms are not more likely to issue an amendment relative to control firms unless we focus on a subset of the sample.

As a robustness I run all of the tests using a placebo threshold of $600 and $800 million. I no longer find the difference between treated and controls in the results presented. This support that the results is driven by the information channel advocated here rather than a different channel.

Conclusion

Some implications of the results:

1. Elegant setting to view how increasing the cost of information, by reducing the deadline to make 10-K public, causes less traders to be informed.
2. The SEC were correct in implementing this regulation due to the overall benefit.
3. Active traders positive NPV opportunities are reduced post 2006 for treated firms’ securities. It is harder for them to scan firm information before it made public.