Do Risk Disclosures Matter When It Counts? Evidence from the Swiss Franc Shock

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Content:
We examine the long-term transparency effects of past risk disclosures following an exogenous shock to macroeconomic risk. In 2015 the Swiss National Bank (SNB) abruptly announced it would discontinue the longstanding minimum euro-Swiss franc exchange rate. We show that firms with more transparent disclosures regarding their foreign exchange risk exposure ex ante exhibit significantly lower information asymmetry ex post. The gap in bid-ask spreads appears within 30 minutes of the SNB announcement and persists for two weeks. We confirm the informational role of past risk disclosures with a field survey of three groups of market participants: (1) Sell-side analysts emphasize existing disclosures to evaluate the translational and transactional effects of the currency shock. (2) Lending banks’ credit officers rely on past disclosures as the primary resource available for smaller unlisted firms in the immediate aftermath of the shock. (3) Investor-relations managers use existing financial filings as a key internal information source when communicating with external stakeholders. In sum, the results imply that risk disclosures continue to attenuate information asymmetry and the costs of adverse selection well beyond their initial publication date.

Date: January 15, 2018 (Monday)
Time: 10:30 a.m. — 12:00 noon
Language: English
Venue: KK1303, 13/F., K.K. Leung Building, The University of Hong Kong

All Interested are Welcome