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Do First and Third Quarter Unaudited Financial Reports Matter? The Portuguese Case

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Abstra

In this pa ... e of 1,751
quarterl ... cifically, we
examine ... rst and third
quart ... mited audit;
and ... . We
conclude ... condensed
income ... the market
to spur ... and after
the first ... ound that
the incre ... fter 1999,
presuma ... vly required
first quarter reports. Finally, we found evidence that mandatory audited reports

announcements spur more significant price reactions than mandatory unaudited financial reports. In contrast to evidence from other countries, we found that smaller firms' disclosures do not generate a larger reaction than large firms' disclosures.

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Notes

1. French rules, for example, require quarterly publication of revenues from sales and supply of services, although the balance sheet and earnings are published yearly (Gajewski and Quéré, 2001).

2. Directive published in the Official Gazette No. L 390, of 31 December 2004 and available at http://europa.eu.int/eur-lex/

3. Such ... transactions
that hav ... ancial
position ... cription of
the finar ... rtakings
during th ... de the
earnings ... usual
elem

4. On or ... report on
the trans ... ent and
Council. ... system.

5. Firms ... direct costs
of issuin ... sclose their

financial reports via the internet site of CMVM (the Portuguese Securities Market Commission) without any extra cost or charge.

6. ‘Financial report announcement’ is the first announcement of the earnings number, plus the income statement, balance sheet and other elements of financial information. Note that there is no prior announcement of the earnings number.

7. For an in-depth review of the literature on the relationship between capital markets and financial statements in general, see Kothari (2001) and Healy and Palepu (2001).

8. A sizable body of research indicates that corporate governance affects the quality and the frequency of reports released by management, and information asymmetry in the equity market around quarterly earnings announcements (e.g. Kanagaretnamet al., 2007). It is therefore plausible that (Continental) European and American managers, due to their differing corporate governance systems exercise different degrees of discretion in unaudited reports.

9. For a survey of the European evidence, see Dumontier and Raffournier (2002).

10. An interim financial statement reporting protocol became mandatory in Finland in 1986. The minimum three items that should be reported in Finnish interim financial statements are: (i) Profit (Loss) after financing income/expense; (ii) Other income/expense; (iii) Profit (Loss) before appropriations and taxes. For more details see Schadew

11. In Sp t has a limited a rmation reported axes, net earnings ee the type of inform ish secu

12. In Fr tatutory auditors easing order of impor s attested, the first é, 2001).

13. For a

14. Recall that the NYSE began advocating quarterly reports in 1910 and the SEC began requiring them in 1970.

15. The Appendix includes a copy of the official sheet that Portuguese firms must disclose in Q1 and Q3.

16. Because in some cases the financial reports could be disclosed during the previous trading day, we performed robustness tests (not reported), one day prior to and one day after the analyzed dates. Furthermore, we also performed tests using five- and seven-day post-announcement windows. In all cases, the conclusions remain essentially unaltered. Any of these unreported results may be requested from the authors.

17. We also calculated the metrics for estimation windows corresponding to the 62 trading days prior to the event date, excluding the 10 trading sessions surrounding the disclosure date (t = −62, …, − 11). The conclusions remained essentially unchanged.

18. We also calculated abnormal stock price volatility as in Landsman and Maydew (2002), and the risk-adjusted return using the market model. The conclusions remained essentially unchanged.

19. The trading volume ratios were also calculated as proposed by Harris and Gurel (1986), by comparing the relative turnover of securityi scaled by market turnover on the event … d the trading
volumes … emained
unchang…

20. Aver… he Studentt-
test repo… that AVOL
in the th… ts reported
in the sa… t Average
AVO… nks Test for
Varian… scaled by
their sta… ouncement
window … er tests in
Panel II …

21. In su… ns to good
news an… rter bad
news, which is not significant). In this exercise, the financial reports disclosed were

'good news' if the cumulative abnormal returns (calculated with the market model) for the three-day post-announcement period were positive and 'bad news' if these cumulative abnormal returns were negative.

22. Hereafter we focus on the mandatory sample, because it is relevant toQuestion 3.

23. Thez-Stat of this test is − 3.26, andp-value is 0.1%.

24. The PSI20 is an index formed from the 20 most liquid stocks on the Euronext Lisbon and they are exclusively large cap stocks. Following Pellicer and Rees (1999), we use an index formed from the most liquid stocks of the market to distinguish between large and small firms.

25. For full sample (results not reported), for the few instances when the null hypothesis of equality between PSI20 and non-PSI20 averages is rejected (t-test), we infer that the PSI20 sample average is higher.

26. Note that most of the papers cited herein focus on old data, and Buchheit and Kohlbeck (2002), studying a period from 1975 to 1997, found evidence that small firms exhibit a decreasing price reaction to financial reports announcements over time, while larger firms exhibit an increasing price reaction to financial reports announcements.

27. We compare our data with the Pellicer and Rees (1999) sample because the Spanish market i … K and USA). We obta … from The World Fe … m the site www.ibe

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