

# **Keeping the market informed - How effective is the market operator's monitoring of listed firms' disclosure: A Pitch**

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## **1. Introduction**

This letter discusses an application of the pitch template developed by Faff (2015) to a project with financial market policy and regulatory impact pertaining to the Australian market operator's control of the market's information environment. The research team for this project is Chapple, Lubberink and Truong, comprising two experienced researchers and a developing researcher.

Chapple completed the pitch template while revising a version of the project to be presented at the European Accounting Association (EAA) in April 2015. Chapple was motivated to complete the pitch template for two overarching reasons: as a mentoring exercise and more self-interestedly, to focus the researchers' attention on the potential value of the research to impact policy. This is explained further in section 3. Chapple views the pitch letter as an opportunity for experienced researchers to "talk the talk". As the pitch letter has become an important exercise for PhD candidates (See for example Beaumont, 2014; Unda, 2014) in the immediate sense, professors require experience at preparing, presenting and evaluating the Faff (2015) "pitch" process. Moreover, events such as the CIFR pitch day on 29<sup>th</sup> May 2015,<sup>1</sup> the applications for AFAANZ funding for the 2015 round closing 22<sup>nd</sup> April 2015,<sup>2</sup> provide evidence that the "pitch process" is now more pervasive as a persuasive tool for researchers at all career stages to articulate their projects, for a variety of motivations. These two examples are simply two highly contemporaneous, reasonably localised events, yet with funding opportunities attached. Most researchers respond well to tangible outcomes.

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<sup>1</sup> See "Public Policy & Regulation CIFR 'Pitching Research' Symposium Call For Papers"  
<http://www.ssrn.com/update/fen/fenann/ann15062.html>.

<sup>2</sup> See "AFAANZ Research Fund 2015-16 call for Applications"  
[http://www.afaanz.org/images/stories/pdfs/general\\_pdf/Research\\_Grant\\_2015\\_Call\\_For\\_Applications.pdf](http://www.afaanz.org/images/stories/pdfs/general_pdf/Research_Grant_2015_Call_For_Applications.pdf).

The remainder of the letter adopts the recommended structure and furthermore switches to a first person narrative style – my description of the application of the pitch template to the research project; followed by my personal reflections in completing the pitch letter and template; finalised by some concluding comments. My pitch letter culminates with the attached pitch template (see Table 1) describing in the “3-2-1” format from Faff (2015) of the joint research project: **Keeping the market informed - How effective is the market operator's monitoring of listed firms' disclosure.**

## **2. Brief Commentary on the Application of the Pitch Template**

The research team bring together a variety of skills and interests as needed to successfully conduct this research project. The Australian capital market, particularly the information environment, is one of the most tightly controlled securities markets in the developed world. (Brown, 2013). In this respect, Australia and New Zealand are similar, hence the project about regulation of the Australian market is relevant and interesting to researchers in New Zealand. Both countries have a similar regime for listed firms' disclosures: securities legislation mandating that firms continuously disclose price sensitive information to the market, operating in conjunction to the listing rules also requiring disclosure. Both countries have a co regulatory model, where the securities exchange monitors compliance and the securities regulator enforces the law. Both market operators use surveillance techniques to monitor unusual trading patterns, and both market operators reserve the power to write to their listed firms to specifically query any unusual fluctuations detected. Finally, both regulatory regimes are highly influenced by the Ayres and Braithwaite (1992) responsive regulation model (ALRC, 2011; NZLRC, 2012).

Truong and I have a successful track record of collaboration on the topic of continuous disclosure and the price query system in particular (Chapple and Truong, 2015; Chapple,

Truong and Welsh, 2014). We take heart in this published research, that there is a market for publishing research demonstrating the effectiveness of innovations in Australia's policy and regulation (Benson et al., 2014, Benson et al., 2015).

In relation to researching continuous disclosure effectiveness, there is a respectable stream of literature, commencing with Brown, Taylor, Walter (1999), and including papers on the role of intermediaries (Hsu, 2009, Dunstan, Gallery and Truong, 2011), the role of corporate governance (Chan, Faff, Ho and Ramsay, 2007; Matolcsy, Z., Tyler, J. and Wells; Chapple and Truong, 2015) to name a few. There is scope to contribute to the 'effectiveness' question by examining the effectiveness of the regulatory response to firms' disclosure behaviours.

Further, keeping investors informed is the whole point to regulating the information environment in the market, so the market operator and the securities regulator devote resources to monitoring, educating and enforcing activities. Accordingly, our study would not be complete without designing an aspect of testing investor reaction to any new knowledge generated by regulatory intervention. In this regard, we are well served as researchers to extend the prior work such as Gong, 2007, Marsden, Poskitt and Wang, 2008, and Drienko and Sault, 2011 and 2013. It is reassuring to see such robust, scholarly interest in a relatively obscure aspect of Australia's continuous disclosure regime enforcement.

### **3. Personal Reflection on the Pitch Exercise**

As mentioned above in the Introduction, I resolved to complete the pitch letter as a personal journey of reflection after revising the submitted version of the paper I will present at an international conference (EAA). The pitch letter took approximately 4 hours to complete, in the process requiring me to read the paper, collate the assorted co-author correspondence, check the main literature again, and write up this pitch letter. In this respect, the pitch letter and reflections are personal and are not jointly written.

In the period of time between the paper being submitted (December 2014) and the conference event (April 2015), my co-authors have devoted considerable effort to collecting data for other variables in the models, running new tests and discussing new analysis. Progress on a working paper is generally desirable, however it also takes the project in other directions and with some loss of utility when researchers work at different pace in different time zones.

As alluded to, there is very much a personal motivation to participate in the CIFR pitch day. Given the serendipity the CIFR pitch day incentive, the pitch letter is a valuable tool to assist me to focus on the direction of the research. It has provided me with fresh enthusiasm by ‘forcing’ me to focus on the fundamentals – why do the research and who cares? I can reflect on our considerable progress in hand collecting a new dataset. In this respect, the CIFR incentive is particularly exciting as it brings to the forefront the regulatory impact of this research, which personally excites me as researcher and suits my research background and interests. The opportunity that the CIFR pitch day presents to bring together researchers of diverse background and research interests but united with a common goal of regulatory impact, also excites.

As an experienced researcher, the second motivation relates to mentoring our less experienced colleagues, or even perhaps our less convinced colleagues. In this respect, it is about “doing what I do”, not just “doing what I say”. I wished to participate by writing a pitch letter personally, not in conjunction with my co-authors, to demonstrate my personal commitment to the pitch process. The words in the pitch letter are mine – of course the concepts and ideas discussed regarding the research project are my encapsulation of our joint work. I wish to thank my co-authors for their efforts and dedication to the project – much of which I appreciate occurs unobserved by me.

## **Conclusion**

This letter contains the pitch of Chapple, Lubberink and Truong for the research project investigating how effective is the market regulator's monitoring of firms' disclosures, particularly relying on their 'soft' sanction powers to issue price query letters. The research project is a joint effort, whereas the pitch letter contains the reflections of one author only, Chapple. Writing the pitch letter and attached template has allowed me to focus on the potential impact of the research, inspiring new impetus for the work and its potential research findings. Thank you to CIFR and Professor Faff for providing this opportunity.

Table 1: The faff (2015) Pitch template for **Keeping the market informed - How effective is the market operator's monitoring of listed firms' disclosure?**

Team: Chapple Lubberink, Truong	FoR: 1502 (Regulation/public policy)	Date template completed: 21 April 2015
<b>(A) Working Title</b>	<b>Keeping the market informed - How effective is the market operator's monitoring of listed firms' disclosure?</b>	
<b>(B) Basic Research Question</b>	<b>Australia's market operator (ASX) has the power to issue price query (PQ) letters to listed firms in response to unusual price fluctuations or trading volumes. Why is the price query correspondence effective? Why is the price query correspondence informative?</b>	
<b>(C) Key paper(s)</b>	Ayres & Braithwaite (1992) Healy & Palepu (2001) Drienko and Sault (2011) (2013)	
<b>(D) Motivation/Puzzle</b>	The information environment in Australia's securities market is highly controlled, centred around co-regulation by the ASX and the securities regulator the Australian Investments and Securities Commission (ASIC). Firms are required by the listing rules and by the law to immediately disclose price sensitive information to the market. Prior research (eg Hsu, 2009) suggests that there is discretion exercised by managed as to when to disclose. As researchers, how can we observe firms' compliance? Is it possible to observe firms' non-compliance? As ASX has the power to issue price query (PQ) letters to listed firms in response to unusual price fluctuations or trading volumes, we position these PQ letters as "soft" enforcement of continuous disclosure, as identified as the base level of responsive regulation in the Ayres and Braithwaite (1992) responsive regulation model. The firms' replies to the PQ letters are valuable sources of information to researchers to observe the potential level of non-compliance (Marsden, Poskitt and Wang, 2008) and to observe the effectiveness of enforcement of the mandatory disclosure regime.	
<b>THREE</b>		
<b>(E) Idea?</b>	The ASX in exercising its power to issue PQ letters can make Type I or Type II errors. In observing the "soft" enforcement, that is, the correspondence between the market operator querying firms' commitment to disclosure, and the firms' replies, we believe we can use this as evidence of compliance and enforcement of mandatory disclosure. In particular, we are able to qualitatively code the correspondence data for characteristics such as the name of the officer, their position their experience, the waiting period between the detection of fluctuation and the PQ letter being sent. Using these more refined measures about the PQ letters and replies, we can extend existing market reaction studies.	
<b>(F) Data?</b>	<p><b>(1) Country/setting:</b> All Australian listed firms are subject to continuous disclosure regulation.</p> <p><b>(2) Expected sample:</b> Comparison sample of firms subjected to PQ letters and those not for the period 1998-2013. Also distinguish between firms that have received PQ letters more than once during the sample period and those who have only ever received 1 PQ letter.</p> <p><b>(3) Data source(s):</b> The identity of PQ letter firms hand collected from PQ letters and responses obtained from market announcements (SIRCA's <i>Australian Company Announcements</i> database). Price and accounting data originates from SIRCA, Morningstar DatAnalysis Premium, and Datastream. The data are intensive to collect, given that every PQ letter is read and essential characteristics of the letter and the replies coded. AFAANZ funding has been obtained for data collection.</p> <p><b>(4) Standard data –</b> High quality standard data from all database but skilled expertise used to read all of the PQ letters and replies</p> <p><b>(5) Missing data?</b> No significant gaps or threats.</p> <p><b>(6) Will the test variables exhibit adequate ("meaningful") variation to give good power?</b> Yes – data on the characteristics of the PQ letters and replies are collected, each set of correspondence is unique and will yield a dataset with variations..</p>	
<b>(G) Tools?</b>	Usual regression modelling with a novel dependent variable as the measure of effectiveness of regulatory intervention and	

Table 1: The faff (2015) Pitch template for **Keeping the market informed - How effective is the market operator's monitoring of listed firms' disclosure?**

	independent variables capturing characteristics of the PQ letter and firm characteristics. For investor response, usual CAR to estimate market reaction.
<b>TWO</b>	
<b>(H) What's New?</b>	Very little scholarly research on the regulatory impact of the PR letter regime in Australia. This is important given the unique regulation of Australia's financial markets. There is recent scholarly work measuring the market impact of firms' disclosures in response to PQ letters (see Gong, 2007; Drienko and Sault, 2011, 2013) and this research is highly influential in motivating us to look more deeply into the PQ letters and replies and linking the results to regulatory policy.
<b>(I) So What?</b>	Given the influence of the responsive regulation model, is soft enforcement of the market's information environment effective? Does the soft regulatory enforcement generate new information for investors?.
<b>ONE</b>	
<b>(J) Contribution?</b>	This study will provide new evidence on the <b>effectiveness of soft enforcement of mandatory disclosure</b> in Australia <b>and the extent that the ASXs price query letters and replies generate new information for investors.</b>
<b>(K) Other Considerations</b>	<p>Is <b>Collaboration</b> needed/desirable?</p> <ul style="list-style-type: none"> <li>- <i>Idea</i>: already assembled an experienced team with track record across 2 universities and 2 relevant disciplines</li> <li>- <i>Data</i>: collected from publicly available sources; considerable progress given AFAANZ grant funding.</li> <li>- <i>Tools</i>: required expertise is already available in the research team and the packages and databases are generally available in the respective business schools.</li> </ul> <p>- Is there a <i>role</i> for a <i>relevant regulatory body</i> to be directly engaged in this project?: The information environment of Australia's capital market is controlled by a co regulatory model of ASX surveillance and ASIC enforcement. Any evidence we can provide as to compliance and effectiveness of enforcement strategies would be of primary interest. Our research does not aim to critique the performance per se of regulators, but to provide robust evidence as to the effectiveness of enforcement strategies in terms of responsive regulation of disclosure behaviour and impact on investors.</p> <p>- Are there funding issues? Data are intensive to collect as all PQ letters need to be read and coded.</p> <p>- Can your pitch a <b>"value add"</b> to a relevant regulatory body that would convince them to make \$/in-kind contributions to the research? Are there needed data that a relevant agency might provide? If so, under what circumstances? Are there any other major issues that particularly relate to the policy/regulation dimension of this pitch?</p> <p>- Ideally access ASX personnel to discuss their perception and role in responsive regulation, the relationships they form with their listed companies. We have not pitched this project so far as being reliant on interview data.</p> <p><b>Target</b> Journal(s)? Do you have a "dual" publication strategy? – Yes we believe the research findings cross disciplines – a target journal is accounting and finance and a target journal in securities law.</p> <p><b>"Risk"</b> assessment:</p> <ul style="list-style-type: none"> <li>- <i>"no result" risk</i> – LOW;</li> <li>- <i>"competitor" risk</i>: LOW – as this is hand-collected data that requires expertise to code the PQ letters and replies.</li> <li>- <i>risk of "obsolescence"</i>: LOW – PQ letters are a regular feature of the ASX enforcement strategy.</li> <li>- <i>other risks?</i> Unique features of the regulatory setting versus the perceived interest or generalisation internationally</li> </ul> <p>Is the <b>scope</b> appropriate? – yes – the scope is sufficient for one research paper, perhaps 2 from a different disciplinary perspective.</p>



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