

# The Value of Financial Reporting. Evidence from observed requests for publicly available financial reports

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Existing academic research on the use of financial reports is based on theoretical assumptions (e.g. the efficient market hypothesis), uses indirect archival proxies to capture demand (e.g. firm characteristics), or uses non-archival research methods (e.g. experimental design). These existing approaches have limitations in evaluating the (social) value of financial reporting. For instance, using the efficient market hypothesis (theory) it is possible to capture the value of financial reporting using the capital market response. The efficient market hypothesis assumes that the benefits of trading on information quickly reduces to zero due to information competition amongst investors. The efficient market theory allows for causality between the information event and subsequent market response. Using this theory it is for instance not possible to evaluate the value of financial reporting beyond the information event.

In this thesis I study the use of external financial reporting using novel Internet data that captures observed requests for financial reports. Resulting from the rise of Internet most financial reports are made available through the Internet and requests for these reports are captured in log-files. This data allows for a broader evaluation of the value of financial reporting. I demonstrate this via two essays. Essay 1 (chapter 2) and essay 2 (chapter 3).

The first essay (chapter 2) is entitled '*Supply and Demand of Proprietary Information*'. This study is the first to evaluate the potential social value of public financial information of private firms by analysing the supply of and the demand for financial information in a setting where disclosure cost is the primary driver for a firm's public disclosure decision. The study analyses the supply of and the demand for financial information in a setting where proprietary cost seems the primary driver for a firm's public disclosure decision. The empirical setting that I use is the mandatory public disclosure of annual reports by private firms in the Netherlands. As these firms have to file their annual report with the Dutch Chamber of Commerce within 13 months after fiscal year end, the filing delay measures the firm's unwillingness to disclose. I measure demand for information on the basis of download data of these annual reports as provided by the Dutch Chamber of Commerce. The dataset registers revealed preferences of users for financial reports filed by private firms in the Netherlands at the Dutch Chamber of Commerce during 2001 – 2009. All limited liability private firms have to file financial statements. These reports can be acquired at the low fee of Euro 2.90 online. In this dataset, I observe *which* reports are obtained and *when* these reports have been obtained. The findings are in line with my hypotheses that there is demand for proprietary information in financial reports and that supply and demand for information are negatively correlated: the higher the unwillingness of firms to disclose annual report

information, the higher the demand for this information is. The results highlight the importance of proprietary cost in public disclosure decisions and that mandatory public financial disclosures by private firms do seem to serve a purpose.

The second essay (chapter 3) is entitled, *Financial Reporting Complementarity: Evidence from individual investor requests for EDGAR filings*. It focuses on the complementary role of mandatory financial reporting information, that is, the ability of mandatory financial reporting information to contextualise other, more timely information and/or to lend credibility to other information sources. A complementary role implies that the usefulness of mandatory financial information stretches further than just the announcement window. Using data from the SEC's EDGAR database on actual information requests from individual investors, I show a strong link between demand for mandatory financial reports beyond the announcement window and an array of future scheduled and unscheduled disclosures by management. I provide direct evidence that future management disclosures are associated with comparability of mandatory financial reports across time and confirming voluntary disclosures triggers investor demand for mandatory financial reports beyond the announcement window. To a lesser extent, this is also the case for information events that trigger comparisons of mandatory financial reports across firms. In the second part of my analysis, I show an increase in the association between information asymmetry and investor demand for mandatory financial reports beyond the announcement period during these future information events. This suggests that individual investors reduce information asymmetry during subsequent scheduled and unscheduled information events using mandatory financial reports available in the public domain. Moreover, the results also reveal a greater association between requests for the last available report surrounding future information events compared to older reports. These results may provide insights into the continuous information needs of investors (i.e. continuous reporting).