World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:10, No:01, 2016

Capital Market Reaction to Governance and Disclosure Violations: Evidence from the Saudi Arabian Capital Market

Authors : Nasser Alsadoun

Abstract : Today's companies in Saudi Arabian capital market must comply with strict criteria and adhere to rigid corporate governance rules and continuous disclosure requirements. Unlike other regulators in the region, decision makers of the Capital Market Authority (hereafter CMA) of Saudi Arabia believes that the announcements of economic sanctions and penalties for non-compliance firms will foster more effective regulatory compliance and hence improve the quality of financial reporting. An implied argument put forward by the opponents, however, states that such penalties are unnecessary and stated to be onerous for non-compliance firms. Over that last years, the CMA has publicly announced several economic fines levied on some listed companies for their failing to comply with corporate governance and continuous disclosure regulation clauses, with the amount of fine levied ranges between 50,000 SR to 100,000 SR for each failing. Economic theory suggests that rational investors make decisions based on a cost-benefit principal. The regulatory intervention made by CMA on the announcement of economic sanctions has been costly to the society (economy) hoping that it improves the transparency of financial statements. It is argued, therefore, that threat of regulators and economic sanctions will provide incentives for firms' managers to report more relevant and reliable accounting information, and the benefit of such announcements is likely to be reflected in the context of the quality of the financial reports. Yet, the economic consequences of the revealed fines announcement for non-compliance firms in Saudi Arabian market have not been examined. Thus, this study attempts to empirically examine whether market participants are pricing the supposed benefits of rigid governance and disclosure rules in the Saudi market. The study employs an event study methodology to assess the impact of CMA economic sanctions announcements on the market price of non-compliance firms. The study also estimates and examines bid–ask spread behavior of violated firms around the CMA announcements. The findings indicate that the CMA fines announcements for failing to comply with governance and disclosure rules do not appear to play any significant role in securities pricing. In addition, tests of bid-ask behavior does not indicate any significant increases in information asymmetry surrounding these announcements. While the CMA has developed many goals to increase the awareness of listed companies with the best governance and disclosure practices, it seems they have to develop more goals to improve market efficiency and increase investors and public awareness.

Keywords : governance and disclosure violations, financial reporting quality, regulatory intervention, market efficiency
Conference Title : ICEF 2016 : International Conference on Economics and Finance
Conference Location : Singapore, Singapore
Conference Dates : January 07-08, 2016