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Impact of investor meetings/presentations on share prices, insider trading and securities regulation

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Abstract

The purpose of this article is to investigate whether the current EU securities regulations contribute successfully toward efficient stock markets. An event study of investor meetings/presentations held by listed Danish firms is conducted. The article finds significantly positive abnormal returns a few days around investor meetings as well as increased variance. Share turnover reaches maximum 1 day after investor meetings. This indicates the presence of possible insider trading. The introduction of common EU rules dealing explicitly with investor meetings is suggested in order to improve investor protection. The use of webcasting of investor meetings over the Internet is strongly recommended.

Keywords: Insider trading; Investor meetings; Securities regulation; Investor protection; Corporate governance

1. Introduction

Investor meetings or presentations held by listed European firms have increased in popularity in recent years. This is true also in Denmark, where large firms have begun to enlist specialists to handle their company's investor relations activities and oversee the setting up of various investor meetings/presentations. These meetings are designed to provide present investors with information about the activities and strategies of the listed firm that could enable market participants to make more accurate earnings forecasts. However, this burgeoning trend raises some important legal questions concerning both listed firms' disclosure obligations and the controversial topic of insider trading.

The EU has indeed set forth securities regulations regarding insider trading and the general duty of listed companies to disclose price-relevant information. This article analyzes whether the EU rules as they now stand sufficiently deal with the arrangement of investor

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meetings/presentations and whether they overall enhance the efficiency of the stock markets in the EU. Thus, the article is intended to contribute to the debate over the legal protection of investors—a topic much pursued in the literature of corporate governance as well as law and finance. Using event study methodology to measure the impact on share prices of investor meetings, this study tests the hypothesis that:

Hypothesis. During an investor meeting, management provides inside information which enables investors to earn abnormal returns.

During investor meetings, management could easily violate the obligations codified in the securities regulation. If management informs meeting participants about certain conditions that may influence share prices and does not simultaneously inform the stock market at large, management contravenes the prohibition against insider trading. So too do the investors who trade on the basis of such inside information.

The results show that the hypothesis may not be rejected, since there is a short-term effect lasting up to 4 days after an investor meeting, but there is no significant effect in the long run. The results show that there are significantly positive abnormal returns around the times of investor meetings. The variances of the abnormal returns are much higher the closer to investor meetings. Thus, the share price turnover is at its maximum the day after an investor meeting is held. The results indicate that the current EU-securities regulations do not contribute enough to achieving an efficient and well functioning stock market. In order to secure that all investors are treated equally, one might therefore suggest that the EU formulate specific rules about the investor meetings. Inspiration might be taken from new rules just issued by the Securities and Exchange Commission (SEC) c.f. Selective Disclosure and Insider Trading File No. S7-31-99, which among other things recommend the use of webcasting of investor meetings over the Internet. Dismissing information publicly this way would enable European firms to provide greater investor protection, which would, in turn, attract more capital to European firms.

The article is organized as follows. Literature is presented in Section 2. Section 3 gives a brief description of the relevant regulation in the United States, EU countries and specifically Denmark. Data is described in Section 4 and the methodology is outlined in Section 5. The results are presented in Section 6 followed by robustness tests in Section 7. The author's conclusion is stated in Section 8.

2. Literature

There seem to be no event studies in the financial literature concerning the impact of investor meetings/presentations on share prices. However, several studies investigate whether corporate insiders are able to earn abnormal returns due to their private information. Meulbroek (1992) conducts an empirical analysis of illegal insider trading focusing on how informed trading affects stock prices. She finds that insider trading is associated with immediate price movements. The cumulative abnormal return on inside trading days is half as large as the price reaction to the public revelation of the information on which the insider trades. Meulbroek (1992) argues that this ratio suggests that the stock market