Materiality Uncertainty and Corporate Disclosure

Abstract

This study examines how heightened uncertainty in materiality judgments affects mandatory disclosure of material information, by using a Supreme Court ruling (Matrixx Initiatives, Inc. v. Siracusano) that rejected the use of bright-line rules previously relied upon in some U.S. circuit courts to evaluate materiality claims. Using a difference-in-differences approach, we find that affected firms increase filings of materiality-based 8-K items following the ruling, relative to unaffected control firms, whereas there is no similar effect for nonmateriality-based 8-K items. The treatment effect strengthens when firms face higher litigation risk, managers are less overconfident, and investors have more diverse opinions. The increased disclosures are primarily driven by filings containing relatively small amounts of information and by bad-news filings. These findings suggest that managers respond to heightened materiality uncertainty by making more conservative materiality judgments and increase disclosure of mandated information, particularly when the materiality is unclear and the information is adverse.

Biography

Prof. Xiaolu Zhou is an Assistant Professor of Accounting at The Chinese University of Hong Kong (CUHK). Prior to joining CUHK, she obtained her PhD degree in Accounting from University of Texas at Dallas, and her master's and bachelor's degrees in Finance from Fudan University. She is broadly interested in empirical archival research in accounting, and her main research area is corporate disclosure and financial reporting. She is also a Chartered Financial Analyst (CFA) charterholder and a member of The Hong Kong Society of Financial Analyst.

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