

Title The information content of monetary penalties imposed by Polish Financial Supervision Authority on companies listed on the Warsaw Stock Exchange

A stock market is an important element of contemporary economy. First and foremost, it enables a transfer of capital between investors and entrepreneurs. The proper functioning of a capital market requires an assurance of a flow of information between companies and all stakeholders (e.g. shareholders, potential investors, crediting banks, bondholders). For that reason companies listed on the Warsaw Stock Exchange (WSE) have to fulfil various information obligations. Such companies are obliged by regulations in force to publish their financial statements in a clearly specified time and other information that relates to significant events that may impact their financial standing. It is the Polish Financial Supervision Authority (PFSA), which controls the fulfilment of these obligations. In a noncompliance case, PFSA may impose a monetary penalty on a company. Information on an imposed monetary penalty is disclosed to the public and disseminated through media, which cover the stock exchange matters.

The main aim of the project is to quantify (including the direction and the magnitude) the influence of monetary penalties imposed by PFSA on decisions undertaken by investors in the form of market transactions. According to the efficient market hypothesis, whose propagator is the recipient of the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel – E.F. Fama, information that relates to listed companies should be reflected in market prices of shares of these companies.

In the proposed research the influence of imposed monetary penalties on companies listed on a main and parallel market in a continuous trading system in a period 2006-2016 will be examined. It will be investigated whether published information impacts share prices, trading volumes, trading values, numbers of executed transactions. The problem of the relationship between the size of the monetary penalty and the reaction of investors will also be studied (whether the relatively higher monetary penalty causes greater decrease of stock prices than a smaller monetary penalty). The outcome of the research will enable to determine whether the publication of information on monetary penalty imposed on companies is reflected in decisions undertaken by investors on a stock exchange.

The research will be conducted with the usage of the event study methodology, which is commonly used in world-class science in order to determine the impact of a particular event on a value of a firm and on actions of investors. In particular, the following econometrical-statistical methods will be applied: linear regression, multivariate adaptive regression splines, bootstrap, and supplementary logistics regression. Furthermore, guided interview and analysis of documents will be applied.

As far as the society is concerned, the problem of “double” burdensomeness of a penalty imposed by PFSA on a company is a relevant issue: first of all, certain amounts of company cash have to be used to settle the penalty, and second of all, the value of a company deteriorates as a result of unfavourable change in a market price.

The outcome of undertaken studies may also have a normative impact, in particular it may be used by regulators of a capital market in Poland in a process of application of existing instruments of supervision and in a process of creation new, efficient instruments of supervision. From the same perspective the outcome of our research may be relevant to the legislator. Efficient instruments of supervision may help eliminate opportunistic managers from the capital market, who – in accordance with the agency theory – use information asymmetry between them and investors. Through the non-compliance with informational obligations such managers deteriorate capital which should contribute towards the development of civilizations.