Discussion: "Information in Mandatory and Voluntary Earnings Announcement Date Forecasts"

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Paper works hard to show the Chinese and US settings are comparable – why not embrace the differences?

There are really two possible surprises/events:

- Just after FQE: Is initial scheduling announcement informative?

- As we get closer to the EAD: Is re-scheduling/actual timing of actual earnings date timing informative?

Authors argue that EAD scheduling conveys news, and finds that scheduling announcements are informative – they convey around 8% of total earnings news for period, similar to voluntary regime in US.

- Interesting but begs the question of *why* – if managers want to provide pre-emptive disclosures about earnings news, why through this mechanism?
    - Why not forecast/pre-announce earnings news itself? Are there constraints on providing guidance/forecasts in China?

Starbucks Investor Relations

Starbucks Announces Q1 Fiscal Year 2021 Results Conference Call

DATE: 01/12/21

SEATTLE--(BUSINESS WIRE)--Starbucks Corporation (Nasdaq: SBUX) plans to release its first quarter fiscal year 2021 financial results after the market close on Tuesday, January 26, 2021, with a conference call to follow at 2:00 p.m. Pacific Time. The conference call will be webcast, including closed captioning, and can be accessed on the company's website: http://investor.starbucks.com. A replay of the webcast will be available on the company's website until end of day, Friday, February 26, 2021.

About Starbucks

Since 1971, Starbucks Coffee Company has been committed to ethically sourcing and roasting high-quality arabica coffee. Today, with nearly 33,000 stores worldwide, the company is the premier roaster and retailer of specialty coffee in the world. Through our unwavering commitment to excellence and our guiding principles, we bring the unique Starbucks Experience to life for every customer through every cup. To share in the experience, please visit us in our stores or online at http://news.starbucks.com or www.starbucks.com.

On Tuesday 1.12.21, Starbucks indicated that it would release FQ1 results after close on Tuesday 1.26.21 and hold conference call, also after close that day.

According to the authors, about 50% of US firms make such disclosures but only 20% do so every quarter. Advance scheduling is voluntary in the US.

Questions the literature has analyzed include:*

- Early regime (1980s and prior):
  What happens when firms announce earnings on dates that are earlier or later than expected?
  - Market infers bad news when announcements delayed.
  - Firms that announce earlier than expected tend to convey more positive news.

- Methodological issue – how to determine expected date?
  - Starbucks announced FQ1 earnings on the fourth Tuesday in January in 2020 and 2021 (and announced the dates two weeks in advance) but in 2019 they announced on Thursday Jan. 24 (announced on 1.9.19).

*See Johnson-So (2018); deHaan-Shevlin-Thornock (2015) for summaries.

Economic Questions:

- Why do managers delay when news is adverse?
  - Need time to manage the numbers (e.g., figure out how to report better news).
  - Need time to figure out how they're going to explain poor results.
  - Need time to finalize the numbers when results are not good, resolving errors or irregularities, discuss internally with board, auditors, etc.
  - Better to leak bad news out slowly?

- Do managers strategically time disclosure so that adverse earnings news is reported in "low attention" periods (after hours, on Fridays, after hours on Friday, on exchange holidays, etc.)?

- Does the market figure it out? Market efficiency.

Interesting features of the Chinese setting used by BCM.

- Scheduling earnings announcement dates in advance is mandatory.
- Must schedule “within a few days of fiscal quarter end.”
- All firms have 12/31 FYE. The relevant reporting windows are as follows (which I infer means they must report earnings within these windows):
  - FQE 3.31 and 9.30 – window is 30 days.
  - FQE 6.30 (half-year results) – window is 60 days.
  - FQE 12.31 (full-year results) – window is 120 days.

Key difference versus US: Johnson-So report that the mean time between the scheduling announcement and the earnings announcement in their sample is about 16 days (similar to my Starbucks example) – the differences in the Chinese setting for BCM would seem to be much longer (not reported).

Why important? If scheduling occurs this far ahead (e.g., nearly four months ahead for annual), managers have much more time to resolve any internal issues. But this varies by fiscal quarter – is this exploitable?

Interesting features of the Chinese setting used by BCM.

- Prior to 1998 firms not required to schedule EADs in advance.
- Beginning in 1998 firms required to schedule in advance subject to a limit of 10 announcements per day but scheduled dates not public.
- Beginning in 2002, daily limit increased to “about” 30 and firms could select date on first-come-first served basis – and scheduled dates published by exchange.
- Beginning in 2012, daily limits removed.

A couple of ideas based on this:

1. Could use this setting to examine investor inattention (e.g., Hirshleifer, Lim, and Teoh, JF, 2009) – in China, advance public scheduling should mitigate inattention – seems like there’s some plausibly exogenous regulatory changes here.
2. Cohen, Dey, Lys, Sunder (2007, JAE) relate the delayed EAD/bad news story to earnings announcement premia.
3. What are the market-wide/macro effects of this pre-scheduled clustering?

Authors need to model firm's decision to schedule EAD

- Johnson-So and authors' evidence shows that not all US firms schedule EADs in advance – only 50% and, of those, only 20% do so every quarter.
- Authors develop a model based on precision of public information and private information. I had a hard time understanding economic intuition for how this worked, including the empirical estimation.
  - Ultimately authors unable to distinguish results for pseudo-voluntary and mandatory Chinese firms, which is critical for their interpretation of the evidence.
- Johnson-So and BLM don't tell us much about how scheduling firms differ from non-scheduling firms.
  - Seems likely characteristics similar to firms that provide guidance and other types of voluntary disclosures – larger firms followed by more analysts, institutional holders, higher relative valuations, etc.
    - Analysts and other investors spend significant time on earnings announcement days processing information, attending earnings calls, talking to management, etc. – makes sense that events are scheduled in advance.

Overall

- Authors report a number of interesting results, perhaps most notably that – in a regime where advance scheduling is mandated – earnings date scheduling announcements explain around 8% of the earnings news conveyed during each period.
  - Would like to know more about how this works, including why firms don’t simply pre-announce the earnings news directly.

- Some interesting open questions in this area:
  - Seems clear that later and/or delayed EADs are associated with negative news and adverse performance. Moreover, the market doesn’t fully figure this out.
    - What explains this?
  - Can this phenomenon help explain the earnings announcement date return premium?
  - How important is investor inattention when many firms report earnings news on the same date?