

FIN09

Corporate Bond Market Reaction to Voluntary Disclosure of Firms' Usage of Derivatives

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Abstract

This study investigates the private information in firms' voluntary disclosure of their derivative usage. Using textual analysis to capture the disclosure of derivative usage in 10-Ks, we find strong positive relationships between firms' voluntary disclosure of derivative usage and both bond yield and bond volatility in the secondary market. Further, we find that this positive relationship weakens after the implementation of the Dodd–Frank Act, suggesting that bond market participants are less concerned about adverse selection in voluntary disclosure when regulatory changes increase market transparency by reducing information asymmetry.

Conference Track

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