The impact of research reports on stock prices in Italy

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This Draft: January 2003

Abstract: Italy is a pioneer case in the regulation on financial research: a dissemination regime aimed at granting a) equal access to research reports by all clients, and b) free delayed public access to reports, has been implemented since 1998. The effective enforcement of the provision on public access to research reports, via publication on the Stock Exchange website, caused lively protests by domestic securities houses. We analyze the impact on stock prices of changes in analyst recommendations, both on the report date (when reports are distributed to clients) and on the public access date (when they become publicly available). We benefit of a unique database, consisting of more than 5,000 research reports available on the Italian Stock Exchange website. We document an excess return of +2.52% for upgrades, -2.63% for downgrades, both statistically significant, over a three-day event window around the report date. Abnormal returns are already present *prior* to the event day. This circumstance is surprising, given the dissemination regime prescribed by Italian regulation. Post-event abnormal returns are seemingly differentiated according to the type of recommendation: Upgrades show a significant +2.60% CAR over a 14 day-period, though daily abnormal returns are small and not significant; Downgrades show no significant abnormal return. Abnormal returns around the public access date are small and not significant, indicating that the information conveyed by reports has already been incorporated into prices. The analysis of trading volumes substantially confirm the preceding results. Our data reveal that no reaction is induced by the publication of reports. Research reports seem to convey information to the market but such information is incorporated in stock prices around the event day, that is when brokerage firms' customers - that pay for research - receive it.

JEL Classification codes: G14, G24, G28

Keywords: analyst, stock recommendations, event study, market efficiency, regulation of financial research

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[(*)] We thank Alberto Bossi, Sonia Dallavalle and Luca Frigerio for their assistance in construction of the database. The usual disclaimer applies.