

When “no” means “no”: The information content of ASX price queries

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When the price of a listed security changes by an abnormal amount, the ASX typically issues a price query (PQ). There are two possible explanations for an abnormal price change:

1. It was an anomalous movement, or
2. It was driven by an investor’s information advantage.

Identifying the difference between these explanations is the primary question of this thesis: was the pre-query abnormal price change driven by an informed trader?

The overwhelming majority of firms deny knowledge of any material information in their responses to ASX PQs. However, within 10 days of their PQ response, these companies are found to reveal new, price sensitive information. If this information was the driver of the PQ, it would appear that these firms may be in breach of their continuous disclosure obligations.

The release of non-routine announcements directly after PQs suggests that queried firms are likely to suffer from information leakage, given that only company insiders (who are usually subject to trading window restrictions) should be aware of upcoming unexpected firm announcements.

Due to the recurring behaviour of firms responding to PQs with “No News” but then releasing announcements containing material information shortly after, it may be necessary to implement stricter surveillance mechanisms in the Australian market.

Many PQs appear to be driven by informed traders, highlighting the difficulties in enforcing the continuous disclosure framework. The imminent release of company announcements after PQs may indicate that some firms are aware of new and undisclosed information at the time of the PQ response. As such, companies seem to have poor disclosure behaviour: firms should proactively distribute the material information when becoming aware of it, rather than announcing the information only after being prompted by the ASX.

An area that may warrant further consideration is the monitoring of unusual price behaviour in the derivative markets, since informed traders are shown to trade options ahead of significantly positive and negative news events