

CITY UNIVERSITY OF HONG KONG
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**Impacts on Stock Price Volatility of
the Banks in Hong Kong : Changes in
Availability and Understandability of
Information after Implementation of
the Disclosure Requirements of
IFRS and Basel II**

對香港銀行股價波幅的影響：實施國際
財務報告準則和巴塞爾協議 II 的披露要
求後信息的可取得性和可理解性變化

Submitted to
College of Business
商學院
in Partial Fulfillment of the Requirements
for the Degree of Doctor of Business Administration
工商管理學博士學位

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April 2012
二零一二年四月

ABSTRACT

As one of the leading financial centres in the world, Hong Kong implemented a new financial and regulatory disclosure framework including the fair-value-based International Financial Reporting Standards (IFRS) and the Basel II disclosure requirements during 2005 to 2007 for the banking industry to follow the same pace of the developed economies. The new framework requires disclosure of more economic and risk information which changes availability of information to the banks' stakeholders and should reduce information asymmetry between the stakeholders and the banks' management. Nevertheless, it is a question of fact if more information "received" would necessarily mean more information is "perceived" and whether more complex and complicated information provided to the stakeholders would improve their understandability and relief the problem of heterogeneous beliefs. Since both information asymmetry and heterogeneous beliefs are issues that would affect price volatility of a business, the study uses stock price volatility, increase or decrease, as the proxy to measure the overall net impact of the two problems, which may deteriorate or improve simultaneously or offsetting to each other particularly when one problem improves or deteriorates more than the opposing change of the other under the conflict between information availability and information understandability.

Five measures of volatility based on three approaches, namely realized volatility approach, conditional volatility approach and idiosyncratic volatility approach, are defined for performing cross market analysis of seven markets including Hong Kong, Singapore, Australia, Taiwan, South Korea, Japan and India over a period of six years from 2004 to 2009 to assess the changes in volatility of the banking industry from before to after the implementation of IFRS and Basel II disclosure requirements in different markets. Moreover, cross industry analysis using two measures to compare the banking and finance industry with other three major industries of Hong Kong over the same six-year period is performed. The statistical results of the cross market analysis and cross industry analysis are robust which indicate that the implementation of IFRS and Basel II disclosure requirements are significantly associated with higher volatility.

Keywords : Information Asymmetry, Heterogeneous Beliefs, Information Availability, Information Understandability, Stock Price Volatility.