

AFAANZ Grant 2017-2018 - Final Report

Project title: Debt maturity structure and stock price crash risk: Evidence from Australia.

Research Team:

Researcher	AFAANZ Member	Affiliation
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PROJECT SUMMARY:

This study examined the association between debt maturity structure and future stock price crash risk and the moderating effect of corporate governance on this association. The release of accumulated bad news relating to a firm may result in a sudden and severe decline in its stock price impacting the welfare of shareholders (Callen and Fang, 2015; Chen et al. 2001). Importantly, reliance on short-term debt as a financing source limits agency related self-serving behaviour of firm management in line with increased market scrutiny, transparency and regulatory pressure associated with such arrangements (Rajan and Winton, 1995; Stulz, 2001 Fung et al., 2013). Managerial hoarding of bad news and stock price crash is less likely in such a situation. In the Australian context, this will be the first study to address this issue.

WHAT WE FOUND:

This study examined the association between debt maturity structure and future stock price crash risk and the moderating effect of corporate governance, corporate risk taking, information asymmetry and corporate life cycle on this association. Based on a sample of 1,548 publicly listed Australian firms (8,661 firm-year observations) covering the 2000–2015 period, our regression results show that future stock price crash risk is positively and significantly associated with the long-term debt maturity structure of firms. In addition, this positive association is more pronounced for firms with weak corporate governance, more risk taking and more information asymmetry, and for firms in the growth stage of life cycle development. Our results are robust to alternative proxy measures of debt maturity structure, alternative regression specification and change analysis to address the endogeneity problem.

BUDGET:

FUNDING: \$5,500

Details	Budgeted	Actual expenses as of 6/08/2018
Research Assistant	\$4100.14	\$569.78
Journal submission fees	\$300	
Editing fees	\$600	
Data collection		\$1857.01

A research assistant would be employed under Curtin's costing of \$48.6/hr (G05.1) to download financial data from *Compustat/Capital IQ*, governance variables (board of director independence, board size, outside directorships, director experience and affiliations, committee characteristics) from *Sirca* and also to hand collect the required data from annual reports where required.

Remaining funds will be used for ongoing journal submission fees, and for modification/revision of the manuscript as required.

OUTPUTS:

We completed a paper titled "**Stock Price Crash Risk and Debt Maturity Structure: Evidence from Australia**" and have recently submitted the paper to *Journal of Banking & Finance*.

References:

- Fung, S. Y., & Goodwin, J. (2013). Short-term debt maturity, monitoring and accruals-based earnings management. *Journal of Contemporary Accounting & Economics*, 9(1), 67-82.
- Stulz, R., 2001. Does financial structure matter for economic growth? A corporate finance perspective. *Financial structure and economic growth: A cross-country comparison of banks, markets, and development*, 143–188.
- Rajan, R., Winton, A., 1995. Covenants and collateral as incentives to monitor. *Journal of Finance* 50, 1113–1146.
- Callen, J.L., & Fang, X. (2015). Religion and stock price crash risk. *Journal of Financial and Quantitative Analysis*, 50 (1&2), 169–195.
- Chen, J., Hong H., & Stein, J.C. (2001). Forecasting crashes, Trading volume, past returns, and conditional skewness in stock prices. *Journal of Financial Economics*, 61 (3), 345-381.