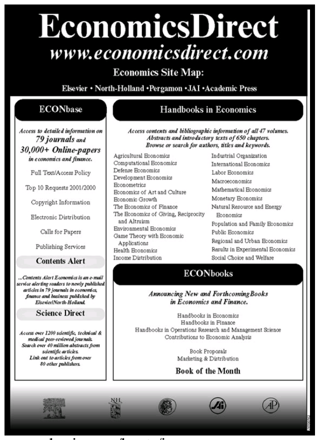
Author’s Accepted Manuscript



www.elsevier.com/locate/jae

The Effect of Voluntary Disclosure on Stock Liquidity: New Evidence from Index Funds

Jordan Schoenfeld

PII: S0165-4101(16)30076-3
DOI: http://dx.doi.org/10.1016/j.jacceco.2016.10.007
Reference: JAE1129

To appear in: *Journal of Accounting and Economics*

Received date: 15 October 2015
Revised date: 15 October 2016
Accepted date: 27 October 2016

Cite this article as: Jordan Schoenfeld, The Effect of Voluntary Disclosure o Stock Liquidity: New Evidence from Index Funds, *Journal of Accounting an Economics,* http://dx.doi.org/10.1016/j.jacceco.2016.10.007

The Effect of Voluntary Disclosure on Stock Liquidity: New Evidence from Index Funds

Jordan Schoenfeld[a,*,1]

October 2016

Abstract

This study tests whether voluntary disclosure affects stock liquidity. I argue that index funds fit the profile of nonstrategic traders who, according to theory, are unambiguously more likely than managers and strategic investors to prefer high stock liquidity and thus high disclosure. This suggests that I can use index funds' disclosure preferences to construct an empirical model of voluntary disclosure that abstracts away from managers' strategic disclosure motives. Accordingly, I use an index-fund setting to construct a recursive structural equation model of voluntary disclosure, index fund ownership, and liquidity. I find that when a firm joins the S&P 500 index, voluntary disclosure increases with the level of ownership assumed by index funds, and this increase in disclosure is associated with increased stock liquidity. These results imply that voluntary disclosure increases stock liquidity.

Keywords: Disclosure; Index Funds; Stock Liquidity
JEL Classifications: D82; G12; G14; G23; M41

I appreciate the helpful comments and suggestions from an anonymous reviewer, John Core (the editor), Rachel Hayes, Robert Verrecchia, my dissertation committee (Rob Franzese, Raffi Indjejikian, Feng Li, Venky Nagar, and Stefan Nagel), and workshop participants at INSEAD, the University of Calgary, the University of Colorado, the University of Michigan, the University of Rochester, the University of Texas at Dallas, the University of Utah, Yale University, the 2014 AAA Deloitte Foundation J. Michael Cook Doctoral Consortium, and the 2014 London Business School Trans-Atlantic Doctoral Conference. I also thank employees at several of the large index funds. This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

[a]University of Utah*, Eccles School of Business, 1655 Campus Center Drive, Salt Lake City, UT 84112, United States*

E-mail address: j.schoenfeld@utah.edu (J. Schoenfeld).

[*]Corresponding author.

[1]Tel.: +1 801 581 4065.