Forward-looking MD&A Disclosures and the Information Environment

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Abstract

We use computer-intensive techniques to study the informational properties of forward-looking disclosures in the MD&A sections of 10-K filings made with the SEC. We find that firms make more forward-looking MD&A disclosures when their stock prices have lower informational efficiency, i.e., when their stock prices poorly reflect future earnings information. The greater levels of forward-looking MD&A disclosures help improve but are unable to completely mitigate the lower informational efficiency of stock prices for such firms. These findings are stronger for operations-related forward-looking disclosures, disclosures that are made prior to 2000, and disclosures made by loss firms.