

THE INFLUENCE OF PROPRIETARY COSTS ON COMMODITY DERIVATIVE DISCLOSURES

ABSTRACT

This study empirically investigates the influence of proprietary costs on voluntary disclosure of commodity derivatives. I perform a detailed analysis of the commodity derivative reporting practices of 253 non-financial firms. The empirical evidence suggests that the extent of disclosure is declining in proprietary costs imposed by product market competition. Specifically, I find that the extent of disclosure is negatively associated with the presence of derivatives related to the procurement of raw materials and the presence of competitors who do not use derivatives. This association is consistent with proprietary cost arguments that commodity derivative disclosure would provide disaggregated information related to operating strategies and product costs. The evidence also suggests proprietary costs imposed by commodity derivative market competition limits the extent of disclosure. The extent of disclosure is increasing in commodity market depth (volume) and decreasing in presence of highly visible traders. These results suggest firms limit disclosure when trading anonymity decreases due to increasing proprietary costs.

Key Words: Proprietary Costs, Voluntary Disclosure, Commodity Derivatives