

# MARKET REACTION ON RESTATEMENT ANNOUNCEMENTS

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## ABSTRACT

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This study motivated by lack of published research available in Malaysia regarding the market reaction to the restatement announcement of the companies in Malaysia. Thus, the market reaction to a sample of 50 restatement announced from year 1999 to year 2004 were examined. The even study method was applied in this study where the cumulative abnormal returns (CARs) were calculated to examine the stock movement during the observation period, which were 30days before and 30days after the announcement. The downward movement of the CARs prior to announcement date indicated the insider trading occurred. The distinction of abnormal return between announcement date and the day following was insignificant. This implied that the market was inefficient to react promptly to the information released. Besides, the unstable movement of abnormal returns was found after the restatement announcement. This denoted the market need to take longer time to fully absorb the event released. This study also found that more negative returns are associated with restatements due to adopting new accounting standards, which was contrary to past research. Finally, it was found that the market appears to react stronger to the restatement on audited financial results and restatement due to errors.