

Relationship between Textual Characteristics of MD&A Sections in English Annual Securities Reports of Japanese Companies and Future ROE

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Abstract

The dearth of English information available to international investors for making investment decisions about Japanese companies remains a persistent challenge. While previous studies have mainly focused on U.S.-listed companies, it has shown that the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section's readability can negatively impact future performance, while its tone can positively influence it. Given the divergent textual characteristics of U.S. and non-U.S. companies, it is unclear whether the relationship between readability/tone and future performance for U.S. firms applies to English-language annual securities reports of Japanese companies. We examined the effect of tone and readability in the text on future performance (ROE in t+1 period) by analyzing the MD&A section of the English annual securities reports of Japanese companies. It was observed that a higher tone of text in the MD&A section and improved readability are associated with stronger future performance. This suggests that even in English annual securities reports, management may adapt the characteristics of the text in the MD&A section based on future performance forecasts, similar to the reports in Japanese.

Keywords

English annual securities report, MD&A, readability, tone, and ROA.

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