

Discussion of “The Cost of Silence: The Impact of Misinformation Regulation on Finfluencers and Corporate Information Environment”

Joseph Pacelli, Harvard Business School



**Harvard
Business
School**

Summary

- Study examines how misinformation regulation on social media platforms influences influencers and price formation
- Misinformation regulation increases influencer account deletion (especially when influencers exhibit negative tone)
- Remaining influencers respond strategically by posting fewer messages and adopting more positive tone
- However, regulation associated with decline in price informativeness (weaker ERC and heightened short-term market reactions to earnings announcement)
- Regulation is ineffective at solving misinformation problems among influencers

Impressions

- Very interesting study!
- Clever use of China setting + regulatory shock to further our understanding of social media regulation
- Comprehensive analyses → results are convincing
- My job? provide some suggestions on how to think about broader social media landscape + suggestions for framing

Roadmap & Discussion Points

1. Background & Importance of Setting
2. Framing & Plausible Null
3. Main Results & Focus on Negative News
4. Regulation & Solutions

1. Background - Social Media & The Rise of New Intermediaries

Types of Platforms

Sophisticated

Unsophisticated



Seeking Alpha^α




Equivalent to the focus in this study

New Platforms lead to Dangerous Finfluencers

Paris Hilton 
@ParisHilton · Follow

Loves it **#Bitcoin**  

Michael Saylor  @saylor

Diamonds  may be your best friend, but **#Bitcoin** is forever.

Ken Klippenstein 
@kenklippenstein · Follow

Matt Damon doing a crypto ad. Jesus Christ does he not have enough money already



Floyd Mayweather 
@FloydMayweather · Follow

You can call me Floyd Crypto Mayweather from now on **#HubiiNetwork #ICO** starts tomorrow! Smart contracts for sports?! **#CryptoMediaGroup #ad** 



4:46 PM · Aug 23, 2017

 3.1K  Reply  Share

[Read 296 replies](#)

kimkardashian 2m

ARE YOU GUYS INTO CRYPTO????

THIS IS NOT FINANCIAL ADVICE BUT SHARING WHAT MY FRIENDS JUST TOLD ME ABOUT THE ETHEREUM MAX TOKEN!

A FEW MINUTES AGO ETHEREUM MAX BURNED 400 TRILLION TOKENS- LITERALLY 50% OF THEIR ADMIN WALLET GIVING BACK TO THE ENTIRE E-MAX COMMUNITY.

#EMAX #DISRUPTHISTORY #ETHEREUMMAX #WTFEMAX #GIOPEMAX @ETHEREUMMAX #AD

SWIPE UP

SWIPE UP TO JOIN THE E-MAX COMMUNITY.

[See More](#)

Kim Kardashian promoted the cryptocurrency Ethereum Max on her Instagram account in June.

Mike Tyson 
@MikeTyson · Follow

All in on Solana... Just copped a Catalina Whale... pow pow!



12:03 PM · Jan 12, 2022

Jamie Foxx 
@iamjamiefoxx · Follow

Looking forward to participating in the new **@cobinhood** Token! ZERO fee trading! **#Cryptocurrency #BitCoin #ETH -cobinhood.com**



3:40 PM · Sep 18, 2017 from Los Angeles, CA

 1.9K  Reply  Share

[Read 146 replies](#)

But not all social media users are the same!

Different types of Players.

- *Karma-Seeking*
 - Derive social utility. Driven by “Karma” and in-group acceptance.
 - Produce useful investment theses, both *positive* and *negative* perspective
 - Examples? Estimize, DD reports on WSB, professional analysts on Twitter
- *Vigilantes*
 - Seek to take down the system. Rebels.
 - Can influence price as part of the group (e.g., short squeeze → *negative*)
 - Examples? WSB Short Squeeze
- *Finfluencers*
 - Driven by \$\$, often paid by issuer or company
 - Influence price through manipulation (e.g., pump-and-dump → *positive*)
 - Examples? Celebrities on Twitter

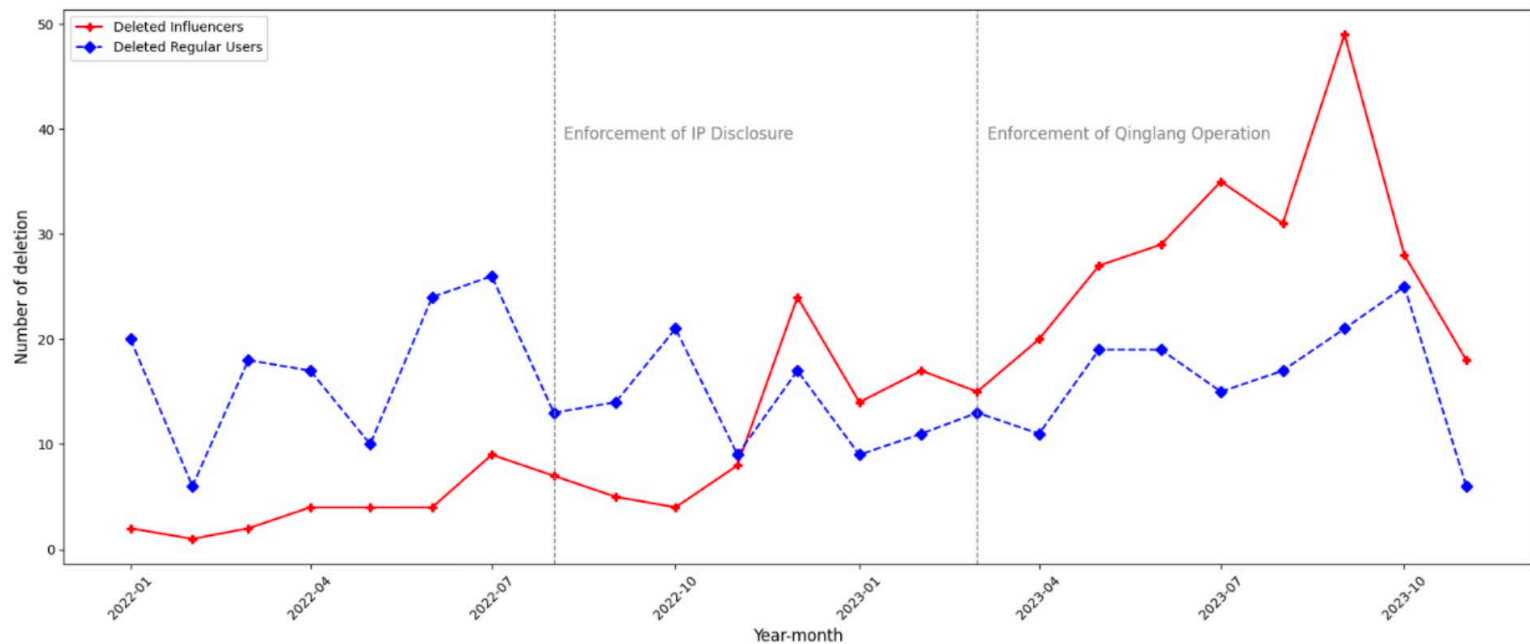
Tone matters as it will tie to the main construct of the study...

Can Regulation Help?

- Perhaps, but unclear how.
- Regulations focus on disclosure (w.r.t. conflicts of interest)...
- But they lack bite (low fines in the U.S.).
- Finfluencers ignore the regulation.
- SEC instead focuses on investor outreach and education (via YouTube), but effects are unclear.
- Ultimately, billions of dollars in scams each year.

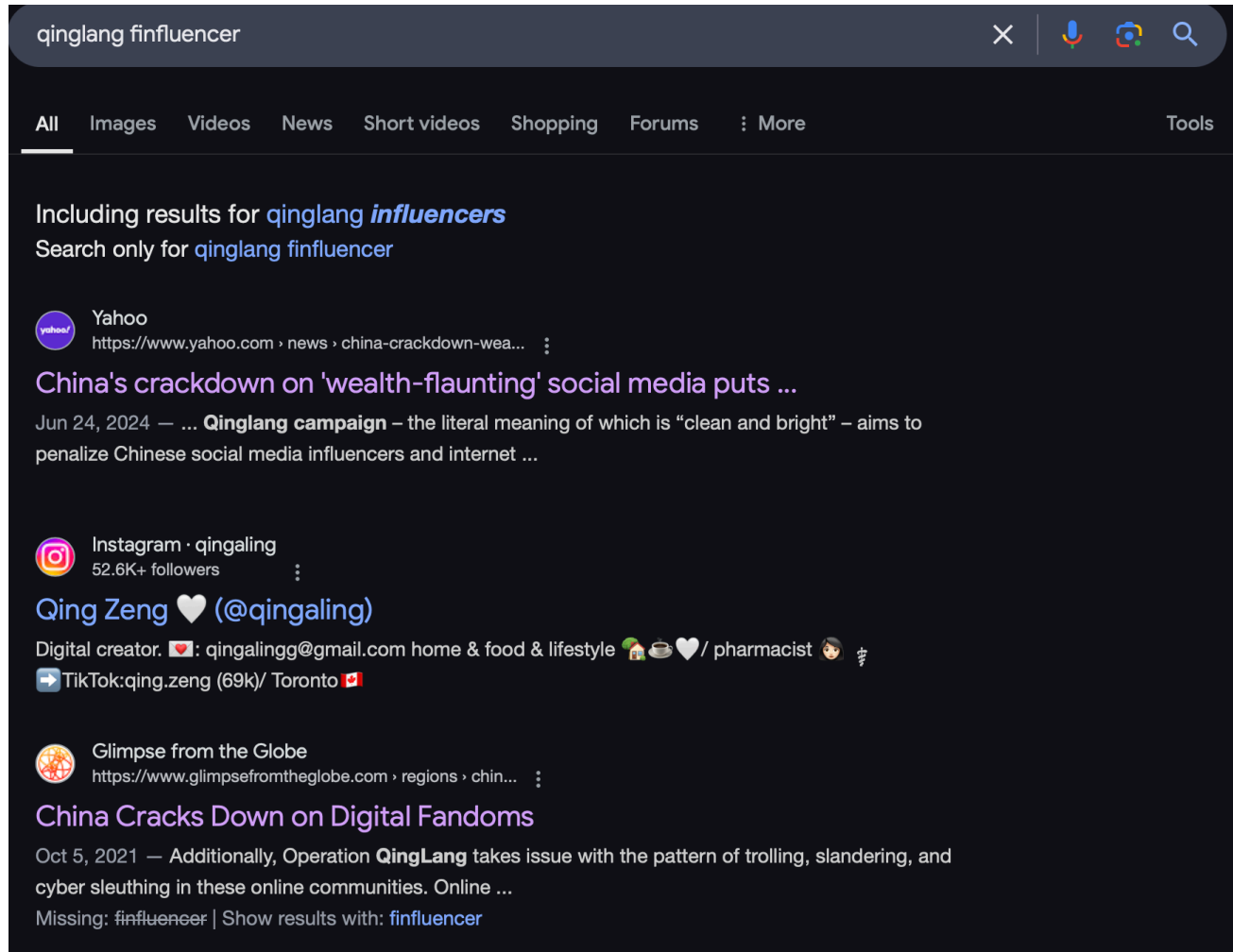
This paper's contribution

- Provide evidence on how one type of alternative government intervention can influence social media misinformation



2. Framing and Plausible Null

- Taking a step back: What exactly is the Qinglang Operation?
- I tried to explore but could not really figure this out...



2. Framing and Plausible Null

THE CONVERSATION

China's crackdown on 'wealth-flaunting' social media puts pressure on influencers – both on the mainland and in Taiwan – to echo the party line

Gengsong Gao, University of Richmond and Dan Chen, University of Richmond

Mon, June 24, 2024 at 8:21 AM EDT · 6 min read



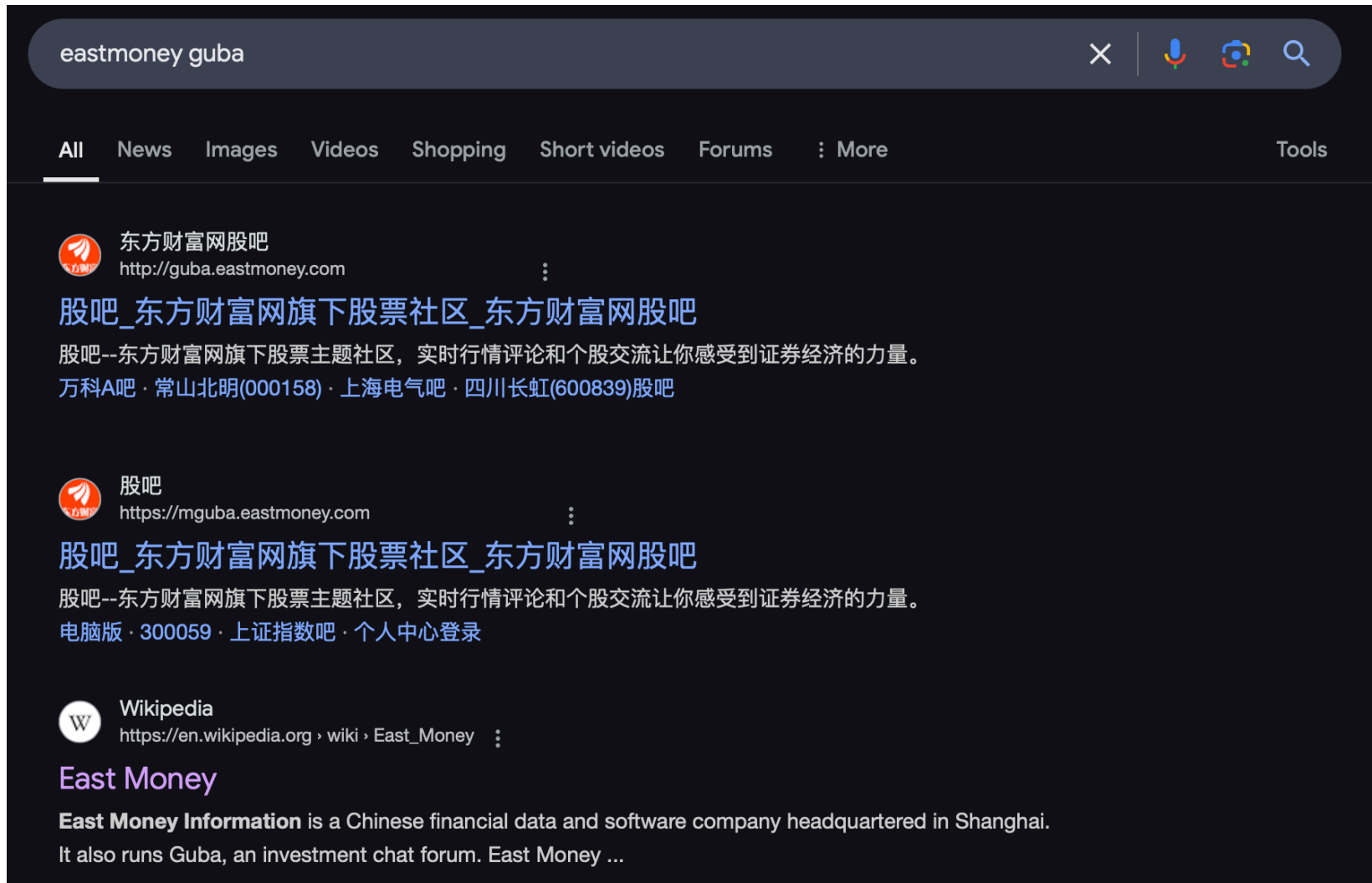
Launched on April 23, 2024, by the Cyberspace Administration of China, the latest [Qinglang campaign](#) – the literal meaning of which is “clean and bright” – aims to penalize Chinese social media influencers and internet celebrities deemed to be [flaunting wealth or deliberately showcasing a luxurious life built on money](#) to attract followers and traffic. Its reach goes beyond the behavior of social media users on the mainland, with Taiwanese influencers feeling the heat, too.

China is far from alone in expressing official alarm over the perceived harms of social media. The U.S. government on June 17 signaled its desire to [slap warning labels on platforms](#) such as TikTok, X and Instagram. But whereas U.S. efforts are framed as [protecting the mental health](#) of users, it is the well-being of China's society that is the focus of Beijing's crackdown – and regulators there are going beyond mere warnings.

Is this relevant to finfluencers and their financial advice or is the regulation broader?

2. Framing and Plausible Null

- I also found it difficult to find information on Eastmoney Guba...



2. Framing and Plausible Null

East Money

🌐 3 languages ▾

Article [Talk](#)

[Read](#) [Edit](#) [View history](#) [Tools](#) ▾

From Wikipedia, the free encyclopedia

East Money Information (**East Money**; **Chinese**: 东方财富; **pinyin**: *Dōngfāng Cáifù*), is a Chinese [financial data](#) and software company headquartered in Shanghai. It also runs Guba, an investment chat forum

Background [\[edit \]](#)

In 2005, [Qi Shi](#) founded Shanghai Dong Cai Information Technology, the predecessor to East Money.^[2]

In 2009, East Money started trading on the [Shenzhen Stock Exchange](#).^[2]

In 2015, East Money acquired brokerage Tongxin East Fortune Securities.^[2]

In 2018, East Money secured a license allowing it to manage its own mutual funds.^[2]

East Money Information Co., Ltd



Native name	东方财富信息股份有限公司
Company type	Public
Traded as	SZSE: 300059 ↗
Industry	Financial services , technology
Predecessor	Shanghai Dong Cai Information Technology
Founded	January 20, 2005; 20 years ago
Founder	Qi Shi
Headquarters	Shanghai , China

How relevant is the platform?

What type of platform?

Important given the earlier discussion →

Is this like Reddit (+/- tone) or X (+ tone)?

2. Framing and Plausible Null

- Study should provide more information on both Qinglang and East Money
- We need to understand exactly what the regulation targeted and what type of platform East Money is
- Platform matters a lot since we do not understand the incentives of the users.
 - For example, incentives of users on Reddit are quite different than incentives of influencers on X/Twitter

2. Framing and Plausible Null

- How do we think about the plausible null in the current framework?
- → Regulation aimed at reducing finfluencers reduced finfluencer activity? Is this surprising?
- Two paths:
 - 1. Perhaps the regulation is not so directly related (the anecdotal evidence I found suggests the regulation was more about reducing influencer displays of wealth).
 - 2. Potentially can lean more into unintended consequences (ERC)
 - more on this in a moment.

3. Main Results → Negative Tone

- Why does the study focus on exclusively on negative tone?
- As illustrated above, finfluencers often (perhaps more likely) have perverse incentives to issue positive reports (e.g., pump and dump)
- Negative finfluencers are perhaps most objective. What are incentives for misinformation here? Do they plan to short? (certainly, no benefits from the companies they write about)
- However, the study mentions that this is a big issue in China and a focus of Qinglang Operation, so perhaps we just need a discussion of social media incentives to issue negative research in Chinese setting?

3. Main Results → Deleted Users

- Table 6 results (**deleted users**) raise some additional questions
- Why does negative tone result in deletion pre-regulation → is there a selection effect in play? How do we know this is mandated by regulation?
 - Correlation between Star and Sentiment → multicollinearity? Should we consider the model without control? Would an interactive model make sense?

Dep. Variable	Logistic model	
	Pre-regulation	Post-regulation
	(1) <i>Del_KOL_{j,pre}</i>	(2) <i>Del_KOL_{j,post}</i>
<i>Avg_Rsent_j</i>	-2.044** (-2.06)	-3.063*** (-6.60)
<i>Star_KOL_j</i>	-1.249*** (-3.57)	-1.260*** (-8.08)
Constant	-4.128*** (-11.46)	-2.226*** (-14.47)
Diff. in Coef. of <i>Avg_Rsent_j</i>	-1.019**	

3. Main Results → Non-Deleted Users?

- Table 7 results (**non-deleted users**) raise some additional questions
 - How to account for change in firm conditions? Are economic conditions naturally better in post period? Firm FE?
 - Does firm selection matter? Do finfluencers choose to cover firms with more promising prospects to remain compliant?

Dep. Variable	(1) $RSent_{j,m}$	(2) $Ln(1 + Neg_Article)_{j,m}$
$KOL_j * Post_m$	0.015*** (12.96)	-0.011*** (-3.55)
Calendar year-month FE	Yes	Yes
User FE	Yes	Yes
R-squared	0.318	0.316
# Unique non-deleted KOLs	8,581	8,581
# Unique non-deleted active regular users	49,368	49,368
No. of observations	1,332,827	1,332,827

3. Main Results → ERC

- Table 8 results (**ERC**) raise some additional questions
1. Again, how to account for change in firm conditions and firm selection?
 2. Main effects worth tabulating?
 3. Most importantly: why does regulation lead to worse information environment? (no effect makes more sense) → The negative influencers were likely useful!

Dep. Variable	(1) $CAR_{[-3,5]}$
$Treat_i * Post_{fqtr,q} * UE_{i,q}$	0.145*** (2.74)
Controls	Yes
Fiscal quarter FE	Yes
Calendar year-month FE	Yes
Industry FE	Yes
R-squared	0.034
# firms	2,378
No. of observations	18,074

4. Regulation & Solutions

- Some Broad questions to think about...
- Why do we need regulation? Why don't market forces and competition eliminate finfluencer bias?
- Are investors unaware? If so, would regulation focused on informing/educating investors be better?
- Why was the regulation ineffective? What forces led to unintended consequences?
- Would we expect the same effects in the U.S.? (probably not, as users would move to different platforms, maybe?)
- Is the solution more regulation? Different type of regulation?

Could be useful to provide some discussion on these issues as the paper has many policy implications!

Concluding Remarks

- Very interesting paper, with important results.
- Finfluencer incentives are a problem, and the study illustrates some unintended consequences of regulations.
- Combined with U.S. anecdotal evidence, it seems we do not yet have an effective regulatory response to finfluencer activity.
- I encourage the authors to refine their tests and better define some constructs and setting, especially regarding finfluencer incentives