
THE ECHOES OF MUTED POLITICAL SPEECH IN FINANCIAL SPEECH

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KEY RESEARCH QUESTIONS

Does impairment of political speech spill over to financial speech?

- Local analysts self-censor their reports on struggling firms.
 - When a firm-specific bad news hits local analysts shade up their forecasts, use vaguer language, and respond more slowly to earnings announcements compared to foreign analysts.
 - These impacts are focused on the reports covering central SOEs.
- Markets are aware of this self-censorship and respond accordingly.
 - Reactions on local buys on central SOEs are weaker.

HONG KONG NATIONAL SECURITY LAW

- In May 2020, the National People's Congress (NPC), China's top legislative body, decided to draft a national security law for Hong Kong.
- The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region – called the National Security Law (NSL) – was passed on 30 June 2020.
- It covers the four crimes of secession, subversion, terrorism, collusion with foreign forces. The maximum sentence is life in prison. The minimum sentence for active participants is set at three years.

US NATIONAL SECURITY LAW

- Under Title 18 of the U.S. Code 2383, “Whoever incites, sets on foot, assists, or engages in any rebellion or insurrection against the authority of the United States or the laws thereof, or gives aid or comfort thereto, shall be fined under this title or imprisoned not more than ten years, or both; and shall be incapable of holding any office under the United States.”

KOREAN NATIONAL SECURITY LAW

- Any person who constitutes or joins an anti-government organization, shall be punished as follows:
 - 1. A person engaged in the function of a ringleader shall be punished by capital punishment or imprisonment for life;
 - 2. A person engaged in the function of a leading member shall be punished by capital punishment. imprisonment for life or imprisonment for more than five years;
 - 3. Other persons shall be punished by imprisonment for a definite term of two or more years.

HONG KONG NATIONAL SECURITY LAW

Hong Kong politics

New China security law could stifle research in HK, say analysts

Possible rise in self-censorship prompts concerns over future of Asian finance hub

Financial Times, June 30, 2020

No politics, please! Hong Kong finance professionals impose self-censorship after security law

Reuters, July 2, 2020

HONG KONG NATIONAL SECURITY LAW (EX-POST)

The Silencing of Hong Kong's Analysts

As China tightens its grip on Hong Kong, fear is stemming the free flow of information and driving discussion of once-routine business and economic topics underground.

Bloomberg, November 23, 2022

THEN, WHAT IS SPECIAL ABOUT HK AND HK NSL?

The **red lines** are more **blurred** (blurred).

Hong Kong: 'We don't know where the red line is'

This Friday marks the 25th anniversary of the handover of Hong Kong from UK to Chinese rule. China promised to protect democratic freedoms for 50 years, but new laws introduced in 2020 have effectively silenced all criticism in the territory.

Opinion **Inside Business**

In Hong Kong, companies do not know what to worry about or why

The American Chamber of Commerce in Hong Kong

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Uncertainties surrounding application of the National Security Law: AmCham encourages the government to publish **well-defined guidelines offering straightforward interpretations and applications** of the National Security Law. The Government should seek to reassure the business community that laws related to Hong Kong's national security will be applied narrowly and consistent with the principles of an independent judiciary. **The business community needs clarity to operate** and to preserve positive sentiment.

WE HYPOTHESIZE

- The vague definitions in the NSL and little time to judge the “red line of the law,” the legal uncertainty might have a spillover effect on opinion providers.
- Sell-side equity analysts, who are professional opinion providers, may refrain from expressing their negative opinions due to economic conflicts of interest between their employers and the covered firms.



HYPOTHESES

Hypothesis I

Hong Kong sell-side equity analysts would exhibit self-censorship covering the major listed firms on HKEX after the NSL enactment, especially if the covered firms are Chinese central state-owned enterprises.

Hypothesis II

Markets are aware of this self-censorship and respond accordingly.

RESEARCH DESIGN

Does the introduction of the National Security Law in Hong Kong have any impact on financial analysts?

Using a **triple difference-in-difference** approach: any differences in analyst forecast

- **After** the NSL (vs before)
- of the **Local** analysts (vs Foreign analysts)
- when the performance of the firm in that year was **Bad** (vs Good)

If there is a difference, we will investigate if it was larger for **Central State-Owned Enterprises** (vs the other firms).

RESEARCH DESIGN

$$\begin{aligned} Outcome Variable_{a,s,t} = & \alpha + \beta After_t \times Local_a \times Bad Year_{s,y} \\ & + \gamma_0 After_t + \gamma_1 Local_a + \gamma_2 Bad Year_{s,y} + \gamma_3 After_t \times Local_a \\ & + \gamma_4 After_t \times Bad Year_{s,y} + \gamma_5 Local_a \times Bad Year_{s,y} + \eta_s + \theta_a + \tau_q + \epsilon_{a,s,t} \end{aligned}$$

where,

$After_q = 1$ after the NSL enactment (June 30, 2020)

$Local_a = 1$ if analyst or lead analyst is local (Chinese family name)

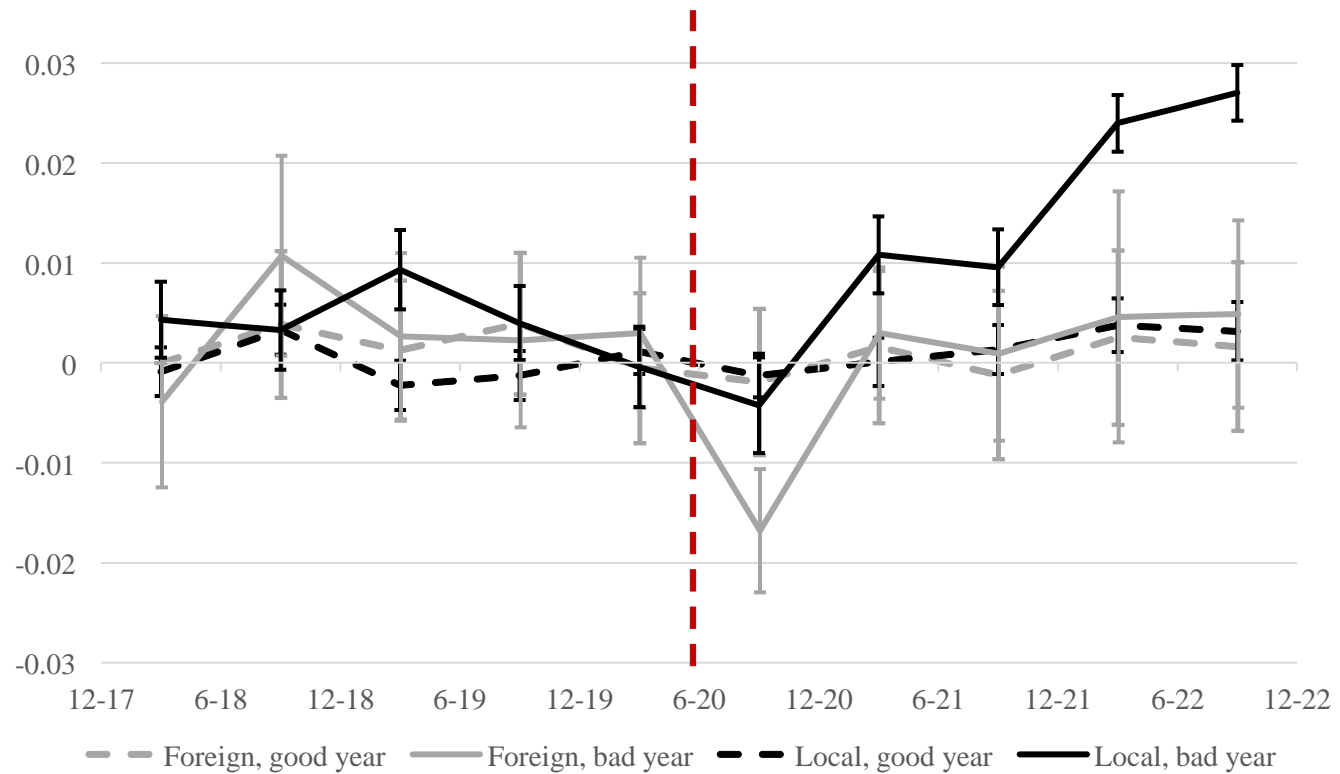
$Bad Year_{s,y} = 1$ if firm-year sales is in the lowest tercile

HYPOTHESIS I

Does the introduction of the National Security Law in Hong Kong have any impact on financial analysts' **earnings forecasts, use of words (vagueness), and timeliness of the reports?**

- EPS forecast error ↑
- Vagueness of language in reports ↑
- Delay in report ↑
- Results of (1), (2), and (3) are stronger for central SOEs due to their closer connotation with National Security

RESULTS



RESULTS

Table II
Forecast Errors of Local Analysts and the National Security Law

Variable	(1)	(2)	(3)	(4)	(5)
	Forecast Error				
After × Local × Bad Year	0.019*** (0.000)	0.013*** (0.003)	0.017*** (0.000)	0.016*** (0.000)	0.009** (0.036)
After	-0.002 (0.305)	-0.006* (0.054)	-0.004 (0.312)		
Local	-0.001 (0.474)	-0.008** (0.016)		-0.000 (0.679)	
Bad Year	-0.000 (0.944)	-0.004 (0.373)	-0.003 (0.583)	0.001 (0.815)	-0.002 (0.766)
After × Local	0.001 (0.435)	0.007** (0.034)	0.004 (0.337)	0.001 (0.548)	0.006 (0.184)
After × Bad Year	-0.005 (0.137)	0.001 (0.701)	-0.003 (0.404)	-0.003 (0.336)	0.000 (0.965)
Local × Bad Year	0.003 (0.314)	0.009* (0.088)	0.006 (0.241)	0.002 (0.467)	0.006 (0.293)
Constant	0.001 (0.179)	0.008** (0.022)	0.001 (0.353)	0.001 (0.280)	-0.002 (0.366)
Stock F.E.	No	Yes	No	No	Yes
Analyst (Team) F.E.	No	No	Yes	No	Yes
Quarter F.E.	No	No	No	Yes	Yes
Observations	5,686	5,686	5,652	5,686	5,652
R-squared	0.061	0.231	0.205	0.089	0.353

RESULTS

Table III
Forecast Errors of Local Analysts and the National Security Law:
Central SOEs vs Non-central SOEs

Variable	(1)	(2)	(3)
	Forecast Error		
After × Local × Bad Year	0.009** (0.036)	0.029*** (0.006)	0.006** (0.032)
Bad Year	-0.002 (0.766)	-0.006 (0.432)	0.004** (0.013)
After × Local	0.006 (0.184)	-0.002 (0.776)	0.006** (0.010)
After × Bad Year	0.000 (0.965)	-0.013 (0.146)	0.001 (0.673)
Local × Bad Year	0.006 (0.293)	0.003 (0.748)	0.002 (0.376)
Constant	-0.002 (0.366)	-0.002 (0.578)	-0.000 (0.899)
Sample	All	Central SOEs	Non-central SOEs
Stock F.E.	Yes	Yes	Yes
Analyst (Team) F.E.	Yes	Yes	Yes
Quarter F.E.	Yes	Yes	Yes
Observations	5,652	1,837	3,800
R-squared	0.353	0.437	0.403

RESULTS

Table IV
Language used by Local Analysts and the National Security Law:
Central SOEs vs Non-central SOEs

Variable	(1)	(2)	(3)	(4)	(5)	(6)
	Weak Modal Count			Weak Modal Ratio		
After × Local × Bad Year	-0.003 (0.990)	1.508** (0.025)	-0.265 (0.356)	0.001 (0.508)	0.003** (0.018)	-0.000 (0.988)
Bad Year	0.123 (0.527)	0.793 (0.207)	0.028 (0.886)	0.001 (0.314)	0.001 (0.441)	0.001 (0.315)
After × Local	0.164 (0.264)	-0.327 (0.366)	0.247 (0.120)	-0.000 (0.667)	-0.001* (0.096)	-0.000 (0.895)
After × Bad Year	-0.009 (0.964)	-1.359** (0.038)	0.274 (0.248)	-0.001 (0.403)	-0.003** (0.018)	-0.000 (0.898)
Local × Bad Year	-0.196 (0.352)	-1.101* (0.082)	-0.079 (0.731)	-0.001 (0.383)	-0.002 (0.176)	-0.001 (0.499)
Constant	1.517*** (0.000)	1.625*** (0.000)	1.531*** (0.000)	0.004*** (0.000)	0.004*** (0.000)	0.004*** (0.000)
Sample	All	Central SOE	Non-central SOEs	All	Central SOE	Non-central SOEs
Stock F.E.	Yes	Yes	Yes	Yes	Yes	Yes
Analyst (Team) F.E.	Yes	Yes	Yes	Yes	Yes	Yes
Quarter F.E.	Yes	Yes	Yes	Yes	Yes	Yes
Observations	8,845	2,661	6,160	8,841	2,661	6,156
R-squared	0.263	0.297	0.265	0.226	0.306	0.210

RESULTS

Table V
Response Time of Local Analysts and the National Security Law:
Central SOEs vs Non-central SOEs

Variable	(1)	(2)	(3)
Days between the last earnings announcement and first follow-up report			
After × Local × Bad Year	-2.935 (0.244)	3.280* (0.094)	-6.702*** (0.002)
Bad Year	-4.181** (0.046)	3.150 (0.220)	-7.508*** (0.000)
After × Local	1.860 (0.345)	-1.796 (0.297)	5.376*** (0.001)
After × Bad Year	3.191 (0.182)	-2.659 (0.108)	6.554*** (0.001)
Local × Bad Year	3.083 (0.183)	-3.416 (0.224)	6.556*** (0.002)
Constant	2.050** (0.045)	3.347*** (0.000)	0.379 (0.636)
Sample	All	Central SOEs	Non-central SOEs
Stock F.E.	Yes	Yes	Yes
Analyst (Team) F.E.	Yes	Yes	Yes
Quarter F.E.	Yes	Yes	Yes
Observations	893	322	551
R-squared	0.671	0.782	0.677

HYPOTHESIS II

If **the market understands** that local analysts self-censor in their reports, stock prices may **react less to the positive signals sent from local analysts**.

The market reacts much less to the buy and neutral recommendations of local analysts after the NSL, especially for central SOEs.

RESULTS

Table VI
Market Reactions to Local Analyst Reports and the National Security Law:
Central SOEs vs Non-central SOEs

Variable	(1)	(2)	(3)
	Three-Day Cumulative-Abnormal-Return		
After × Local × Buy	-0.002 (0.746)	-0.019** (0.042)	0.001 (0.877)
Buy	-0.008*** (0.000)	-0.010** (0.014)	-0.007*** (0.009)
After × Local	-0.002 (0.726)	0.016** (0.039)	-0.006 (0.347)
After × Buy	0.006 (0.288)	0.014** (0.049)	0.004 (0.481)
Local × Buy	0.003 (0.265)	0.011** (0.045)	0.001 (0.705)
Constant	0.006** (0.036)	0.001 (0.793)	0.006* (0.087)
Sample	All	Central SOEs	Non-central SOEs
Stock F.E.	Yes	Yes	Yes
Analyst (Team) F.E.	Yes	Yes	Yes
Quarter F.E.	Yes	Yes	Yes
Observations	8,630	2,609	5,997
R-squared	0.082	0.179	0.085

HK SPECIFIC? (EU)

BUSINESS INSIDER

BUSINESS INSIDER

Turkey is investigating JPMorgan after the bank advised clients to short the lira

By [Callum Burroughs](#)



Erdoğan went on the attack again against the financial industry after the lira's crash. [REUTERS/Umit Bektas](#)

 REUTERS

Turkey takes aim at rating agency 'racketeers and impostors'



Donald Trump's 'chilling effect' on free speech and dissent is threatening US democracy

Published: March 27, 2025 4:30am AEDT

HK SPECIFIC? (US)

JPMorgan Analyst's 'Redacted' Report Spells Out Fear of Trump



A JPMorgan Chase & Co. strategist whom Jamie Dimon has lauded as “one of our firm’s great thinkers” is taking an unusual approach to highlight fears on Wall Street over speaking out against the Trump administration.

EYE ON THE MARKET • MICHAEL CEMBALEST • J.P. MORGAN • April 2, 2025

[2025 Eye on the Market Outlook](#) / [2025 Energy Paper](#) / [Trump Tracker](#)

Tariff increases are likely central to the decline in business optimism (one estimate: they’re equal to a doubling of the corporate tax rate), and there’s a chance that tariffs will only be in place for a short time depending on the response of US trading partners. In other words, the next phase either involves (a) trading partners providing sufficient concessions to the White House so that tariffs are temporary, or (b) an escalating tariff conflict that could cause damage to the global economy. On (a), some commentators see unprecedented German promises of increased defense and infrastructure spending as proof that US policy is already driving the kind of global rebalancing the White House is seeking. In any case, the odds of (a) vs (b) are very tough to call right now.

That said, I don’t think tariffs are the only issue causing US CEO business confidence to decline. I believe the following issues are also negatively impacting CEO confidence and capital spending plans on the front lines, so let’s talk about them frankly. Some of these items may be partially redacted due to [REDACTED]:

- The White House issued a series of executive orders targeting [REDACTED] solely due to prior employees of these firms [REDACTED]. The orders call for a review to determine if the [REDACTED] and employees of the firm should be stripped, and a review of federal contracts [REDACTED]. The orders also seek to limit [REDACTED] hiring [REDACTED], their access [REDACTED] and [REDACTED] with [REDACTED] personnel
- Trump has stated that [REDACTED] engage in “grossly unethical misconduct” and issued a memorandum to the attorney general and secretary of homeland security, directing them to seek sanctions and file ethics complaints against [REDACTED]
- The [REDACTED] issued condemnations and called for congressional action. In response, the Administration began prohibiting [REDACTED] and is threatening its

[back](#)

CONCLUSION

- Local sell-side analysts, particularly when covering Chinese central SOEs, self-censor their reports after the NSL.
- Self-censorship manifested in earnings forecasts, language, and responses to earnings after a bad performance year.
- The market's reaction to local analyst reports has a decreased sensitivity to buy and neutral recommendations.
- Impairment of political speech spills over to financial speech, implying an inefficiency in information flows.



THANK YOU!!

LITERATURE

Media influenced by the government

Besley and Prat (2006 AER); Chen and Yang (2019 AER); Guriev, Melnikov, and Zhuravskaya (2019 QJE)

Political biases of the media

Gentzkow and Shapiro (2010 Econometrica); Enikolopov et al. (2011 AER); Yanagizawa-Drott (2014 QJE); Adena et al. (2015 QJE); Qin et al. (2018 AER)

Political protests in Hong Kong as natural experiments

Cantoni et al (2019 QJE); Bursztyn (2021 AER Insights)

Self-censorship by sell-side analysts due to career concerns

Dugar and Nathan (1995 CAR); Michaely and Womack (1999 RFS); Hong, et al. (2000 RAND); Lim (2001 JF); Hong and Kubik (2003 JF); Jackson (2005 JF); Kadan et al. (2012 JAE); Horton, et al. (2017 JAE); Baginski et al. (2018 TAR); Harford et al. (2019 RFS); Stolowy et al. (2022 AOS);

DATA

- Analyst reports: Refinitiv Workspace (formerly Thomson One) After Market Research
- Financial data: Refinitiv Workspace (formerly Thomson One) Datastream
- All English analyst reports on 40 stocks that are consecutively on the Hang Seng Index list from 2018 to 2022 (2.5 years before and after of NSL)
- 8,909 unique analyst reports with 384 unique analysts (excl. small brokers with less than 100 reports in the sample period, no EPS forecasts)

VARIABLE CONSTRUCTION

- EPS forecast errors:

$$ForecastErrors_{a,s,t} = (Forecast\ EPS_{a,s,t} - Actual\ EPS_{s,y}) / P_{s,t-1}$$

- Year-end EPS only
- Vagueness in the language of reports:
 - The occurrences/ratio of weak modal words (Loughran and McDonald, 2011) on the first page (e.g., may, maybe, might, perhaps, possible, etc)
- Delay in report:
 - The number of days between the last earnings announcement and the first follow-up report

VARIABLE CONSTRUCTION

- Before vs After:
 - Before or After the NSL (June 30, 2020)
- Local vs Foreign:
 - Analysts (analyst teams) are identified as local analysts if the analyst (the lead analyst) has a Chinese family name and as foreign analysts if the analyst (the lead analyst) has a non-Chinese family name.
 - We broadly include Chinese last names, and, thus, these analysts could have last names originating from Hong Kong (Cantonese) and mainland China (Mandarin Pinyin), or other Mandarin-speaking regions such as Malaysia, Singapore, or Taiwan.

SUMMARY STATISTICS

Table I
Summary Statistics

Variable	Obs.	Mean	SD	P25	P50	P75
Analyst Level						
Local Analyst (Chinese name=1)	384	0.859	0.348	1.000	1.000	1.000
Stock Level						
Central SOE (Central SOE=1)	40	0.325	0.474	0.000	0.000	1.000
Stock-year Level						
Actual EPS	237	3.086	3.448	0.610	2.130	4.080
Sales Growth	237	0.064	0.215	-0.028	0.066	0.140
Performance (Bad Year = 1, Sales growth low 33%)	237	0.342	0.475	0.000	0.000	1.000
Performance (Bad Year =1, Sales growth worst in 5 years)	237	0.181	0.386	0.000	0.000	0.000
Report Level						
After (After NSL=1)	8,909	0.520	0.500	0.000	1.000	1.000
Forecast Error (EPS forecast – actual EPS) / last closing price	6,643	0.003	0.024	-0.002	0.001	0.006
Adjusted Forecast Error (EPS forecast * adjustment – actual EPS) / last closing price)	6,643	0.004	0.025	-0.002	0.001	0.007
Weak Modal Count on the first page	8,909	1.581	2.059	0.000	1.000	2.000
Weak Modal Ratio on the first page	8,905	0.004	0.005	0.000	0.003	0.006
Response Time (Days of the first report from the last earnings announcement date)	1,286	2.641	6.194	0.000	1.000	1.000
CAR(0,1) of the report announcement	8,909	0.002	0.038	-0.017	0.001	0.021