

Does anti-fake news regulation improve the quality of capital markets?

June 1 2020, by Michelle Lee Twan Gee



While fake news is known for influencing election results and shaping political narratives, it is also widespread in capital markets. An SMU team has been given a research grant to investigate the role of anti-fake news regulation in capital markets. Credit: Cyril Ng

Fake news has repeatedly made the front page in recent years. With false

information spreading fast and widely in today's socially-networked world, governments have grown increasingly concerned about the deliberate spread of misinformation.

This disquiet over [fake news](#) saw a host of countries pushing through a legion of legislation to address the development over the last few years. Many more are studying what to do about the phenomenon.

At SMU, a team of four researchers was intrigued by the question: What effect can newly minted anti-fake news legislation have on [capital markets](#)?

The unanswered question

For the SMU team—Professor Liandong Zhang, Lee Kong Chian Professor of Accounting and Associate Dean (Research); Yun Lou, Assistant Professor of Accounting; Samuel Tan, Assistant Professor of Accounting; and Richard Crowley, Assistant Professor of Accounting—this is an unanswered question. The team has been awarded a Ministry of Education Academic Research Funding (AcRF) Tier 2 grant over three years to probe the issue. It will be the first large-scale empirical work to examine the impact of anti-fake news [regulation](#) in capital markets.

The researchers cite anecdotal evidence that shows fake news can negatively impact capital markets. For example, in April 2013, an erroneous report on Twitter about two explosions at the White House temporarily wiped US\$136.5 billion off the S&P 500. In China, fake articles about construction giant Zoomlion led to a 26.9 percent drop in its share price.

That said, there is little academic evidence on the role of fake news in capital markets. Currently, there are no academic studies that examine

the effect of anti-fake news regulation on the quality of capital markets.

The team intends to change that.

The team will probe the impact of anti-fake news regulations across the world, including Asia, Europe, and the U.S.A. The researchers will investigate the impact of the regulations adopted by different countries on the quality of their capital markets.

The significance of the question

Capital markets play a pivotal role in allocating resources in the economy. Understanding the implications of anti-fake news laws on capital markets is an integral part of the cost and benefit analysis of these laws. The study can broaden regulators' views on the potential effects of anti-fake news laws by highlighting how such laws may affect not only political processes but also capital markets. By focusing on capital [market](#)-related social media and outcomes, the study allows the effect of anti-fake news policies to be evaluated in a measurable and meaningful way.

The different anti-fake news actions by different countries also provide thought-provoking comparisons. Says Professor Lou: "One of the reasons why we want to investigate many countries is that we don't believe that there is one recipe for all countries. What kind of regulation each country should put forward to fight against fake news will really depend on the institutional background of the country."

"For some countries, if their legal enforcement is relatively weak, then no matter how tough you write your regulations, it is not going to be effective. But for countries where legal enforcement is strong, then regulations can potentially be effective."

The team is excited about the project and can't wait to get started.

Articulates Professor Lou: "We do think that the study can have important implications for regulators and for capital markets. Given our expertise, we wanted to provide insights about how to combat fake news in capital markets. That is really what motivated us to conduct this project."

She concludes: "Hopefully our project and the potential papers coming out of it will serve as a starting point for researchers, regulators, and big corporations to think about what kind of regulations can be put into place to fight against fake [news](#)' disruption of capital markets."

Provided by Singapore Managment University

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