“Disclosure in the World of Cryptocurrency”

Cryptocurrency (crypto) is a digital asset whose value is the function of the algorithm it is based on. This algorithm, or protocol, is the core of the crypto. It defines, among many other things, whether new crypto units can be created, the circumstances under which new units can be created, and the ownership of these new units. The protocol is coded and distributed to users as software. Being software, crypto is prone to bugs, requires upgrades, and subject to hacking.

Like other open source projects, crypto projects are typically developed, tested, and maintained by a group of developers that work together to implement the protocol behind the crypto. This group takes on itself to update the community about the roadmap of the projects, planned upgrades, and other important information that may affect the usage and value of the crypto. This disclosure provides important information that might affect the crypto’s liquidity as, for example, a planned upgrade may not be adopted by all miners. In this case, after the upgrade, there may be two blockchains developing at the same time—one by those that implemented the upgrade and one by those who did not. This can allow for double spending and other inconsistencies in the two ledgers and thus may decrease the value of the corresponding crypto.

While some buy cryptos as a mean of investment, other buy them for usage. For example, some use Bitcoin Cash (BCH) for payment transactions, while others use BCH as an investment tool. This suggests that cryptos are held by both sophisticated traders and “pure users” that do not necessarily follow important announcements that may affect the price of the crypto. Furthermore, while a crypto like BCH may have many wallets held by pure users, in the case of Monero, for example, most holders are likely sophisticated investors.

We use this variation in holders’ type and in crypto type to study two questions: (1) Do announcements that provide important information about the future of the crypto (e.g., protocol upgrades) increase the information asymmetry across sophisticated investors and pure users? and (2) Do announcements (e.g., on Twitter) with wider spread decrease the value lost by pure users? That is, does a medium like Twitter allows for wide reach that is effective enough to also inform pure users and thus decrease the information asymmetry?