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ACCRUAL INFORMATION AND INSIDER TRADING:

AN EMPIRICAL ANALYSIS

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by

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ABSTRACT

Managers have the ability to time the disclosure of the non-cash component of earnings, which, is termed accrual information, to outside investors. They have the choice of disclosing accrual information at the earnings announcement or waiting until the filing date. This thesis examines whether managers profit from this ability by strategically disclosing or withholding accrual information when it increases their profits from trading shares of the firms they manage. This thesis also examines if strong corporate governance restrains such managerial opportunism. The evidence presented here is consistent with managers using their discretion over the timing of the release of accrual information to increase their trading profits. However, these results should be interpreted with caution because of issues with endogeneity. This thesis finds no evidence of strong corporate governance mitigating this managerial opportunism.

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ACKNOWLEDGEMENTS

It is often said, “What goes around comes around” and this dissertation represents me making a full circle. I graduated from Penn State in 1985 to become a professional accountant only to return again in 2001 to become an accounting researcher. In my absence from Penn State, I earned two masters degrees from the University of Central Florida, became a Certified Public Accountant and a Certified Management Accountant, and held various positions in both public and private accounting. However nothing in my past prepared me for the challenge of pursuing a doctoral degree. It is my most difficult achievement and not one I attained alone.

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1.0 Introduction

In this thesis, I analyze the association among insider trading profits, balance sheet disclosure, and corporate governance. This topic is interesting to examine because it provides a unique setting in which to study insider trading before a forthcoming news event, namely the disclosure of accrual information.

Earnings announcements are a form a voluntary disclosure whose content is left to the discretion of management. Chen, Defond, and Park (2002) show that most firms include balance sheet information with their earnings announcement. However, some firms choose to exclude this information. It is reasonable to assume that managers know the amount of the balance sheet accounts at the time of the earnings announcement given that the balance sheet and the income statement must articulate.

Prior studies suggest that stock prices better reflect fundamental value after the earnings announcement when the announcement contains enough information for investors to separate earnings into cash flow and accrual components. Investors are able to make this separation when the announcement includes both an income statement and a balance sheet (or cash flow statement). Levi (2008) and Louis, Robinson, and Sbaraglia (2008) provide evidence that when a balance sheet is included with the press release, accruals are priced after an earnings announcement, with no subsequent return drift. Both studies document, however, that when balance sheet information is absent from the press release there is a subsequent drift in the firm's stock returns that is inversely correlated with the subsequently revealed accrual information.

This raises the question of why some firms choose to include balance sheet information at the earnings announcement while others do not. The extant literature (Chen, Defond, and Park, 2002; Levi, 2008) focuses on investor demand driving balance sheet disclosure. However, the

extant literature does not investigate supply considerations. One supply consideration is that managers withhold balance sheet information to create profitable trading opportunities for themselves based on the foreknowledge of the accrual information that will remain their private information until the filing date (after they have traded).

Generally, managers are limited to trading after the earning announcement due to legal constraints and company-imposed restrictions. Presumably the period immediately following the earnings announcement is when the information asymmetry between managers and investors is at its lowest level. However, by not disclosing balance sheet information in the earnings announcement, managers retain an informational advantage regarding accruals that can be used to increase their trading profits. This thesis investigates if insiders profit from the informational advantage they create by not disclosing a balance sheet with the earnings announcement.

While corporate insiders may be able to increase their trading profits by trading before forthcoming news events, they face substantial litigation risk by doing so. Prior research suggests that litigation risk reduces insider trading before forthcoming news events. Givoly and Palmon (1985) do not find an association between insider trading and forthcoming news events. Noe (1999) finds that insiders trade after management earnings forecasts are made, instead of before. However, the evidence in Huddart, Ke, and Shi (2007) suggests that when litigation risk is low, insiders will trade on information that will be made public in the near future. As explained below, the research setting used in the study is one of reduced litigation risk for insiders.

This thesis also investigates whether strong corporate governance affects accrual disclosure and insider trading profits. If one of the roles of corporate governance is to reduce agency costs within an organization, then a strong board of directors should reduce actions by management to expropriate wealth from shareholders. Insider trading is one form of wealth

expropriation. Prior research has established that strong corporate governance reduces agency costs within the firm.

My findings provide evidence that insider trading profits are a determinant of balance sheet disclosure. I also find that insiders' trading profits are associated with balance sheet disclosure. This finding seems to be largely driven by insiders who traded during a quarter when the firm changed disclosure policy. However, the results should be interpreted with caution because of potential endogeneity. In quarters when a firm changed disclosure policy, insiders are able to make two decisions. The first decision is the disclosure policy and the second is whether or not to trade. The availability of making two decisions raises the issue of endogeneity. To control for endogeneity I perform a 2-stage least squares regression and perform a Hausman test. The Hausman test indicates that endogeneity is not a problem, however the results are questionable because the low explanatory power of the first-stage regression for these firms.

Opposite to my predictions, I find that weak corporate governance is positively associated with balance sheet disclosure. I have no explanation for this result other than my corporate governance proxy may be correlated with other firm characteristics. This is a potential topic for future research.

This thesis makes several contributions. First, it provides evidence that corporate insiders trade on potentially material information. This finding has legal, regulatory, and corporate governance implications. Jurists may use this evidence to help determine if wrongdoing has taken place. Regulators may use this evidence to build models to detect improper insider trading. The firm's board may use this evidence to decide if a balance sheet and/or cash flow statement should be included in the earnings announcement. Also, investors may use disclosure choice and

insider trading as signals about the quality of earnings. For example, a lack of disclosure coupled with substantial insider selling may signal a future earnings decline due to accrual reversal.

Second, this study extends the insider trading literature by examining the association between insider trading and news events. Prior research has documented that managers trade on the long-term rather than short-term prospects of their company, because of the greater litigation costs associated with a short-term strategy. For example, selling before a sharp stock price drop, although profitable, may trigger shareholder litigation, increased regulatory scrutiny, and reputational loss. In recent research, Huddart, Ke, and Shi (2007) provide evidence that when litigation risk is low, insiders do trade on information that will be made public in the near future. Therefore, analyzing insider trading during this period provides a powerful test of the presence of information-based insider trading.

Third, this study extends the voluntary disclosure literature by adding insider trading profits and corporate governance as additional determinants of balance sheet disclosure. I am aware of two studies investigating the determinants of balance sheet disclosure, Chen, Defond, and Park (2002) and Levi (2008). Both studies investigate balance sheet disclosure from the perspective of investor demand for balance sheet information. Neither study explores the supply of balance sheet information.

Finally, this study makes a contribution to the corporate governance literature by investigating whether strong corporate governance reduces the profitability of insider trading on non-disclosed accrual information.

One disadvantage of the methodology used in this study is potential endogeneity. There is a potential for endogeneity because managers may make two decisions simultaneously in the period shortly before the earnings announcement. The first decision is whether to disclose

balance sheet information and the second decision is whether to trade. Chen, Defond, and Park (2002) provide evidence that firms generally maintain the same balance sheet disclosure policy from quarter to quarter. The descriptive statistics of my sample are consistent with their results. This consistency in balance sheet disclosure suggests that the endogeneity may not be important empirically. I discuss this endogeneity problem in more detail in chapter 5 and present the results of a 2-stage least-squares regression intended to take the potential endogeneity into account.

The remainder of the thesis is organized as follows: Chapter 2 provides background information on insider trading regulation and accrual disclosure and pricing. It also presents a trading strategy based on accrual disclosure. Chapter 3 discusses the sample selection process, hypothesis development, and research design. Chapter 4 presents a discussion of the results. Chapter 5 discusses the endogeneity issue. This thesis concludes in Chapter 6.

2.0 Background

This chapter provides the reader with background information relevant to the research questions explored in this study. Section 2.1 discusses regulatory, legal, and firm-specific restrictions on insider trading. My purpose is to illustrate that corporate insiders are not free to trade on the information they possess. They face significant restrictions on the type of information they may trade on and also the timing of the trades. Violations of these restrictions may result in significant negative consequences for the insider. Consequently, the insider is limited to certain trading strategies. Section 2.2 discusses accrual disclosure and the pricing of accruals by investors. Existing research documents that accruals are mispriced by investors, however more recent studies suggest that this mispricing is mitigated when accrual information is disclosed with the earnings announcement. The extant literature also provides evidence that insiders trade on accrual mispricing. The analyses in this literature do not condition the results on accrual disclosure. This thesis fills the gap in the extant literature. Section 2.3 discusses trading strategies based on both accrual disclosure and accrual mispricing.

2.1 Insider Trading Regulation

To prevent corporate insiders from profiting from their informational advantage at the expense of ordinary shareholders, federal law prohibits insiders from trading on material non-public information. The origin of the modern federal insider trading prohibition can be traced to the Securities and Exchange Act of 1934. Under section 10(b) of the Act, Congress gave the Securities and Exchange Commission (SEC) the statutory authority to prescribe rules and regulations prohibiting the use of manipulation or deception in connection with the purchase or

sale of any security registered or not so registered on a national securities exchange. [1] In 1942 the SEC promulgated rule 10b-5, which states:

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,

a. To employ any device, scheme, or artifice to defraud,

b. To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or

c. To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.[2]

Another important insider trading regulation, the "disclose or abstain" rule, came into effect in 1968. In the landmark insider trading case, Texas Gulf Sulphur, the Second Court of Appeals held that when an insider is in possession of material nonpublic information, the insider must either disclose the information or abstain from trading.[3] In cases arising under section 10(b) and rule 10b-5, liability arises only with respect to the misuse of material information. Materiality is defined as whether there is a substantial likelihood that the omitted fact would be considered important by a reasonable investor in deciding to buy and sell securities. Insiders are allowed to trade on material information only after the information has been made publicly available.

To alleviate the disagreement between the various Circuit Courts as to whether material information needed to be used by the insider during trading or if mere possession of material information was enough to violate the disclose or abstain rule; the SEC responded in 2000 with the enactment of Rule 10b5-1. Under 10b5-1, a person will be deemed to have traded on the

[1] 15 USC section 78j(b)
[2] 17 CFR Section 240.10b-5
[3] SEC v. Texas Gulf Sulphur Co., 401 F.2d 833

basis of material nonpublic information if he or she was aware of the information at the time of the trade. However, the rule also created an exception to this presumption, if before the insider became aware of the material nonpublic information, he or she: entered into a binding contract to sell the security, instructed another person to buy or sell the security on the insider's account, or adopted a written plan for trading the securities. It should be noted that the exception for provided by Rule 10b5-1 is an affirmative defense to the Rule 10b5. This means the burden of proof is on the insider (not the challenging party) that the trades made while in possession of material nonpublic information satisfy the requirements of Rule 10b5-1.

These raises the issue of the effects of 10b5-1 trading plans on my results. In order to provide maximum protection from litigation, the plan should be in writing and made at a time when the insider does not have any private information. Consequently, I assume that insiders will not have the accrual information at the time the plan is made and these plans have no effect on my research design.

Private party litigation cases involving insider trading generally are rare and usually piggyback SEC litigation. Shareholder lawsuits relating to section 10b tend to focus on accounting improprieties, lack of disclosure, or misleading disclosures in earnings announcements and/or financial statements. However anecdotal evidence suggests that insider trading may play a role in shareholder class-action lawsuits. As Elkind (2000) reports:

> *Bill Lerach is explaining what he needs to file one of his infamous class-action lawsuits: "Stock drops, Insiders trading, A revelation of bad news, Your not going to have that happen and come up dry. It's not going to happen."*

A recent study by PricewaterhouseCoopers indicates that over a third of all shareholder lawsuits regarding accounting information are filed after a company restates earnings and nearly

half of all companies that are sued for accounting irregularities eventually restate earnings.[4]

Responding to several major accounting scandals and a crisis in investor confidence, Congress enacted the Sarbanes-Oxley Act of 2002 to deter and punish corporate and accounting fraud and corruption, ensure justice for wrongdoers, and protect the interests of workers and shareholders. This legislation brought accelerated disclosure requirements of both financial and insider trading information. The filing deadline for form 10-Q (10-K) was decreased from the current 45 (90) days after fiscal quarter end to 35 (60) days. These requirements are to be phased in starting with fiscal years ending in 2003.[5] In addition, Sarbanes-Oxley reduced the deadline for reporting insider transactions from 10 days following the end of the month when the transaction occurred to 2 business days after the transaction occurred.

Although the Sarbanes-Oxley Act of 2002 diminished the opportunity to profit from foreknowledge of accrual information by requiring earlier reporting of forms 10-Q and 10-K and insider trades, there still remain several reasons why this study is relevant. First, as noted in Cheng, Nagar, and Rajan (2007), the General Accounting office has requested systematic empirical evidence relating to the Act. By examining insider trading between the earnings announcement and the filing date, I provide information about the extent of insiders profit from their information advantage. Second, the decrease in the lag of reporting 10-Q/K data has prompted a negative response from corporations because earlier deadlines impose higher costs on the filer. As a response, the SEC adopted a phase-in approach, which could be lengthened

[4] PricewaterhouseCoopers 2000 Securities Litigation Study

[5] For fiscal years ending on or after December 15, 2002; the filing deadline for Form 10-K (10-Q) is 90 (45) days.
For fiscal years ending on or after December 15, 2003; the filing deadline for Form 10-K (10-Q) is 75 (45) days.
For fiscal years ending on or after December 15, 2004; the filing deadline for Form 10-K (10-Q) is 60 (40) days.
For fiscal years ending on or after December 15, 2005; the filing deadline for Form 10-K (10-Q) is 60 (35) days.

though further legislation.[6] Third, insider trading is still an important issue in restoring investor confidence. President Bush established a "Ten Point Plan to Improve Corporate Responsibility and Protect America's Shareholders". Two points relate to this study: Each investor should have prompt access to critical information, and CEOs and other officers should not be allowed to profit from erroneous financial statements. By delaying disclosure of the balance sheet until the filing date, managers are denying shareholders prompt access to information useful in valuing the firm. Finally, in order to preserve their trading advantage, managers could simply choose to announce earnings earlier with reduced informational content in the earnings announcement thereby maintaining their informational advantage.

In addition to regulatory limitations, prior research has established that most publicly traded companies have imposed restrictions on the ability of their insiders to freely trade in their firm's securities. One of the most common restrictions is the prohibition of insider trade prior to the company's earnings announcement. In the survey sample of Bettis, Coles, and Lemmon (2000), 92% percent of firms responding impose some type of trading restrictions, while 78% have a formal black-out period. The most common policy allows insider trading only during the ten-day period from three to twelve trading days after the earnings announcement. However, the company's prohibition on insider trading is an ineffective deterrent in the circumstance investigated here because the omission of accrual information from the earnings announcement presents a subsequent trading opportunity when for most firms insiders are permitted to trade.

[6] In December of 2005 the SEC issued Release Number 33-8644 that further modified the deadlines for forms 10-K and 10-Q. Under the current rules the reporting deadlines depend upon the market value of the firm. The filing deadline for "Large-Accelerated Filers (market value of $700 MM or more) is 60 days for form 10-K and 40 days for form 10-Q. The filing deadline for "Accelerated Filers (market value of $75 MM but less than $700 MM) is 75 days for form 10-K and 40 days for form 10-Q. The filing deadline for "Non-Accelerated Filers (market value of less than $75 MM) is 90 days for form 10-K and 45 days for form 10-Q.

This section outlines the main regulatory and firm-specific constraints governing the trading of corporate insiders. It is evident that insiders face substantial litigation risk when trading in their firm's securities. The next section discusses the disclosure of accruals and the pricing of accruals by investors.

2.2 Accrual disclosure and pricing

Sloan (1996) identifies what is now termed the accrual anomaly, where investors do not fully understand the lower persistence of accruals and consequently tend to overvalue them. Xie (2001) extends Sloan's work and finds that the accrual anomaly is due primarily to the mispricing of abnormal accruals. One drawback to both these studies is that neither analysis is conditioned on whether investors have the relevant information needed to value accruals correctly at the earnings announcement date. Recent studies by Baber, Chen, and Kang (2006) and Louis, Robinson, and Sbaraglia (2008) provide evidence that investors, on average, value abnormal accruals less than cash flows when accrual information is disclosed with the earnings announcement. Baber, Chen, and Kang (2006) investigate the security price reaction of abnormal accruals for firms suspected of managing earnings. They find no significant association between abnormal returns and abnormal accruals at the earnings announcement date for firms that do not disclose accrual information, regardless of whether earnings management is suspected. In contrast, they find a significant negative association between abnormal returns and abnormal accruals for firms that disclose accrual information, with the negative association being approximately two and a half times larger for firms suspected of managing earnings.

Louis, Robinson, and Sbaraglia (2008) analyze the pricing of accruals for disclosers and non-disclosers using a Mishkin (1983) test and a hedge portfolio test. They find that abnormal

accruals are valued rationally for firms that disclose accrual information at the earnings announcement and irrationally for firms that do not. They also find that a hedge portfolio composed of disclosers does not produce significant abnormal returns, while the hedge portfolio of non-disclosers achieves both a statistically and economically significant annual abnormal return of 22.3%.

The evidence provided by these studies suggests that stock prices better reflect fundamental value when accrual information is disclosed with the earnings announcement. Consequently, it would be advantageous for managers wanting to trade on accrual mispricing to manage the disclosure of accrual information with the earnings announcement.

Chen, Defond, and Park (2002) and Levi (2008) investigate the firm's decision to disclose balance sheet information. The results of both studies suggest that investor demand for accrual information leads to balance sheet disclosure at the earnings announcement. Chen, Defond, and Park (2002) study the determinants of balance sheet disclosure. They find that managers voluntarily disclose balance sheet information when current earnings are less informative or when future earnings are more uncertain. Levi (2008) uses Dechow and Dichev's (2002) measure of accrual quality to compare the working capital accruals of firms that disclose accrual information with those that do not. He finds firms that disclose balance sheet information have lower quality working capital accruals. In addition, he extends Chen, Defond, and Park's (2002) model of balance sheet disclosure to include accrual quality. His results suggest that investors demand early release of accrual information due to increased uncertainty regarding the mapping of accruals into cash flows.

The Chen et al. (2002) and Levi (2008) studies provide evidence that investor demand for accrual information is an important determinant of balance sheet disclosure. However, neither study investigates supply considerations affecting balance sheet disclosure.

Prior literature has examined the relationship between insider trading and accruals. Core, Guay, Richardson, and Verdi (2006) examine whether managers structure their trades to take advantage of three well-documented financial anomalies: post-earnings announcement drift, price momentum, and operating accruals. They find that managers of low (high) accrual firms buy more (fewer) shares on their personal account. Beneish and Vargus (2002) investigate whether insider trading is informative about earnings quality and the valuation of accruals. Their results show that income increasing accruals are more persistent when followed by abnormal insider buying and income decreasing accruals are more persistent when accompanied by abnormal insider selling. While both studies provide evidence that insiders trade on accrual information, neither study examines the accrual disclosure choice prior to trade. This study extends this line of research by specifically investigating accrual information disclosure prior to insider trade.

Existing literature also provides evidence that a manager's disclosure choice may be self-serving. For instance, Aboody and Kasznik (2000) suggest that managers strategically time their disclosures around stock option grants, by disclosing bad news early and delaying good news in order to increase the value of their options. Cheng and Lo (2006) find similar results for insider share purchases. Lobo and Zhou (2001) find that managers that engage in earnings management reduce disclosure quality. Rogers (2008) finds that managers provide lower quality disclosures prior to purchasing shares than they provide in the absence of trading, which is consistent with insiders trying to maintain their informational advantage.

The extant literature provides evidence of managers trading on accrual information and making self-serving disclosures. If mispricing is reduced when accrual information is included with the earnings announcement, then insiders can alter disclosures to exploit this mispricing and earn a higher return on their trades. While it may seem obvious that insiders trade on accrual information, there are two reasons why this may not be the case. First, managers may fear higher litigation and reputational costs for not disclosing accrual information prior to trading. Rogers (2008) finds that managers increase disclosure quality prior to selling, presumably to reduce litigation risk. Second, Levi (2008) documents that working capital accruals of firms that disclose accrual information are of lower quality than those of non-disclosers. This is the opposite of what one would expect if managers actively trade their superior knowledge of accruals.

To summarize the preceding section, the extant literature provides evidence that: First, insiders trade on the accrual anomaly. Second, the accrual anomaly is dependent on accrual information not being included with the earnings announcement. Finally, managers' disclosures tend to be self-serving. The next section outlines a trading strategy that insiders may use to increase the profitability of their trades.

2.3 Profitability of Trades and Balance Sheet Disclosure

Figure 1 illustrates the firm's disclosure time line over a typical quarterly disclosure cycle:

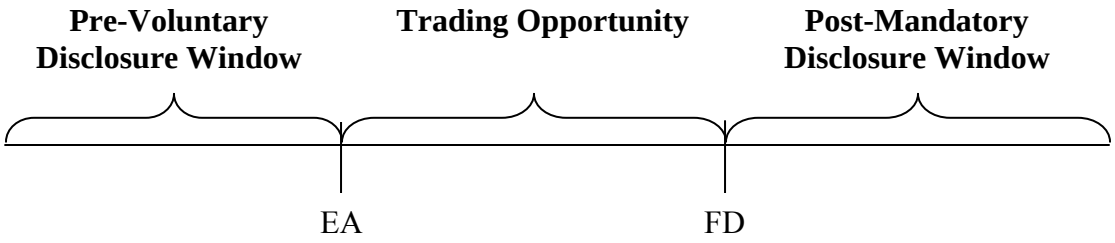

Figure 1

The pre-voluntary disclosure window is the time period after the end of the firm's current fiscal quarter and before the earnings announcement date (EA). Although this window presents the most profitable trading opportunity for managers because of the higher information asymmetry between corporate insiders and the market, I do not expect a large percentage of corporate insiders to actively trade in this window due to the following factors: firm-level trading restrictions preventing insiders from trading before an earnings announcement, higher shareholder litigation risk, increased jeopardy from the "disclose or abstain" rule, regulatory scrutiny, and increased trading costs due to a larger bid-ask spread prior to an anticipated earnings announcement.

The window of trading opportunity is the time between the earnings announcement and the 10-Q filing date (FD). This period represents a trading opportunity for corporate insiders for two reasons. First, because voluntary disclosures are largely unregulated, managers may exclude certain price-relevant information from the earnings announcement and then trade on it. Second, the period after the earnings announcement is generally free of firm-specific restrictions on stock

trading. Thus managers may actively trade on accrual information if the balance sheet is not disclosed in the earnings announcement because firm policy permits it and jeopardy is low.

The post-mandatory disclosure window is the period after the firm's 10-Q filing date and before the end of the next fiscal quarter. I do not expect much insider trading on accrual information to take place during this period because the post-mandatory disclosure window is the pre-voluntary disclosure window for the next quarter, so insiders face the same trading considerations during this period as they do during the pre-voluntary disclosure window.

As mentioned previously, Baber et al. (2006) and Louis et al. (2008) provide evidence that investors, on average, value abnormal accruals less than cash flows when accrual information is disclosed in the earnings announcement. The corresponding price adjustment takes place around the date of the earnings announcement, generally before the insider has an opportunity to trade.[7] In addition, Louis et al. (2008) and Levi et al. (2008) document that when accrual information is not disclosed with the earnings announcement, there is a subsequent drift in stock returns. This drift is negatively correlated with the level of accruals. These studies suggest the ex ante predictions of the expected profitability of insider trades based on the level and direction of accruals, the direction of trade, and balance sheet disclosure presented in Figure 2:

[7] The Baber et al. (2006) study uses a 3-day window, centered on the day of the earnings announcement, to compute cumulative abnormal returns. Louis et al. (2006) use a 5-day window, ending on the day following the earnings announcement, to compute cumulative abnormal returns.

Income-Increasing (Positive) Accruals	Balance Sheet Disclosed	Balance Sheet Undisclosed
Purchasing Shares	More Profitable	Less Profitable
Selling Shares	Less Profitable	More Profitable

Income-Decreasing (Negative) Accruals	Balance Sheet Disclosed	Balance Sheet Undisclosed
Purchasing Shares	Less Profitable	More Profitable
Selling Shares	More Profitable	Less Profitable

Figure 2

If the firm's abnormal accruals are income-increasing (i.e., positive), the purchase of shares would be more profitable when the balance sheet is disclosed with the earnings announcement than when it is disclosed at the filing date. This is due to the market valuing the accrual portion of earnings less than the cash flow portion, which results in the insider purchasing shares at a lower price than she would have otherwise. Conversely, the profitability of selling shares is greater when the balance sheet is disclosed at the filing date rather than at the earnings announcement. The disclosure of accrual information at the filing date allows the insider to trade before outside investors differentially price the accrual portion of earnings less than the cash flow portion. This allows the insider to sell at a high price than she would have if accrual information was disclosed at the earnings announcement.

The profitability of trades and disclosure is reversed when the firm's abnormal accruals are income-decreasing (i.e., negative). If a firm's accruals are income-decreasing, then the firm's cash flows are larger than its reported earnings. Consequently when a balance sheet is disclosed at the earnings announcement, the market values the earnings more highly than when the balance sheet is disclosed at the filing date. This higher valuation would increase the profitability of the

trade for an insider selling shares and decrease the profitability of the trade for an insider purchasing shares.

The ability to increase the profitability of trades gives managers an incentive to change the timing of balance sheet disclosure based on the direction of trade and the direction of accruals. However, it is not clear that they have the discretion to do so. Although earnings announcements are voluntary, other factors such as demand for accrual information from shareholders and financial analysts or strong corporate governance may restrain managers from changing the timing of balance sheet disclosure. Chen et al. (2002) documents that balance sheet disclosure is sticky, with just 35% of firms ceasing balance sheet disclosure once they initiate it.[8]

In my sample, over 68% of firms made no change in their disclosure policy regarding balance sheet disclosure. The remaining firms either began or ceased balance sheet disclosure at least once during the sample period, a result consistent with Chen et al. (2002). Table 1 reports the empirical frequencies of a firm disclosing accrual information at the earnings announcement conditional on whether the firm disclosed accruals in the previous quarter. If a firm discloses balance sheet information in one quarter, then the probability of disclosing this information in next quarter is 89.01%. If a firm does not disclose balance sheet information in one quarter, then the probability of it continuing not to disclose this information is 85.39%. The probability of a firm changing its disclosure choice for only one quarter and then changing back in the subsequent quarter is less than 2%. These statistics indicate that firms' balance sheet disclosure choices are generally consistent from quarter to quarter.

[8] I know of no study that documents the frequency of disclosure of the cash flows statement in the earnings announcement. In the sample used in this study cash flow disclosure was far less common and almost always in conjunction with balance sheet disclosure.

Panel A of table 2 provides the sample composition by firm type. Firms maintaining a consistent disclosure policy are approximately 68% of the firm-quarters in the sample, with disclosing firms representing 44.53% of the sample and non-disclosers representing 23.89% of the sample. Firms that change their disclosure policy make up the remaining 32% of the sample, with firms changing from discloser to non-discloser making up 15.07% of the sample and firms changing from discloser to non-discloser making up 16.51% of the sample. Panel B provides information on only those quarters where a firm switched disclosure policy. The firm-quarters in the sample where the firms switch disclosure policy make up approximately 7% of the total firm-quarters and the firm's insiders traded in approximately 14% of those quarters. Panel C provides information on the frequency of firms changing disclosure policy. The majority of firms (62.18%) that changed disclosure policy only did so once during the sample. The firms that changed disclosure policy 4 or more times make up approximately 3% of the firms that changed disclosure.

Given that approximately 68% of the sample maintained a consistent disclosure policy throughout the sample period, I do not expect the endogeneity to be an empirical problem. As mentioned previously, one drawback to the methodology used in this thesis is that insiders are able to make 2 decisions in the period shortly before the earnings announcement. The first decision is whether to disclose balance sheet information and the second decision is whether to trade. Because 68% of the sample maintains a consistent disclosure policy throughout the sample period, that means insiders only make one decision: whether or not to trade on the accrual information. Consequently, I consider the disclosure decision to be exogenous for the majority of the sample. However, for robustness purposes, I separate the sample into ten subsamples of firms based on the observed consistency of balance sheet disclosure and trading

direction. I then analyze the full sample of all firm-quarters and the separate sub-samples individually.

The consistent discloser subsample comprises firms that maintain a consistent disclosure policy over all the quarters they are included in the sample. For the managers of these firms, I assume the following sequence of events: The disclosure policy of accrual information is exogenous, because it is determined in a prior period. The manager privately observes accrual information and then decides the size and direction of his stock trade. The inconsistent discloser sub-sample consists of firms that changed the timing of disclosure of accrual information in some quarter during the sample period. For managers of these firms, I assume the following sequence of events: The manager privately observes the accrual information of the firm, then decides the size and direction of trade, and when the accrual information is disclosed to outside investors. For both subsamples of firms, I assume that the size and direction (positive or negative) of accruals are exogenous and not determined by management. In other words, I assume that there is no earnings management. This is a strong assumption but there is empirical evidence supporting it; Beneish, Press, and Vargus (2004) evaluate two hypotheses about the relationship between insider selling and earnings management. They find no support for the "pump and dump" hypothesis, where managers manage earnings shortly before selling their shares. However they do find support for the "litigation avoidance hypothesis", where managers seeking to avoid or reduce litigation costs, manage earnings after they sell in order to distance their trades from the forthcoming bad news. Consequently I assume that managers do not manage accruals during the quarter of the trade.

Table 1
Transition Probability Matrix for Disclosure Choice

Firm's disclosure choice in quarter t +1		Firm's disclosure choice in quarter t	
		Discloser	**Non-discloser**
	Discloser	4,794 89.01%	572 14.61%
	Non-discloser	592 10.99%	3,343 85.39%

Notes to Table 1:

Discloser is a firm that discloses accrual information with the earnings announcement. *Non-discloser* is a firm that discloses accrual information with the SEC filing. The top number in each cell represents the number of firm-quarters and the bottom number represents the transitional probability expressed as a percentage. The table is constructed using a sample of 11,528 firm-quarters with 2,227 unique firms for the four-year period from 1999 to 2002, inclusive.. The firms were separated into Discloser and Non-discloser categories based on their disclosure choice in period t. Once separated, the firm's disclosure choice in period t +1 was recorded.

Table 2
Sample Composition by Firm Type

Panel A - All Sample Quarters

		All Quarters		Trading Quarters	
	Number of Unique Firms	Number of Firm-Quarters	Percentage of Sample	Number of Firm-Quarters	Percentage of Sample
Firm Type:					
Consistent Discloser	1,107	4,430	44.53%	908	54.90%
Consistent Non-Discloser	556	2,377	23.89%	293	17.71%
Discloser switching to Non-Discloser	231	1,499	15.07%	210	12.70%
Non-Discloser switching to Discloser	245	1,643	16.51%	243	14.69%
Total	2,139	9,949	100.00%	1,654	100.00%

Panel B - Switching Quarters Only

		All Quarters		Trading Quarters	
	Number of Unique Firms	Number of Firm-Quarters	Percentage of Sample	Number of Firm-Quarters	Percentage of Sample
Firm Type:					
Discloser switching to Non-Discloser	231	351	48.02%	46	45.54%
Non-Discloser switching to Discloser	245	380	51.98%	55	54.46%
Total	476	731	100.00%	101	100.00%

Panel C - Change Statistics

Number of Quarters in Which Disclosure Changed	Number of Unique Firms	Number of Firm-Quarters	Percentage of Unique Firms	Percentage of Firm-Quarters	Mean # of Quarters Between Change
1	296	296	62.18%	40.49%	6.00
2	125	250	26.26%	34.20%	3.66
3	40	120	8.40%	16.42%	2.72
4	11	44	2.31%	6.02%	1.95
5	3	15	0.63%	2.05%	1.93
6	1	6	0.21%	0.82%	1.33
	476	731	100.00%	100.00%	

Notes to Table 2:

This analysis includes all firm-quarters in the sample regardless of whether insiders traded in the quarter. Trading quarters are defined as firm-quarters in the sample during which insiders traded. A switching quarter is defined as a firm-quarter where balance sheet disclosure changed from the previous quarter. A consistent discloser is defined as a firm that discloses balance sheet information with the earnings announcement in all quarters. A consistent non-discloser is defined as a firm that did not disclose balance sheet information with the earnings announcement in all quarters. A discloser switching to non-discloser is defined as a firm that entered the sample disclosing balance sheet information at the earnings announcement and then stopped doing so. A non-discloser switching to discloser is defined as a firm that entered the sample not disclosing balance sheet information at the earnings announcement and then started doing so.

2.4 Sample Selection

To determine the level of accrual disclosure in the earnings announcement, I search for company press releases from the Business Wire and PR Newswire services contained in the Lexis-Nexis database. To identify earnings announcements, I search the database using the keywords "results" or "earnings" in the headline and "earnings per share" or "EPS" in the headline lead paragraph or terms. I exclude press releases using the adjectives "preliminary," "anticipated," or "expected," earnings as these types of announcements typically present no financial statements and give only an estimate of earnings.

I code the earnings announcements in one of three categories. The first category, Balance Sheet With Accruals, includes announcements that contain balance sheets complete enough to compute accruals using the balance sheet method or alternatively provide the cash flow from operations. The first category constitutes my sample of accrual disclosers. The second category, Balance Sheet Without Accruals, includes announcements that give some balance sheet information but not enough to compute accruals. The final category, No Balance Sheet, includes firms that include no balance sheet information or cash flow information in their earnings release. In general, these announcements only give information on the firm's income. Together, the latter two categories constitute my sample of non-accrual disclosers. Due to the time required for searching, reading, and coding the earnings announcements, my sample covers the four-year period from 1999 to 2002, inclusive.

The filing dates are obtained using the 10K Wizard database. The 10K Wizard database uses the data from the SEC Edgar database and provides expanded search capabilities. The remaining data used in this study are available from public sources: The insider trading data are from the Thompson Insider Filing Feed database. The institutional investment data are from the

Thomson Financial Spectrum database. The accounting data are from the Compustat database, the stock market data are from CRSP and the financial analyst data is from I/B/E/S.

To be included in the sample, a firm must have filed a timely form 10-Q with the filing date available on 10K Wizard. A timely 10-Q is required to reduce the likelihood that the balance sheet information is not known to managers at the time earnings are announced. To mitigate the effects of outliers, all continuous variables are winsorized at the first and ninety-ninth percentile.

For the purpose of this study, an insider is defined as a member of the firm's senior management.[9] Members of the firm's board of directors or major shareholders are excluded from the sample unless they also hold a management position. In addition, only transactions coded as open market sales or purchases are included. Firms in regulated industries are excluded from the sample (4000-4999) because regulatory scrutiny may retrain insider trading or disclosure policy. Firms in the financial industry (6000-6999) are also excluded due to the limited ability of accrual models to accurately estimate abnormal accruals for these types of firms.

Although I aggregate all the trades of the firms' senior management, I assume no management collusion relating to the accrual disclosure policy of the firm. I know of no studies specifically addressing how a firm sets its disclosure policy or who actually sets the policy. I assume that a firm's disclosure policy is the result of interaction between management, outside investors, and market intermediaries. The senior management weighs the benefits of increased disclosure against the costs of providing it. I assume that all senior managers will benefit from the accrual disclosure policy even if they are not directly involved in the decision. The evidence in Table 1 suggests that, for some managers, the disclosure decision is determined before the

[9] Members of senior management include: President, Vice President, Chief Operating Officer, Chief Financial Officer, Chief Executive Officer, Chief Accounting Officer, and Chief Investment Officer.

decision to trade is made while for others, the decision to trade is made before the decision to disclose. Because of this, I separate the sample into 10 subsamples based on disclosure policy and direction of trade: all firms, consistent disclosers, inconsistent disclosers, inconsistent disclosers in the quarter of change, and all firms less the inconsistent disclosers in the quarter of change. To be a consistent discloser, the firm must disclose balance sheet information for all periods it is included in the sample. To be an inconsistent discloser the firm must have switched discloser policy sometime during the sample period. The inconsistent discloser in the quarter of change is limited to the quarter of change for firms that have changed discloser during the sample period.

3.0 Research Design

3.1 Balance Sheet Disclosure

Prior research suggests that investor demand determines whether balance sheet information is disclosed within the earnings announcement. Chen et al. (2002) suggests that managers voluntarily disclose balance sheet information at the earnings announcement when current earnings are less informative or when future earnings are more uncertain. Levi (2008) suggests that investors demand early release of balance sheet information due to higher uncertainty regarding the mapping of accruals into cash flows. However, the evidence provided in Baber et al. (2006), Louis et al. (2008) and Levi (2008) suggests that the accrual mispricing identified in Sloan (1996) and Xie (2001) is eliminated when a balance sheet is included in the earnings announcement press release. Consequently, it seems reasonable that investors of all firms, not just those in firms with the characteristics identified in Chen et al. (2002) and Levi (2008), would want a balance sheet (and/or statement of cash flows) to be included with the earnings announcement in order to value the accrual component of earnings correctly. This leaves the puzzling question: Why don't all firms supply balance sheet information at the earnings announcement?

One possible explanation is that the managers may not know the amount of the balance sheet accounts at the earnings announcement date. I reject this explanation because the balance sheet and the income statement must articulate. If a firm reports net income with the earnings announcement then the amount of balance sheet accounts should also be known at that date. While it is possible that a firm may not know the exact amount of all balance sheet accounts at the earnings announcement date, this concern is mitigated by the fact that firms typically report

the balance sheet accounts on a more aggregated basis than they do in SEC filings or annual reports and do not include footnotes required by GAAP.

A second possible explanation is that it too costly for the firm to report balance sheet information with the earnings announcement. I reject this explanation for two reasons. First, if the firm is reporting earnings, it should already have balance sheet information, so there is minimal preparation cost. Second, as Table 4 (below) indicates, firms that do not disclose balance sheet information are generally larger and presumably better able to absorb any increased costs of balance sheet disclosure.

A third explanation is that a firm's managers may not want to disclose balance sheet information because its earnings include income-increasing accruals that managers prefer to disclose only latter. The results in Baber et al. (2006), Louis et al. (2008) and Levi (2008) provide evidence of investors valuing the accrual portion of earnings less than cash flow portion if accrual information is included with the earnings announcement. Griffin (2003) provides evidence that investors do not value the accrual portion of earnings less than the cash flow portion when the balance sheet (and statement of cash flows) is disclosed at the filing date. The differential pricing of accruals and cash flows at the earnings announcement date but not at the filing date provides managers an incentive to delay disclosure of balance sheet information until the filing date. This leads to my first hypothesis:

H1: Balance sheet disclosure at the earnings announcement is negatively associated with the level of income-increasing accruals.

This question is interesting because it tests whether insiders are more interested in the selling opportunity presented by income-increasing accruals than the buying opportunity. If

income-increasing accruals are disclosed at the earnings announcement, then prior literature predicts the stock price will decrease at the earnings announcement date. This would allow insiders to purchase shares at a lower price. However if income-increasing accruals are disclosed at the filing date then prior literature predicts the stock price will not decrease at the earnings announcement date. This would allow insiders to sell shares at a higher price. My ex ante prediction is that the ability to sell shares at a higher price is more important than selling shares at a lower price. Stock compensation represents a significant portion of managers' total compensation. Consequently, I expect the ability to sell shares at a higher price is more important than buying shares at a lower price. The sample statistics (untabulated) seem to confirm my expectation. For the buying sample, there are 6,705 observations with only 286 instances of insider buying. This evidence shows that stock purchases by insiders are relatively infrequent and should not dominate the general strategy of delaying the disclosure of accrual information until the filing date.

Another explanation for a firm not disclosing balance sheet information with the earnings announcement is that managers desire to trade on undisclosed accrual information. The evidence in Core, Guay, Richardson, and Verdi (2006) and Beneish and Vargus (2002) suggests that managers do trade on accrual information. By withholding the disclosure of accrual information to outside investors until after managers have traded, managers create an informational advantage for themselves that may lead to increased trading profits. This leads to my second hypotheses (stated in alternative form):

H2a: Balance sheet disclosure at the earnings announcement is positively associated with insider trading profits for firms experiencing insider buying.

H2b: Balance sheet disclosure at the earnings announcement is negatively associated with insider trading profits for firms experiencing insider selling.

To test these hypotheses, I modify the logistic regression model used in Chen et al. (2002). To test H1, I add the variable ABACC. ABACC is the firm's level of abnormal accruals as estimated using the modified Jones (1991) model. I predict an inverse relationship between ABACC and BSD (i.e., $\beta_1 < 0$) in the regression below.

To test H2a and H2b, I add the variable PROFIT. PROFIT is defined as the value of insider trade for a firm multiplied by the post trade stock return. The value of insider trade, VALUE, is the number of shares either purchased or sold by all insiders of the firm during the period between the earnings announcement and the filing date, multiplied by the price per share at the time of the transaction. The post-trade stock return, RETURN, is the size-adjusted stock return for the 90-day period after the date of the trade. The RETURN for firms with net selling transactions is multiplied by -1, so that losses avoided after a sale are of the same sign as gains made after a purchase. I predict a positive relationship between PROFIT and BSD (i.e., $\beta_2 > 0$) for the buying sample and an inverse relationship between PROFIT and BSD (i.e., $\beta_2 < 0$) for the selling sample. Because the results of the regression using PROFIT may be driven by the values of large trades, I also re-estimate the model using the components of PROFIT: VALUE and RETURN. The use of the variable RETURN in the regression model is not subject to the same size-effect issues as the variable profit. The remaining variables used in this study are the identified in Chen et al. (2002) as determinants of balance sheet disclosure.

I estimate the following logistic regression:

$$BSD_i = \beta_0 + \beta_1 ABACC_i + \beta_2 PROFIT_i + \beta_3 MAD_i + \beta_4 HTD_i + \beta_5 LOSS_i + \beta_6 AFED_i + \beta_7 AGE_i + \beta_8 RV_i + \beta_9 SIZE_i + \beta_{10} AC_i + \beta_{11} MB_i + \varepsilon_i, \quad (1)$$

where:

BSD is an indicator variable equal to 1 if the firm discloses enough balance sheet data at the earnings announcement determine accruals, 0 otherwise;

ABACC is the seasonally-adjusted abnormal accruals for firm *i* as estimated by a cross-sectional Jones (1991) model, as described in the appendix;

PROFIT is the value of total insider trading (in millions of dollars) multiplied by the unadjusted return from 1 day after the day of the trade to 90 days after the day of the trade;

MAD = 1 if Compustat reports merger and acquisitions activity during the current quarter and 0 otherwise;

HTD = 1 if the firm reports Compustat SIC codes 2833-2836 (Pharmaceuticals), 8731-8734 (R&D Services), 7371-7379 (Programming), 3570-3577 (Computers), 3600-3674 (Electronics), or 3810-3845 (Precision Instruments), and 0 otherwise;

LOSS =1 if the quarterly net income before extraordinary items (from Compustat) is negative during the current quarter and 0 otherwise;

AFED=1 if reported earnings less the most recent mean consensus analysts' forecast is larger than one cent and 0 otherwise;

AGE is the year of the quarterly earnings announcement less the first year the firm is publicly traded according to CRSP;

RV is the standard deviation of stock returns over the prior 250 days, where at least 100 days of stock returns are required for inclusion in the sample;

SIZE is natural log of the firm's market value at the end of the current quarter;

AC is the number of analysts following the firm at the end of the current quarter; and

MB is the ratio of market value to book value at the end of the current quarter.

3.2 Insider Trading Profits and Balance Sheet Disclosure

Core, Guay, Richardson, and Verdi (2006) find that managers of low (high) accrual firms tend to purchase more (fewer) shares for their personal accounts. Beneish and Vargus (2002)

find that income increasing accruals are more persistent when followed by abnormal insider buying and income decreasing accruals are more persistent when accompanied by abnormal insider selling. While both studies provide evidence that insiders trade on accrual information, neither study examines the accrual disclosure choice prior to trade.

The evidence provided in Baber et al. (2006), Louis et al. (2008) and Levi (2008) suggests that the accrual mispricing identified in Sloan (1996) and Xie (2001) is eliminated when a balance sheet in included in the earnings press release. Consequently, the trading profits insiders make on their trades may be dependent on whether a balance sheet is disclosed with the earnings announcement, or not. This leads to my third hypothesis (stated in alternative form).

H3: Balance sheet disclosure is associated with insider trading profits subsequent to the earnings announcement date.

The main dependent variable used in this study is profitability of insider trade, PROFIT. I choose this variable for two reasons: First, it provides an indication of the economic magnitude of the insider trading during the period. Second, this measure best captures what managers want to maximize subject to the trading constraints they face.

The use of the dependent variable PROFIT may bias the results the regression due to larger trades and returns affecting the regression. In order to mitigate this concern, I also separately run the regression using VALUE and RETURN and report the results. The use of VALUE and RETURN as dependent variables eliminates the problem of high returns and large trades biasing the regression.

To control for the endogenous level of informational asymmetry for the firm other than accrual information, I include the median absolute abnormal return. The median absolute

abnormal return (MAAR) is the median of the magnitude of the abnormal returns, in percent, for the three-day window starting two days before and ending the day of the earnings announcement, for the prior eight fiscal quarters. I include this variable because Huddart and Ke (2007) find it a consistent measure of information asymmetry.[10]

Another issue somewhat related to information asymmetry is investor sophistication. Sophisticated investors may be able to infer accrual information even if it is not disclosed with the earnings announcement because Balsam, Bartov, and Marquardt (2002) find the stock price reaction to abnormal accruals is driven partly by institutional ownership, I proxy for investor sophistication by adding a control variable for institutional ownership, IO. IO is a binary variable equal to one if the percentage of a firm's outstanding common shares held by institutional investors at the end of the previous quarter is above the median institutional ownership percentage in its size-decile category.

Another determinant of insider trading is the manager's motivation for the trade. Insiders may sell for liquidity needs, portfolio rebalancing, or if they believe the stock is overvalued. To capture liquidity and portfolio rebalancing needs, it would be ideal to include the manager's compensation and the number of shares and options she holds in the firm. Although this information is publicly available on the Execucomp database, it would involve a significant reduction in sample size and introduce a bias towards larger firms. I assume the amount of a firm's securities an insider holds is correlated to the size of the firm; consequently I add the variable SIZE, which is the natural log of a firm's total assets measured at the end of the prior quarter.

[10] I modify their measure by reducing the number of years used to compute the median from five to two. The reason for this is that Chen et al. (2002) find that the age of the firm is correlated with disclosure, thus I may bias my sample by requiring five years of past data.

Ke, Huddart, and Petroni (2003) report that insider trading is associated with stock returns before, around, and after the date of the trade; to control for these factors the variables PRET and ERET are used. PRET is defined as the stock return for the six month period ending on the last day of the month prior to the month of the earnings announcement. ERET is defined as the stock return over the three-day window beginning two days before and ending on the day of the earnings announcement.

Prior research has determined that the direction of managerial trade is affected by whether the stock is classified as either "value" or "glamour". Piotroski and Roulstone (2005) find that current positive earnings news is associated with insiders selling (purchasing) shares of glamour (value) firms. Rozeff and Zaman (1998) find that insiders purchase more of the firm's shares when it changes from glamour to value. To control for the stock classification, I add the firm's book to market ratio (BM).

To proxy for litigation risk, I follow prior literature (Francis, Philbrick, and Schipper 1994; and Soffer, Thiagarajan, and Walther, 2000) and add a binary variable to control for firms in high litigation industries. LIT is an indicator variable equal to one if the firm is a member of one of the following industries: biotechnology (SIC codes 2833-2836 and 8731-8734), computers (3570-3577 and 7370-7374), electronics (3600-3674), and retailing (5200-5961), and zero otherwise.

To test H3, I use the regression equation shown below:

$$PROFIT_i = \alpha_0 + \alpha_1 BSD_i + \alpha_2 ABACC_i + \alpha_3 BSD^* ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO_i + \alpha_{10} LIT_i + \varepsilon_i \quad (2)$$

Where:

i indexes a firm-quarter;

PRET, which is the stock return for the six-month period ending on the last day of the month prior to the month of the earnings announcement;

ERET which is the return over the three-day window beginning two days before and ending on the day of the earnings announcement;

SIZE is the natural log of the firm's total assets;

MAAR is the median of the magnitude of abnormal returns from the two days prior to the day of the earnings announcement for the prior eight fiscal quarters, as a percentage;

BM is the firm's book to market ratio at the end of the previous quarter;

IO is a binary variable equal to one if a firm's share of outstanding common stock held by institutional investors at the end of the prior quarter is above the median ownership in its size-decile category, zero otherwise;

LIT is an indicator variable = 1, if the firm is a member of one of the following industries: biotechnology (SIC codes 2833-2836 and 8731-8734), computers (3570-3577 and 7370-7374), electronics (3600-3674), and retailing (5200-5961), zero otherwise; and

INDDIR is the percentage of outside directors on the firm's board,

all other variables are as defined previously.

I predict a direct relationship between abnormal accruals (ABACC) and insider trading profits (i.e., $\alpha_2 > 0$) and an inverse relationship between interaction variable (BSD*ABACC) and insider trading profits (i.e., $\alpha_3 < 0$). Because many sample firms appear multiple times during the 12 quarters I analyze, I follow the methodology used in Chen, Defond, and Park (2002) and run separate regressions for each quarter and report the means of the 12 estimated coefficients.

One potential drawback to this methodology is that managers do not need to openly trade shares to take advantage of trading on accrual information. Although insiders are prohibited from short-selling company shares, they are allowed to trade in option markets. By purchasing put and call options managers are able to profit from the information asymmetry created by delayed

disclosure of accrual information. Under SEC rule 16(b), an insider is not allowed to hold an equity security for less than six months (the short swing rule). The SEC defines an equity security as any stock or any security that carries a right to acquire stock, whether by conversion or otherwise. Because most options have maturity periods between one to six months, this six-month holding period effectively excludes insiders from many stock option transactions. Consequently, trading in derivative securities by insiders is rare and not extensively studied.

3.3 Insider Trading Profits, Balance Sheet Disclosure and Corporate Governance

The preceding section laid out the tests of whether accrual disclosure impacts insider trading profits. This section investigates whether strong corporate governance affects accrual disclosure and insider trading profits. If one of the roles of corporate governance is to reduce agency costs within an organization, then a strong board of directors should reduce actions by management to expropriate wealth from shareholders. Insider trading is one form of wealth expropriation. Prior research has established that strong corporate governance reduces agency costs within the firm.

Beekes, Pope and Young (2004) examine whether timeliness and conservatism in reported earnings varies with the composition of the board of directors. They test their hypotheses using a modified Basu (1997) model on a sample of firms from the United Kingdom. They find firms with a larger percentage of outside directors tend to incorporate bad news into earnings sooner. However, they find no evidence that board composition is associated with greater reporting conservatism when firms report good news. This delay in the incorporation of bad news into earnings would give insiders an opportunity to sell shares before the bad news is

revealed. However, their paper does not test the association between corporate governance and insider trading.

Klein (2002) examines whether boards of directors and audit committees' characteristics are related to earnings management of firms. She tests her hypotheses using both univariate and multivariate tests on a sample of firms from the S&P 500. She reports a negative association between the percent of outside directors on the board and the magnitude of abnormal accruals. She also reports a negative association between the percent of outside directors on the audit committee and the magnitude of abnormal accruals and examines the relationship between board and audit committee composition and abnormal accruals. She finds that firms that change the composition of their boards and/or audit committee from majority-independent to minority-independent experience a significant increase in abnormal accruals. These results suggest that director independence serves to retrain opportunistic behavior by management.

Core, Holthausen and Larcker (1999) investigate the relationship between the compensation of a firm's chief executive officer and the characteristics of the firm's board of directors and ownership structure. They find that board and ownership structure explains a significant amount of cross-sectional variation in CEO compensation. In addition, their results suggest that CEO compensation is greater when governance is weaker. Moreover, they find that component of compensation related to board and ownership structure is negatively related to future returns. Their evidence suggests that firms with weaker governance structures have greater agency problems.

Frankel, McVay, and Soliman (2008) investigate the relationship between board of director independence and the predictive ability of the difference between GAAP earnings and pro-forma earnings. They find an inverse relationship between the predictive ability of the

difference and the percentage of independent directors. In other words, the higher the percentage of outsiders on the board, the more transitory is the exclusion. They also document a stronger association between insider trading and the permanence of the exclusions when boards contain fewer outside directors. Their results suggest that a weaker governance structure leads to more opportunistic behavior by managers.

The research cited above suggests that strong corporate governance reduces managerial opportunism. This leads to my fourth hypothesis in alternative form:

H4: *Strong corporate governance reduces the profitability of insider trading on accrual information.*

The board of directors can reduce insider trading on undisclosed accrual information several ways: First, they can mandate that accrual information be disclosed at the earnings announcement date rather than at the filing date. By requiring accrual information to be disclosed at the earning announcement date, the board would eliminate the information asymmetry between the management and the shareholders. Second, the board can impose financial controls on the management and limit the size of abnormal accruals. By limiting the size of abnormal accruals the board would also reduce the mispricing associated with undisclosed abnormal accruals. Finally, the board of directors can monitor the managers' trading behavior and limit the expropriation of wealth from shareholders.

Alternatively, directors may not restrict managerial trading activities believing it is in the best interest of the firm to allow unrestricted trading. For example, Roulstone (2001) finds that firms pay a premium in total compensation when placing restrictions on insider trading. Bowen, Rajgopal, and Venkatachalam (2005) find significant associations between accounting discretion

and proxies for weak corporate governance, but do not find a subsequent decline in firm performance. They conclude that managers do not abuse accounting discretion at the expense of firms' shareholders. Thus, even a strong board may not feel compelled to act if they do not perceive a decline in shareholder value due to lack of disclosure.

One of the more difficult decisions in corporate governance research is how to measure the quality of a firm's corporate governance system. Corporate governance is an abstract concept that is difficult to quantify, thus requiring the use of a proxy. Baber, Kang, and Liang (2006) separate corporate governance proxies into two categories: external and internal. External governance is the ability of outside investors to discipline the managers of the firm, while internal governance is the ability of the Board of Directors to influence management's decisions. Because I hypothesize that it is the board's influence, rather than outside investor discipline that would reduce the profitability of trading on accrual information, I limit my choice of proxies to internal corporate governance measures. Internal corporate governance proxies generally focus on the independence of the overall board and several key committees (audit, nominating, and compensation). Because two of the methods to reduce insider trading on accrual information are improved disclosure and reduced accruals, the independence of the audit committee is the most useful proxy because these actions would fall under their control. However, during my sample period stock exchange rules either encouraged or required companies to maintain independent audit committees. Consequently, most firms in my sample have independent committees and there is little variation in the sample. I find a similar problem when using the percentage of outside directors. Consequently, I use the corporate governance measure advanced by Gompers, Ishii, and Metrick (2003). They construct an index using 24 unique governance rules that limit shareholders rights. For each rule a firm has adopted the index is increased by 1 point.

Consequently, higher values of this index are interpreted as denoting poorer corporate governance. To construct my proxy, G, I sort the index into deciles and assign a value of 1 for firms in the first decile and 0 for other firms. This is similar to the "democracy portfolio" used in Gompers, Ishii, and Metrick (2003) to proxy for good governance.

To test my fourth hypothesis, I use three different models. Each model tests one aspect of how corporate governance may reduce the amount of insider trading on undisclosed accrual information. To consider the first possibility of strong corporate governance reducing the amount of abnormal accruals I use the following model adapted from Klein (2002).

$$ABACC_i = \beta_0 + \beta_1 BH_i + \beta_2 CEO + \beta_3 G_i + \beta_4 MB_i + \beta_5 Abs(NI)_i + \beta_6 LOSS_i + \beta_7 LTD_i + \beta_8 Ln(TA)_i + \varepsilon_i \quad (3)$$

where:

BH is an indicator variable=1, if a 5% or more blockholder sits on the firm's board of directors, 0 otherwise;

CEO is the percentage of common shares owned by the CEO;

G is a corporate governance indicator equal to 1 if the firm is in the lowest decile of GSCORE rankings, 0 otherwise;

MB is the ratio of market value to book value at the end of the current quarter;

Abs(NI) is the absolute value of the change in net income between quarter t-4 and t;

LOSS =1 if the quarterly net income before extraordinary items (from Compustat) is negative during the current quarter and 0 otherwise;

LTD is long-term debt divided by last year's total assets;

LN(TA) is the natural log of this year's total assets.

To consider the second possibility that strong corporate governance is associated with the disclosure of accrual information at the earnings announcement. I use the following logit model:

$$BSD_i = \beta_0 + \beta_1 G_i + \beta_2 MAD_i + \beta_3 HTD_i + \beta_4 LOSS_i + \beta_5 AFED_i + \beta_6 AGE_i + \beta_7 RV_i + \beta_8 SIZE_i + \beta_9 AC_i + \beta_{10} MB_i + \varepsilon_i \quad (4)$$

Where G is defined the same as in equation 3 and all other variables are defined the same as in equation 1.

To consider the third possibility that the board monitors insider trading behavior, I use the following regression model:

$$PROFIT_i, RETURN_i, or VALUE_i = \alpha_0 + \alpha_1 BSD_i + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 G_i + \alpha_5 PRET_i + \alpha_6 ERET_i + \alpha_7 SIZE_i + \alpha_8 MAAR_i + \alpha_9 BM_i + \alpha_{10} IO + \alpha_{11} LIT_i + \varepsilon_i \quad (5)$$

Where G is defined the same as in equation 3 and all other variables are defined the same as in equation 2.

To summarize this chapter, I investigate three separate research questions: First, is balance sheet disclosure associated with the level of income increasing accruals? Second, is balance sheet disclosure associated with the insider trading profits? Third, does strong corporate governance reduce the profitability of insider trading on undisclosed accrual information?

4.0 Results

4.1 Descriptive Statistics

Tables 3 through 11 present the descriptive statistics for the sample based on the firm's disclosure choice.

Table 3 presents descriptive and comparative statistics for the entire sample divided into firms that disclose accrual information at the earnings announcement date and firms that did not. Managers of firms that disclose accrual information at the earnings announcement date trade more heavily in the period between the earnings announcement date and the filing date. However, these managers receive a smaller return and profit on their trades compared to managers in firms that disclose accrual information at the filing date. The mean amount of VALUE is 0.5291 for firms that disclose accrual information with the earnings announcement and 0.2622 for firms that did not. This difference is statistically significant at the 1% level. The mean amount of RETURN and PROFIT are 0.0024 and -0.0104 for firms that disclose accrual information with the earnings announcement and 0.0055 and 0.0055 for firms that did not (statistically significant at the 10% level), respectively. Panel A also shows that firms that disclose accrual information with the earnings announcement on average have lower abnormal accruals. The variable ABACC is -0.0032 for firms that disclose accrual information at the earnings announcement and 0.0025 for firms that disclose at the filing date. In addition, firms that disclose accrual information at the filing date on average are larger and have less litigation risk than firms that disclose accrual information with the earnings announcement. The mean value for the variables SIZE and LIT is 5.8827 and 0.3881 for firms including accrual information at the earnings announcement date and 6.0834 and 0.1887 for filing firms, respectively.

Table 4 presents descriptive and comparative statistics for the sub-sample of firms that maintained a consistent disclosure policy for the 16 quarters used in this study. The results are very similar to those reported in Table 3. Managers of firms that consistently disclose accrual information at the earnings announcement date trade more heavily in the period between the earnings announcement date and the filing date. However, these managers receive a smaller profit on their trades compared to managers in firms that consistently disclose accrual information at the filing date. The return on the trades for both groups is not statistically different. The mean amount of VALUE is 0.5510 for firms that disclose accrual information with the earnings announcement and 0.2195 for firms that did not. This difference is statistically significant at the 1% level. The mean amount of PROFIT is -0.0163 for firms that disclose accrual information with the earnings announcement and 0.0041 for firms that did not. This difference is statistically significant at the 1% level. Panel B also shows that firms that consistently disclose accrual information with the earnings announcement on average have lower abnormal accruals. The variable ABACC is -0.0052 for firms that disclose accrual information at the earnings announcement and 0.0017 for firms that disclose at the filing date. In addition, firms that consistently disclose accrual information at the filing date on average are larger and have less litigation risk than firms that disclose accrual information with the earnings announcement. The mean values for SIZE and LIT are 5.8405 and 0.4348 for firms including accrual information at the earnings announcement date and 6.0577 and 0.1641 for filing firms, respectively.

Table 5 presents descriptive and comparative statistics for the sub-sample of firms that consistently disclosed accrual information with the earnings announcement during the sample period compared to firms that changed their disclosure policy to disclosing accrual information

sometime during the sample period. Managers of firms that changed their disclosure policy trade less heavily in the period between the earnings announcement date and the filing date. However, these managers receive a larger profit on their trades compared to managers in firms that consistently disclose accrual information with the earnings announcement. The return on the trades made is not statistically different between the two groups. The mean amount of VALUE is 0.5510 for firms that consistently disclose accrual information with the earnings announcement and 0.3160 for firms that changed their disclosure policy. This difference is statistically significant at the 1% level. The mean amount of PROFIT is -0.0163 for firms that disclose accrual information with the earnings announcement and -0.0017 for firms that changed their disclosure policy. This difference is statistically significant at the 1% level. Panel C also shows that firms that consistently disclose accrual information with the earnings announcement on average have lower abnormal accruals. The variable ABACC is -0.0052 for firms that disclose accrual information with the earnings announcement and -0.0017 for firms that changed disclosure policy. In addition, firms that consistently disclose accrual information at the filing date on average are smaller and have higher litigation risk than firms that disclose accrual information with the earnings announcement. The mean values for SIZE and LIT are 5.8405 and 0.4348 for firms including accrual information at the earnings announcement date and 6.2404 and 0.1966 for firms changing disclosure policy, respectively.

Table 6 presents descriptive and comparative statistics for the sub-sample of firms that consistently disclosed accrual information at the filing date during the sample period compared to firms that changed their disclosure policy to disclosing accrual information at the filing date sometime during the sample period. Managers of firms that changed their disclosure policy trade more heavily in the period between the earnings announcement date and the filing date.

However, the return and the profit on the managers' trades are not statistically different between the two groups. The mean amount of VALUE is 0.2195 for firms that consistently disclose accrual information at the filing date and 0.37300 for firms that changed their disclosure policy This difference is statistically significant at the 1% level. Panel D also shows no statistical difference in the level of accruals between these two groups of firms. In addition, firms that consistently disclose accrual information at the filing date on average are larger and have lower litigation risk than firms that disclose accrual information with the earnings announcement. The mean values for SIZE and LIT are 6.0577 and 0.1641 for firms disclosing accrual information at the filing date and 5.8463 and 0.3102 for firms changing disclosure policy, respectively.

Table 7 presents descriptive and comparative statistics for the sub-sample of firms that changed their accrual disclosure policy during the sample period. There are no statistical differences between the value of insider trade, the return on the trades, the profitability of the trades, or the level of abnormal accruals between the two samples. The strongest statistical difference between the two groups is that firms changing from disclosing accrual information from the filing date to the earnings announcement date are larger. The mean value of SIZE is 6.2404 for firms changing from disclosing accrual information from the filing date to the earnings announcement date and 5.8463 for firms changing from disclosing accrual information from the earnings announcement date to the filing date.

Table 8 presents descriptive and comparative statistics for the sub-sample of firms that changed from disclosing accrual information at the filing date to disclosing accrual information at the earnings announcement date. The observations contained in this sample are from the quarter of change only. Firms where insiders traded shares during the quarter of disclosure change, are larger, have a lower market-to-book ratio, and more institutional ownership. The

variable SIZE is 6.9013 for trading firms and 6.032 for non-trading firms. This difference is statistically significant at the 1% level. The variable BM is 0.4850 for trading firms and 0.7091 for non-trading firms. This difference is statistically significant at the 1% level. The variable IO is 0.6727 for trading firms and 0.5491 for non-trading firms. This difference is statistically significant at the 10% level.

Table 9 presents descriptive and comparative statistics for the sub-sample of firms that changed from disclosing accrual information at the earnings announcement date to disclosing accrual information at the filing date. The observations contained in this sample are from the quarter of change only. Firms where insiders traded shares during the quarter of disclosure change are larger, have a lower market-to-book ratio, and have higher litigation risk. The variable SIZE is 6.4131 for trading firms and 5.7282 for non-trading firms (statistically significant at the 1% level). The variable BM is 0.4970 for trading firms and 0.7225 for non-trading firms. This difference is statistically significant at the 1% level. The variable LIT is 0.3913 for trading firms and 0.2623 for non-trading firms. This difference is statistically significant at the 10% level.

Tables 10 and 11 present descriptive and comparative statistics for the sub-sample of firms that changed their disclosure strategy and traded or not traded, respectively. As with the previous two panels, the observations contained in this sample are from the quarter of change only. Table 10 shows the major difference between the firms that changed their disclosure strategy and traded is that Disclosers that changed to Non-Disclosers have on average higher litigation risk than Non-Disclosers that changed to Disclosers. The mean value of the variable LIT is 0.3913 for Disclosers that changed to Non-Disclosers and 0.1818 for Non-Disclosers that changed to Disclosers. This difference is statistically significant at the 1% level. Panel A shows

the major difference between the firms that changed their disclosure strategy and did not trade is that Disclosers that changed to Non-Disclosers are on average smaller in size, experienced lower returns for the previous six month period, and experienced lower returns during the three day window around the earnings announcement than Non-Disclosers that changed to Disclosers. The variables PRET, ERET, and SIZE are 0.0504, 0.0239, and 5.7282 for Disclosers that changed to Non-Disclosers and 0.1105, 0.0119, and 6.0392 for Non-Disclosers that changed to Disclosers, respectively. The differences between the samples for PRET and ERET are statistically significant at the 10% level while the difference for SIZE is statistically significant at the 5% level.

Tables 12 through 19 separate the sample data based on the firms' disclosure policy in during the sample period and the direction of insider trade. Table 12 presents the univariate statistics for all firm-quarters in the sample where insiders either purchased shares or did not trade. Firms that disclosed accrual information with the earnings announcement (*Disclosers*), have a smaller amount of abnormal accruals than firms that disclosed at the filing date (*Non-Disclosers*). The mean (median) level of the variable ABACC is -0.0027 (-0.0065) for Disclosers and 0.0023 (-0.0026) for Non-Disclosers (statistically significant at the 5% level). This result is opposite of my prediction that insiders wanting to purchase shares would disclose a larger amount of abnormal accruals at the earnings announcement date in order take advantage of the negative price reaction from outside investors to the disclosure of accrual information. In addition, there is no statistical difference between the two groups of firms at the mean in the value of the trades (VALUE), the return on the trades (RETURN), or the profits from the trades (PROFIT). The Wilcoxon signed rank test indicates a difference for VALUE between the two samples. For the control variables, the prior return (PRET) and the event return (ERET) are

statistically insignificant between Disclosers and Non-Disclosers; however, the remaining control variables are statistically different at the 1% level between the two groups of firms. Non-Disclosers are larger companies than Disclosers. The mean (median) value for SIZE is 5.9442 (5.7767) and 5.7573 (5.6277) for Non-Disclosers and Disclosers, respectively. Disclosers have more information asymmetry at the earnings announcement date than Non-Disclosers. The mean (median) value for the variable MAAR is 0.0064 (0.0051) and 0.0045 (0.0030) for Disclosers and Non-Disclosers, respectively. Non-Disclosers have a larger book-to-market ratio than Disclosers. The mean (median) value for the variable BM is 0.8225 (0.6383) and 0.6900 (0.5252) for Non-Disclosers and Disclosers, respectively. Disclosers have a larger percentage of their shares held by institutional investors than do Non-Disclosers. The mean (median) value for the variable IO is 0.5640 (1.0000) and 0.4537 (0.0000) for Disclosers and Non-Disclosers, respectively. Disclosers are more likely to be in industries with a higher litigation risk than Non-Disclosers. The mean (median) value for the variable LIT is 0.3669 (0.0000) and 0.1797 (0.0000) for Disclosers and Non-Disclosers, respectively.

Table 13 contrasts the univariate statistics for all firm-quarters between the samples where insiders either sold shares or did not trade. Managers at firms that disclose accrual information with the earnings announcement sell a larger dollar amount of shares than do managers of firms that disclose accrual information with the SEC filing. However, their return and profit from the trades are lower (on average negative) than managers of firms that disclose accrual information at the filing date. The mean (median) of VALUE, RETURN, and PROFIT are 0.5392 (0.0000), -0.0002 (0.0000), and -0.0111 (0.0000) for Disclosers and 0.2621 (0.0000), 0.0038 (0.0000), and 0.0048 (0.0000) for Non-Disclosers, respectively. The differences in the above variables between the two groups of firms are statistically significant at the 5% level or

higher. Non-Disclosers have a larger amount of abnormal accruals than Disclosers. The mean (median) level of the variable ABACC is 0.0024 (-0.0023) for Non-Disclosers and -0.0035 (-0.0067) for Disclosers (statistically significant at the 1% level). Notice that on average, Non-Disclosers have income-increasing abnormal accruals while Disclosers have income-decreasing abnormal accruals. This result supports my prediction that insiders wanting to sell shares would disclose income-increasing abnormal accruals at the filing date in order to delay the negative price reaction from outside investors to the disclosure of accrual information until after they had a change to trade.

The results for the control variables show that most are statistically different between the two groups of firms. At the mean, the prior return is larger for Disclosers than for Non-Disclosers (statistically significant at the 1% level); however at the median the difference is statistically insignificant. The mean (median) value for PRET is 0.1109 (0.0206) and 0.0745 (0.0101) for Disclosers and Non-Disclosers, respectively. The differences in the event return (ERET) is statistically insignificant between the two groups. The remaining control variables are statistically different at the 1% level between the two groups of firms. Non-Disclosers are larger companies than Disclosers. The mean (median) value for SIZE is 6.0746 (5.9083) and 5.8765 (5.7469) for Non-Disclosers and Disclosers, respectively. Disclosers have more information asymmetry at the earnings announcement date than Non-Disclosers. The mean (median) value for MAAR is 0.0072 (0.0056) and 0.0047 (0.0033) for Disclosers and Non-Disclosers, respectively. Non-Disclosers have a larger book-to-market ratio than Disclosers. The mean (median) value for BM is 0.7794 (0.5967) and 0.6366 (0.4711) for Non-Disclosers and Disclosers, respectively. Disclosers have a larger percentage of their shares held by institutional investors than do Non-Disclosers. The mean (median) value for IO is 0.5717 (1.0000) and

0.4694 (0.0000) for Disclosers and Non-Disclosers, respectively. Disclosers are more likely to be in industries with a higher litigation risk than Non-Disclosers. The mean (median) value for the variable LIT is 0.3866 (0.0000) and 0.1870 (0.0000) for Disclosers and Non-Disclosers, respectively.

Table 14 presents the univariate statistics for firm-quarters in the sample where the firm maintained a consistent disclosure policy and insiders either purchased shares or did not trade. The results of this panel are very similar to the results of Table 12. There is no statistical difference between the two groups of firms at the mean in the value of the trades (VALUE), the return on the trades (RETURN), or the profits from the trades (PROFIT). There is a statistical difference at the median for VALUE; with the Wilcoxon test showing a difference in the distribution between the samples. Firms that disclosed accrual information with the earnings announcement, have a smaller amount of abnormal accruals than firms that disclosed at the filing date. The mean (median) level of ABACC is -0.0045 (-0.0066) for Disclosers and 0.0010 (-0.0033) for Non-Disclosers (statistically significant at the 5% level). For the control variables, the prior return (PRET) and the event return (ERET) are statistically insignificant at the mean between Disclosers and Non-Disclosers; however at the median the PRET is significantly smaller for Disclosers (-0.0148) than for Non-Disclosers (-0.0013). With the exception of the median difference in SIZE, the remaining control variables are statistically different at the 1% level at both the mean and median between the two groups of firms. Non-Disclosers are larger companies than Disclosers. The mean (median) value for SIZE is 5.9028 (5.7345) and 5.7043 (5.5459) for Non-Disclosers and Disclosers, respectively. Disclosers have more information asymmetry at the earnings announcement date than Non-Disclosers. The mean (median) value for MAAR is 0.0066 (0.0055) and 0.0039 (0.0035) for Disclosers and Non-Disclosers,

respectively. Non-Disclosers have a larger book-to-market ratio than Disclosers. The mean (median) value for BM is 0.8682 (0.6750) and 0.6819 (0.5120) for Non-Disclosers and Disclosers, respectively. Disclosers have a larger percentage of their shares held by institutional investors than do Non-Disclosers. The mean (median) value for IO is 0.5632 (1.0000) and 0.3935 (0.0000) for Disclosers and Non-Disclosers, respectively. Disclosers are more likely to be in industries with a higher litigation risk than Non-Disclosers. The mean (median) value for LIT is 0.4079 (0.0000) and 0.1515 (0.0000) for Disclosers and Non-Disclosers, respectively.

Table 15 presents the univariate statistics for firm-quarters in the sample where the firm maintained a consistent disclosure policy and insiders either sold shares or did not trade. The results of this panel are similar to those of Table 13. At the mean, managers at firms that disclose accrual information with the earnings announcement sell a larger dollar amount of shares than do managers of firms that disclose accrual information with the SEC filing. However, their profits from the trades are lower than managers of firms that disclose accrual information at the filing date. The mean values for VALUE and PROFIT are 0.5880 and -0.0135 for Disclosers and 0.2190 and 0.0038 for Non-Disclosers, respectively (statistically significant at the 1% level). At the median there is a significant difference in VALUE between the two groups of firms at the 1% level. Non-Disclosers have a higher level of abnormal accruals than Disclosers. The mean (median) level of ABACC is 0.0020 (-0.0018) for Non-Disclosers and -0.0055 (-0.0067) for Disclosers (statistically significant at the 1% level). The results for the control variables show that most are statistically different between the two groups of firms. At the mean, the prior return is larger for Disclosers than for Non-Disclosers (statistically significant at the 1% level); however at the median the difference is statistically insignificant. The mean (median) value for PRET is 0.1031 (0.0145) and 0.0712 (0.0097) for Disclosers and Non-Disclosers, respectively.

The differences in the event return (ERET) is statistically insignificant between the two groups. The remaining control variables are statistically different at the 1% level between the two groups of firms. Non-Disclosers are larger companies than Disclosers. The mean (median) value for SIZE is 6.0471 (5.8582) and 5.8372 (5.6708) for Non-Disclosers and Disclosers, respectively. Disclosers have more information asymmetry at the earnings announcement date than Non-Disclosers. The mean (median) value for MAAR is 0.0076 (0.0058) and 0.0040 (0.0036) for Disclosers and Non-Disclosers, respectively. Non-Disclosers have a larger book-to-market ratio than Disclosers. The mean (median) value for BM is 0.8237 (0.6384) and 0.6231 (0.4541) for Non-Disclosers and Disclosers, respectively. Disclosers have a larger percentage of their shares held by institutional investors than do Non-Disclosers. The mean (median) value for IO is 0.5692 (1.0000) and 0.4158 (0.0000) for Disclosers and Non-Disclosers, respectively. Disclosers are more likely to be in industries with a higher litigation risk than Non-Disclosers. The mean (median) value for LIT is 0.4331 (0.0000) and 0.1649 (0.0000) for Disclosers and Non-Disclosers, respectively.

Table 16 presents the univariate statistics for firms that changed disclosure policy during the sample period and insiders either purchased shares or did not trade. The results show no significant statistical differences in the trading behavior of insiders between firms that disclosed accrual information at the earnings announcement and those that waited until the filing date. In addition, there is no statistical difference in the level of accruals between the two groups of firms. The only differences between the two samples are in three control variables. Disclosers have a higher prior stock return than Non-Disclosers. The mean (median) for PRET is 0.0968 (0.0137) and 0.0556 (-0.0083) for Disclosers and Non-Disclosers (statistically significant at the 5% level), respectively. Non-Disclosers are larger in size than Disclosers at the mean. The mean

value for SIZE is 6.0134 and 5.8870 for Files and Disclosers (statistically significant at the 10% level), respectively. Disclosers are more likely to be in industries with a higher litigation risk than Non-Disclosers. The mean (median) value for LIT is 0.2664 (0.0000) and 0.2270 (0.0000) for Disclosers and Non-Disclosers (statistically significant at the 5% level), respectively.

Table 17 presents the univariate statistics for firms that changed disclosure policy during the sample period and insiders either sold shares or did not trade. At the mean, Insiders from firms with delay accrual disclosure until the filing date make a higher return from their trades than insiders from firms that disclose at the earnings announcement. The variable RETURN is 0.0047 and -0.0028 for Non-Disclosers and Disclosers (statistically significant at the 5% level), respectively. The variables VALUE, RETURN, and PROFIT are statistically significant at the 5% level at the median; however this result is difficult to interpret because the median value of each variable is 0.0000. There is no statistical difference in the level of accruals between the two groups of firms. Disclosers have a higher prior stock return than Non-Disclosers. The mean (median) for PRET is 0.1306 (0.0411) and 0.0801 (0.0106) for Disclosers and Non-Disclosers (statistically significant at the 1% level), respectively. Non-Disclosers are larger in size. The mean (median) value for SIZE is 6.1209 (5.9649) and 5.9767 (5.9231) for Files and Disclosers (statistically significant at the 1% level for the mean and the 5% level for the median), respectively. Disclosers are more likely to be in industries with a higher litigation risk than Non-Disclosers. The mean (median) value for LIT is 0.2677 (0.0000) and 0.2242 (0.0000) for Disclosers and Non-Disclosers (statistically significant at the 1% level), respectively.

Table 18 presents the univariate statistics for the quarter that firms changed disclosure policy and insiders either purchased shares or did not trade. The results show no significant statistical differences in the trading behavior of insiders between firms that disclosed accrual

information at the earnings announcement and those that waited until the filing date. In addition, there is no statistical difference in the level of accruals between the two groups of firms. The only differences between the two samples are in four control variables. At the median, Disclosers have a higher prior stock return than Non-Disclosers. The median for PRET is 0.0490 and -0.0026 for Disclosers and Non-Disclosers (statistically significant at the 5% level), respectively. However, the event return is higher for Non-Disclosers than for Disclosers. The mean (median) for ERET is 0.0234 (0.0122) and 0.0099 (0.0067) for Non-Disclosers and Disclosers (statistically significant at the 5% level at the mean and 10% at the median), respectively. Disclosers are larger in size than Non-Disclosers. The mean (median) value for SIZE is 6.0681 (5.9265) and 5.6913 (5.6083) for Disclosers and Non-Disclosers (statistically significant at the 1% level), respectively. At the mean, Disclosers have higher information asymmetry than Non-Disclosers. The mean value for MAAR is 0.0067 and 0.0030 for Disclosers and Non-Disclosers (statistically significant at the 10% level).

Table 19 presents the univariate statistics for the quarter that firms changed disclosure policy and insiders either sold shares or did not trade. The results show no significant statistical differences in the trading behavior of insiders between firms that disclosed accrual information at the earnings announcement and those that waited until the filing date. In addition, there is no statistical difference in the level of accruals between the two groups of firms. The only differences between the two samples are in three control variables. Disclosers have a higher prior stock return than Non-Disclosers. The mean (median) for PRET is 0.1276 (0.0810) and 0.0678 (0.0000) for Disclosers and Non-Disclosers (statistically significant at the 10% level for the mean and 5% for the median), respectively. At the mean, the event return is higher for Non-Disclosers than for Disclosers. The mean for ERET is 0.0243 and 0.0120 for Non-Disclosers and

Disclosers (statistically significant at the 5% level), respectively. Disclosers are larger in size than Non-Disclosers. The mean (median) value for SIZE is 6.1408 (6.0573) and 5.8493 (5.7452) for Disclosers and Non-Disclosers (statistically significant at the 5% level), respectively.

To summarize results from Tables 3 to 19, firms that disclose balance sheet information with the earnings announcement are generally smaller in size than firms that choose not to disclose. This result is inconsistent with the argument that cost is a factor in the disclosure decision. Because larger firms should be better able to afford the increased costs of disclosing balance sheet information, firms that disclose balance sheet information with the earnings announcement are more likely to be in an industry with high litigation risk than firms that choose not to disclose. This result indicates that litigation risk is a factor in the decision to disclose balance sheet information. Firms that disclose balance sheet information with the earnings announcement generally have a higher dollar amount of insider trading than firms that choose not to disclose. However their trades are less profitable. Firms that disclose balance sheet information with the earnings announcement on average have income-decreasing accruals while firms that choose not to disclose balance sheet information on average have income-increasing accruals. When firms change their balance sheet disclosure policy there appears to be little difference in the dollar amount of their trades or the profitability of their trades. Balance sheet disclosure policy appears to make little difference in the size of profitability of trades when insiders purchase shares. However, when selling shares the profitability is lower for firm that disclose balance sheet information with the earnings announcement.

Tables 20-27 present the simple Pearson and Spearman correlations between the variables used in this study. Table 20 presents the correlation results for all firms in the sample where insiders either purchased shares or refrained from trading. The dollar-value of the insider's

trades is positively correlated with the return earned on the trade. The Pearson and Spearman correlations between VALUE and RETURN are 0.0794 (p-value <.0001) and 0.2772 (p-value <.0001), respectively. This is consistent with rational insiders making larger trades when the expectation of higher returns is likely. The level of abnormal accruals is negatively correlated with balance sheet disclosure. The Pearson and Spearman correlations between ABACC and BSD are -0.0267 (p-value 0.0133) and -0.0263 (p-value 0.0144), respectively. This is consistent with managers wanting to delay the disclosure of accruals until the filing date in order to avoid a negative price impact at the earnings announcement date. However, it is inconsistent with the accrual trading strategy outlined previously. Disclosing accrual information with the earnings announcement is positively correlated to the dollar-value of the trade. The Spearman correlation between BSD and VALUE is 0.0306 (p-value 0.0044), although the Pearson correlation is also positive it is not significant at conventional levels. This is consistent with accrual trading strategy outlined previously. In conclusion, this table provides limited evidence that insiders purchasing shares engage in an accrual trading strategy.

Table 21 presents the simple correlation for all firms in the sample where insiders either sold shares or refrained from trading. The dollar-value of the insider's trades is negatively correlated with the return earned on the trade. The Pearson and Spearman correlations between VALUE and RETURN are -0.0239 (p-value 0.0190) and -0.0263 (p-value 0.0098), respectively. This relationship implies that insiders are irrational in their trading and make larger trades when the expectation of higher returns is less likely. However, one rational explanation for this behavior is litigation risk. Insiders selling shares shortly before a decline in stock price face increased legal jeopardy. To reduce their exposure to this jeopardy, insiders may sell their shares well before the decline in share price. Insiders selling shares while the share price is still

increasing would lead to a negative return in the 90-day window used in this study. Consistent with my predictions, there is an inverse relationship between firms disclosing accrual information with the earnings announcement and both the return and profitability of insiders' stock sales. The Pearson and Spearman correlations between BSD and RETURN are -0.0235 (p-value 0.0211) and -0.0198 (p-value 0.0517), respectively and the Pearson and Spearman correlations between BSD and PROFIT are -0.0386 (p-value 0.0002) and -0.0185 (p-value 0.0698), respectively. Also consistent with my predictions, there is an inverse relationship between firms disclosing accrual information with the earnings announcement and the level of abnormal accruals. The Pearson and Spearman correlations between BSD and ABACC are -0.0315 (p-value 0.0020) and -0.0335 (p-value 0.0010), respectively. However, inconsistent with my predictions, there is a positive correlation between the disclosure of accrual information with the earnings announcement and the dollar-value of insiders' stock sales. The Pearson and Spearman correlations between BSD and VALUE are 0.0642 (p-value <.0001) and 0.0823 (p-value <.0001), respectively.

Table 22 presents the correlation results for firms in the sample that maintained a consistent disclosure policy where insiders either purchased shares or refrained from trading. The dollar-value of the insider's trades is positively correlated with the return earned on the trade. The Pearson and Spearman correlations between VALUE and RETURN are 0.0762 (p-value <.0001) and 0.2874 (p-value <.0001), respectively. The level of abnormal accruals is negatively correlated with balance sheet disclosure. The Pearson and Spearman correlations between ABACC and BSD are -0.0283 (p-value 0.0305) and -0.0255 (p-value 0.0509), respectively. Disclosing accrual information with the earnings announcement is positively correlated to the dollar-value of the trade. The Spearman correlation between BSD and VALUE is 0.0459 (p-

value 0.0004), although the Pearson correlation is also positive it is not significant at conventional levels. In conclusion, this table provides limited evidence that insiders purchasing shares engage in an accrual trading strategy. In conclusion this table is very similar to Table 20.

Table 23 presents the simple correlation for all firms in the sample that maintained a consistent disclosure policy where insiders either sold shares or refrained from trading. The dollar-value of the insider's trades is negatively correlated with the return earned on the trade. The Pearson correlation between VALUE and RETURN is -0.0334 (p-value 0.0068). There is an inverse relationship between firms disclosing accrual information with the earnings announcement and the profitability of insiders' stock sales. The Pearson correlation between BSD and PROFIT is -0.0397 (p-value 0.0013), the Spearman correlation between BSD and PROFIT is also negative but not significant at conventional levels. There is a negative correlation between firms disclosing accrual information with the earnings announcement and the level of abnormal accruals. The Pearson and Spearman correlations between BSD and ABACC are -0.0390 (p-value 0.0016) and -0.0394 (p-value 0.0014), respectively. There is a positive correlation between the disclosure of accrual information with the earnings announcement and the dollar-value of insiders' stock sales. The Pearson and Spearman correlations between BSD and VALUE are 0.0811 (p-value <.0001) and 0.0980 (p-value <.0001), respectively. Overall, the evidence in this table is weaker than the evidence in Table 20.

Table 24 presents the correlation results for all firms in the sample that changed disclosure sometime in the sample period and where insiders either purchased shares or refrained from trading. The dollar-value of the insider trading is positively correlated with the return earned on the trade. The Pearson and Spearman correlations between VALUE and RETURN are 0.1678 (p-value <.0001) and 0.2356 (p-value <.0001), respectively. The level of abnormal

accruals is positively correlated with the dollar value of the insider trading. The Pearson and Spearman correlations between ABACC and VALUE are 0.0418 (p-value 0.0273) and 0.0364 (p-value 0.0545), respectively. The level of abnormal accruals is positively correlated with the profits from insider trading. The Pearson correlation between ABACC and PROFIT are 0.0473 (p-value 0.0124); however, the Spearman correlation is of the opposite sign and statistically insignificant.

Table 25 presents the simple correlation for all firms in the sample that changed accrual disclosure and where insiders either sold shares or refrained from trading. The dollar-value of the insider's trades is negatively correlated with the return earned on the trade. The Spearman correlation between VALUE and RETURN are -0.0575 (p-value 0.0015). There is an inverse relationship between firms disclosing accrual information with the earnings announcement and both the return and profitability of insiders' stock sales. The Pearson and Spearman correlations between BSD and RETURN are -0.0525 (p-value 0.0038) and -0.0376 (p-value 0.0380), respectively and the Pearson and Spearman correlations between BSD and PROFIT are -0.0324 (p-value 0.0745) and -0.0317 (p-value 0.0859), respectively. There is a positive correlation between the disclosure of accrual information with the earnings announcement and the dollar-value of insiders' stock sales. The Spearman correlation between BSD and VALUE is -0.0337 (p-value 0.0631).

Table 26 presents the simple correlations for only the firm-quarter in the sample when a firm changed accrual disclosure and where insiders either purchased shares or refrained from trading. The dollar-value of the insider trading is positively correlated with the return earned on the trade. The Pearson and Spearman correlations between VALUE and RETURN are 0.1644 (p-value <.0001) and 0.1768 (p-value <.0001), respectively. The level of abnormal accruals is

positively correlated with the dollar value of the insider trading. The Spearman correlation between ABACC and VALUE is 0.0844 (p-value 0.0318), however the Pearson correlation is of the opposite sign and statistically insignificant.

Table 27 presents the simple correlations for only the firm-quarter in the sample when a firm changed accrual disclosure and where insiders either sold shares or refrained from trading. The dollar-value of the insider trading is positively correlated with the return earned on the trade. The Pearson correlation between VALUE and RETURN is 0.1559 (p-value <.0001). The level of abnormal accruals is positively correlated with the dollar value of the insider trading. The Pearson correlation between ABACC and VALUE is 0.06489 (p-value 0.0830).

In closing, the results of the correlation analysis presented in Tables 20 to 27 do not strongly support my predictions. For firms where insiders either purchased shares or refrained from trading, balance sheet disclosure is positively associated with the dollar value of the return. In addition, there is a positive association between the dollar value of the trade and the subsequent return. This is consistent with the trading strategy discussed in section 2.3.firms where insiders either sold shares or refrained from trading, there is an inverse relationship between balance sheet disclosure and the subsequent return and profitability of the trade. This is consistent with the trading strategy discussed in section 2.3. However the results suggest that insiders make larger trades when balance sheet information is disclosed, which is inconsistent with my prediction. This may explain why the dollar value of the trade is negatively associated with the return of the trade.

4.2 Balance Sheet Disclosure

Tables 28-30 present the results of equation 1. This logistic regression is used to test hypotheses 1, 2a and 2b. Table 28 presents the results of the logistic regression using VALUE as the insider trading metric. For the buy sample, the coefficient of ABACC has negative sign is but insignificant (t-value = -.05744). For the sell sample, the coefficient of ABACC is -0.5811 and is significant with a t-value of -1.2911. These results provide limited support for hypothesis 1. For the buy sample, the coefficient for VALUE is 16.4940 and is marginally significant with a t-value of 1.5238. This result supports hypothesis 2a. For the sell sample the coefficient for VALUE is 0.0630 and highly significant with a t-value of 2.7410. However the sign of the coefficient is opposite of the prediction made by hypothesis 2b providing no support for the hypothesis. This result is not unexpected given the results of the descriptive statistics indicating that insiders at disclosing firms make larger trades.

Table 29 presents the results of the logistic regression using RETURN as the insider trading metric. For the buy sample the sign of the coefficients for ABACC and RETURN are as predicted; however neither coefficient is significant at conventional levels. For the sell sample the sign of the coefficients for ABACC and RETURN are as predicted; however, only the coefficient for RETURN is significant with a t-value of -1.4097. Taken together these results provide no support for hypotheses 1 and 2a and limited support for hypothesis 2b.

Table 30 presents the results of the logistic regression using PROFIT as the insider trading metric. For the buy sample the sign of the coefficients for ABACC and PROFIT are as predicted; however only the coefficient for PROFIT is significant with a t-value of 1.3015. For the sell sample the sign of the coefficients for ABACC and PROFIT are as predicted; however

only the coefficient for PROFIT is significant with a t-value of -1.6291. Taken together these results provide no support for hypotheses 1 but do support hypotheses 2a and 2b.

The results for Tables 28-30 are mixed. Regarding hypothesis 1, all the coefficients in each logistic regression is of the predicted sign; however only the coefficient for ABACC using VALUE as the insider trading metric for the sell sample is significant at conventional levels. Consequently, I conclude that hypothesis 1 is not supported. Regarding hypothesis 2a, the coefficients for the insider trading metrics are all of the predicted sign and significant for VALUE and PROFIT. The t-value for the coefficient of RETURN is 1.2397 is close to significance (p-value 0.11) at conventional levels. Consequently, I conclude that hypothesis 2a is supported. Regarding hypothesis 2b, the results for both RETURN and PROFIT are of the predicted sign and significant at conventional levels. However the results using VALUE as the insider trading metric indicated a highly significant result of the opposite sign. This result is rather puzzling. One potential explanation is that one of the determinants of balance sheet disclosure is whether the firm is in the technology industry. Anecdotal evidence suggests that insiders in such firms receive a larger proportion of their total compensation in stock rather than cash. Consequently, they may make larger trades irrespective of balance sheet disclosure. Consequently, I conclude that hypothesis 2b is supported.

4.3 Insider Trading Profits and Balance Sheet Disclosure:

Table 31 presents the results of the multivariate regression of insider trading profits and the components of profits on accrual disclosure, abnormal accruals and control variables. Panel A presents the regression results for all firms in the sample where insiders either purchased shares or refrained from trading. The test variables, ABACC and BSD*ABACC, are generally of

the predicted sign with the only exception being ABACC when being regressed using the dependent variable VALUE. However, the ABACC and BSD*ABACC are statistically significant only when using PROFIT as the dependent variable. The coefficients of ABACC and BSD*ABACC are -0.0014 and 0.0096, respectively. The t-statistics of both coefficients are significant at the 10% level using a one-tail test. Overall, the results of this panel are generally consistent with my predictions but do not provide strong evidence supporting my hypothesis.

Panel B presents the regression results for all firms in the sample where insiders either sold shares or refrained from trading. The test variables, ABACC and BSD*ABACC, are all of the predicted sign and statistically significant. When VALUE is used as the dependent variable the coefficients of ABACC and BSD*ABACC are 0.4190 (statistically significant at the 5% level) and -1.0309 (statistically significant at the 1% level), respectively. When RETURN is used as the dependent variable the coefficients of ABACC and BSD*ABACC are 0.0164 (statistically significant at the 10% level) and -0.0349 (statistically significant at the 5% level), respectively. When PROFIT is used as the dependent variable the coefficients of ABACC and BSD*ABACC are 0.0421 and -0.0873, respectively. The t-statistics of both coefficients are significant at the 5% level using a one-tail test. Overall, the results of this panel are consistent with my predictions and provide evidence supporting my hypothesis.

Table 32 presents the regression results for firms in the sample that maintained a consistent disclosure policy over the sample period. Panel A presents the results of firms where insiders either purchased shares or refrained from trading. The test variable ABACC is of the predicted sign in each of the three regressions. However, the ABACC is statistically significant only when using RETURN and PROFIT as the dependent variables. In the regression using RETURN as the dependent variable, the coefficient of ABACC is -0.0107 and is significant at

the 5% level using a one-tail test. In the regression using PROFIT as the dependent variable, the coefficient of ABACC is -0.0025 and is significant at the 10% level using a one-tail test. The test variable BSD*ABACC is of the predicted sign in each of the three regressions; however, the coefficient for this variable is statistically insignificant in each of the three regressions. Overall, the results of this panel are generally consistent with my predictions but do not provide strong evidence supporting my hypothesis.

Panel B presents the regression results for firms where insiders either sold shares or refrained from trading. The test variables, ABACC and BSD*ABACC, are all of the predicted sign. When VALUE is used as the dependent variable, the coefficients of ABACC and BSD*ABACC are 0.3444 and -1.0570, respectively (statistically significant at the 10% level).When RETURN is used as the dependent variable, the coefficient of BSD*ABACC is -0.0349 (statistically significant at the 10% level), respectively. When PROFIT is used as the dependent, neither of the coefficients are statistically significant. Overall, the results of this panel are generally consistent with my predictions but do not provide strong evidence supporting my hypothesis.

Table 33 presents the regression results for firms in the sample that maintained an inconsistent disclosure policy. Panel A presents the results for firms where insiders either purchased shares or refrained from trading. The test variables, ABACC and BSD*ABACC, are generally not of the predicted sign and statistically insignificant. Overall, the results of this panel do not provide evidence supporting my hypothesis. Panel B presents the regression results for firms where insiders either sold shares or refrained from trading. The test variables, ABACC and BSD*ABACC, are all of the predicted sign and generally statistically significant. When VALUE is used as the dependent variable the coefficients of ABACC and BSD*ABACC are 0.4896

(statistically significant at the 10% level) and -0.6201 (statistically insignificant), respectively. When RETURN is used as the dependent variable the coefficients of ABACC and BSD*ABACC are 0.0173 (statistically insignificant) and -0.0323 (statistically significant at the 10% level), respectively. When PROFIT is used as the dependent variable the coefficients of ABACC and BSD*ABACC are 0.0796 (statistically significant at the 5% level), and -0.1063 (statistically significant at the 10% level), respectively. Overall, the results of this panel are consistent with my predictions and provide evidence supporting my hypothesis.

Table 34 presents the regression results for firms in the sample that changed disclosure policy. The sample is restricted to the quarter of change. Panel A presents the results of firms where insiders either purchased shares or refrained from trading. The test variables, ABACC and BSD*ABACC, are generally not of the predicted sign and statistically insignificant. Overall, the results of this panel do not provide evidence supporting my hypothesis. Panel B presents the regression results for firms in the sample that changed disclosure policy and where insiders either sold shares or refrained from trading. The sample is restricted to the quarter of change. The test variables, ABACC and BSD*ABACC, are generally of the predicted sign and statistically significant. When VALUE is used as the dependent variable the coefficients of ABACC and BSD*ABACC are 1.1032 (statistically significant at the 10% level) and 0.2686 (statistically insignificant), respectively. When RETURN is used as the dependent variable the coefficients of ABACC and BSD*ABACC are 0.0677 (statistically significant at the 5% level) and -0.0591 (statistically significant at the 10% level), respectively. When PROFIT is used as the dependent variable the coefficients of ABACC and BSD*ABACC are 0.2379 (statistically significant at the 1% level), and -0.2228 (statistically significant at the 10% level), respectively. Overall, the

results of this panel are consistent with my predictions and provide evidence supporting my hypothesis.

Table 35 presents the results for all firms in sample less firms where endogeneity is expected to be a concern. The sample consists of all firm-quarters less the firm-quarters where disclosure policy changed. In other words, it is the sample from Table 31 less the firms included in Table 34. Panel A presents the results for firms where insiders either purchased shares or refrained from trading. For each insider trading metric the coefficients for ABACC and BSD*ABACC are of the predicted sign. When using VALUE as the dependent variable neither coefficient is statistically significant. When RETURN is used as the insider trading metric the coefficient for ABACC is -0.0067 with a t-value of -1.48. The coefficient for BSD*ABACC is statistically insignificant. When using PROFIT as the dependent variable both of the test variables are significant. The coefficients of ABACC and BSD*ABACC are -0.0018 (t-value -1.52) and 0.0108 (t-value 1.33), respectively. Overall the results support hypothesis 3. Panel B presents the results for firms where insiders either sold shares or refrained from trading. For each insider trading metric the coefficients for ABACC and BSD*ABACC are of the predicted sign. When using PROFIT as the dependent variable both of the test variables are significant. The coefficients of ABACC and BSD*ABACC are 0.3237 (t-value 1.63) and -1.0593 (t-value -2.29), respectively. When RETURN and PROFIT are used as the dependent variables the coefficients for the variable ABACC are not significant. When VALUE is used as a dependent variable the coefficient for BSD*ABACC is -0.0293 with a t-statistic of -1.61. When PROFIT is used as a dependent variable the coefficient for BSD*ABACC is -0.0695 with a t-statistic of -1.31. The results of this table are consistent but weaker, particularly for the selling firms, than the results of Table 31. Overall the results for Tables 31-35 support hypothesis 3, that there is an association

with insider trading profits and balance sheet disclosure. This association is stronger for firms experiencing insider selling and is largely driven by firms which have changed disclosure policy.

4.4 Insider Trading Profits, Balance Sheet Disclosure and Corporate Governance

Table 36 presents the results of a regression of abnormal accruals on corporate governance and control variables. The purpose of this table is to test the hypothesis that strong corporate governance reduces abnormal accruals. Klein (2002) established an inverse relationship between abnormal accruals and director independence; that is used as a proxy for corporate governance. She did not test relationship between management entrenchment, another widely used proxy for corporate governance, and abnormal accruals. The coefficient for GSCORE is of the predicted sign but not significant at conventional levels (t-statistic -0.95, p-value > 0.20). One potential reason for the lack of significance for the coefficient may be the low number of observations in the sample. There was significant sample attrition when matching the variables with reduced the sample size. Another explanation for the low significance of the corporate governance coefficient may be that using an index based on management entrenchment is a poor proxy for corporate governance. There may be other factors driving the restriction of shareholder rights other than wealth expropriation from shareholders. Given the level of significance and the fact the Klein (2002) had found a similar result using different proxies, I conclude that good corporate governance does reduce the level of abnormal accruals.

Tables 37-39 present the result of a logistic regression of balance sheet disclosure on corporate governance, abnormal accruals, insider trading metrics and control variables. I hypothesize a direct association between good corporate governance and balance sheet disclosure. In terms of the variable G, this would be a direct relationship because G is an

indicator variable equal to one if the firm's G Index is in the first decile of all firms in the sample. As discussed previously, G Index is an index composed of the sum of all provisions restricting shareholders' rights. Consequently, a larger GSCORE is interpreted as shareholders having fewer rights. Although I separated the sample between buying and selling firms, I make no differential predictions between the samples. I organized the tables this to be consistent with previous tables. Overall the results do not support my hypothesis. While the coefficient for G is highly significant for each of the samples in each of the tables, it is of the wrong direction. In other words, the results suggest that the poorer the corporate governance, as measured by GSCORE, the more likely the firm discloses balance sheet information with the earnings announcement. I know of no theory that would explain this result. One possible explanation is that the variable GSCORE is also proxy for certain corporate or industry characteristics. For example, firms with high GSCORE's may be more likely to be subject to a hostile takeover and managers may desire more anti-takeover protection. These firms may also have a high demand for balance sheet information. I leave this resolution of this issue to future research.

Table 40 presents the results from the regression of PROFIT and its components on corporate governance, abnormal accruals, and control variables for the entire sample of firms. The purpose of this table to provide support for the hypothesis that good corporate governance reduces insider trading profits. I predict an inverse relationship between good corporate governance and the insider trading metrics. For consistency reasons I separate the sample into buying and selling firms but make no differential predications between the samples. Panel A presents the results of for the buying sample. Using the insider trading metric, VALUE, the coefficient for G is -0.0103 with a t-statistic of -2.25. This result supports my hypothesis. However the coefficients for G using the insider trading metrics RETURN and PROFIT are

insignificant, providing no support for my hypothesis. Panel B provides the results for the selling sample. For each of the insider trading metrics the coefficient for G is insignificant at traditional levels, providing no support for my hypothesis.

Table 41 presents the results from the regression of PROFIT and its components on corporate governance, abnormal accruals, and control variables for firms in my sample that maintained a consistent disclosure policy. Panel A presents the results for the buy sample. When VALUE is the dependent variable the coefficient for G is -0.0155 with a t-statistic of -2.15. When RETURN is used as the dependent variable the coefficient for G is 0.0031 with an insignificant t-statistic of 1.14. When PROFIT is used as the dependent variable the coefficient for G is -0.0021 with an insignificant t-statistic of 1.25. Overall, the results of this panel are similar to the results of Panel A of Table 40 and provide limited support for hypothesis 4. Panel B presents the results of the selling sample. Opposite to my prediction the coefficient for G when using VALUE as the dependant variable is 0.4564 with a significant t-statistic of 1.35. The coefficients for G using the insider trading metrics RETURN and PROFIT are insignificant, providing no support for my hypothesis. These results indicate that insiders of firms with good corporate governance tend to sell more shares of stock. Taken together these results suggest that insiders in firms with good corporate governance tend to purchase less shares and sell more shares. One potential explanation for these results is that insiders in firms with good corporate governance may hold more shares in the firms they manage than insiders in firms with poor corporate governance. Jensen and Meckling (1976) suggests that the more shares a firm's manager holds, the more her interests are aligned with those of the shareholders. Consequently managers of firms with good governance may hold more shares.

Table 42 presents the results from the regression of PROFIT and its components on corporate governance, abnormal accruals, and control variables for firms in my sample that changed disclosure policy sometime during the sample period. The coefficients for the variable G have no statistical significance in any of the 6 regressions reported and provide no support for my hypothesis.

Table 43 presents the results from the regression of PROFIT and its components on corporate governance, abnormal accruals, and control variables for firms in my sample that changed disclosure policy in the quarter of the change. Panel A presents the results of the buy sample that is similar to panel A in tables 40 and 41. Using the insider trading metric, VALUE, the coefficient for G is -0.0020 with a t-statistic of -1.43, supporting my hypothesis. However the coefficients for G using the insider trading metrics RETURN and PROFIT are insignificant, providing no support for my hypothesis. Panel B presents the results of the selling sample. Opposite to my prediction, the coefficients for G when using VALUE and PROFIT as the dependant variables are 0.7743 (t-statistic of 1.35) and 0.1205 (t-statistic of 2.07), respectively. The coefficients for G using RETURN as the dependent variable is also of the wrong sign and marginally significant (t-statistic of 1.26). The results suggest that insiders from firms with good corporate governance both sell more shares and make higher returns than insiders from firms with poorer corporate governance. This result is rather surprising and runs counter to my hypothesis. One possible explanation is that the proxy used to measure corporate governance may be measuring other firm characteristics.

Table 44 presents the results from the regression of PROFIT and its components on corporate governance, abnormal accruals, and control variables for all the firms in my sample less the firms that changed disclosure policy in the quarter of the change. In other words, the

sample consists of the firm-quarters in Table 40 less the firm quarters in Table 43. Panel A presents the results of the buy sample that is similar to panel A in tables 40, 41 and 43. Using the insider trading metric, VALUE, the coefficient for G is -0.0108 with a t-statistic of -2.17, supporting my hypothesis. However the coefficients for G using the insider trading metrics RETURN and PROFIT are insignificant, providing no support for my hypothesis. Panel B provides the results for the selling sample. For each of the insider trading metrics the coefficient for G is insignificant at traditional levels, providing no support for my hypothesis.

In conclusion, the results of this section do not strongly support my hypothesis. I find very limited evidence that good corporate governance reduced the level of abnormal accruals. The coefficient for G in Table 36 is of the correct sign but lacks statistical significance. Because Klein (2002) already established that good corporate governance results in a lower level of abnormal accruals my conclusion my test may lack power due to the large reduction in sample size. Also I find no evidence that good corporate governance affects balance sheet disclosure, in fact I find the opposite. Tables 37-39 present the results of the logistic regression determining balance sheet disclosure. The coefficient for G in each of the six regressions is highly significant (p-value < 0.01), but the sign of the coefficient is not as predicted. One possible explanation for this result is the use of GSCORE as a proxy. GSCORE is a direct measure of management entrenchment. It is plausible that entrenched managers may be more inclined to disclose balance sheet information with the earnings announcement because they have less to fear if the information disclosed is interpreted badly by investors because the managers cannot be replaced easily or at a low cost. Finally, there is no support that insider trading profits are reduced for firms with good corporate governance. While the results for the buy samples generally show that insider buying is generally reduced for firms with good corporate governance. The results for the

sell sample do not. In fact the results for the sell samples appear to indicate that insiders at firms with good corporate governance sell more shares. An explanation for this is that insiders at firms with good corporate governance may hold more shares than insiders at firms with poorer corporate governance. This would explain why insiders at firms with good corporate governance would purchase fewer shares and sell more shares.

Variable Descriptions for Tables 3 -27

VALUE is the total value of insider trading for the firm (in millions of dollars) in the period between the earnings announcement and the 10-Q date;

RETURN is the weighted-average 90-day unadjusted return starting from 1 day after the trade;

PROFIT is the total value of insider trading for the firm (in millions of dollars) in the period between the earnings announcement and the 10-Q date multiplied by the 90-day unadjusted return starting from 1 day after the trade;

BSD is an indicator variable equal to 1 if the firm discloses enough balance sheet data at the earnings announcement determine accruals, 0 otherwise;

ABACC is the seasonally-adjusted abnormal accruals for firm *i* as estimated by a cross-sectional Jones (1991) model, as described in section 5.1;

PRET is the stock return for the six-month period ending on the last day of the month prior to the month of the earnings announcement;

ERET which is the return over the three-day window beginning two days before and ending on the day of the earnings announcement;

SIZE is the natural log of the firm's total assets;

MAAR is the median of the magnitude of abnormal returns from the two days prior to the day of the earnings announcement for the prior eight fiscal quarters, in percent;

BM is the firm's book-to-market ratio at the end of the current quarter;

IO is a binary variable equal to one if a firm's share of outstanding common stock held by institutional investors at the end of the prior quarter is above the median ownership in its size-decile category; and

LIT is an indicator variable = 1, if the firm is a member of one of the following industries: biotechnology (SIC codes 2833-2836 and 8731-8734), computers (3570-3577 and 7370-7374), electronics (3600-3674), and retailing (5200-5961), zero otherwise.

Table 3
Descriptive statistics for all firms

Panel A –Discloser Sample (N = 6150)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.5291	***	2.2942	0.0000	0.0000	***	0.0000
RETURN	0.0024	*	0.1006	0.0000	0.0000	*	0.0000
PROFIT	-0.0104	***	0.2647	0.0000	0.0000	*	0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	-0.0032	***	0.0930	-0.0412	-0.0066	***	0.0309
BSD*ABACC	-0.0032		0.0930	-0.0412	-0.0066		0.0309
PRET	0.1055	***	0.5315	-0.2195	0.0162		0.3086
ERET	0.0096		0.0850	-0.0362	0.0027		0.0476
SIZE	5.8827	***	1.7445	4.5939	5.7535	***	7.0182
MAAR	0.0072	***	0.0303	-0.0112	0.0056	***	0.0241
BM	0.6372	***	0.5742	0.2597	0.4726	***	0.8261
IO	0.5715	***	0.4949	0.0000	1.0000	***	1.0000
LIT	0.3881	***	0.4874	0.0000	0.0000	***	1.0000

Panel B - Non-Discloser Sample (N = 3799)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.2622	***	1.5612	0.0000	0.0000	***	0.0000
RETURN	0.0055	*	0.0728	0.0000	0.0000	*	0.0000
PROFIT	0.0055	***	0.1621	0.0000	0.0000	*	0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	0.0025	***	0.0899	-0.0348	-0.0024	***	0.0319
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0724	***	0.4088	-0.1721	0.0071		0.2304
ERET	0.0114		0.0746	-0.0275	0.0037		0.0400
SIZE	6.0834	***	2.0504	4.4417	5.9233	***	7.5901
MAAR	0.0047	***	0.0269	-0.0109	0.0033	***	0.0189
BM	0.7805	***	0.6634	0.3415	0.5999	***	0.9728
IO	0.4704	***	0.4992	0.0000	0.0000	***	1.0000
LIT	0.1887	***	0.3913	0.0000	0.0000	***	0.0000

Notes to Table 3:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 4
Descriptive statistics for consistent disclosing firms

Panel A - Consistent Discloser Sample (N = 4430)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.5510	***	2.2908	0.0000	0.0000	***	0.0000
RETURN	0.0036		0.1068	0.0000	0.0000		0.0000
PROFIT	-0.0163	***	0.2792	0.0000	0.0000		0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	-0.0052	***	0.0944	-0.0434	-0.0067	***	0.0307
BSD*ABACC	-0.0031		0.1531	-0.0434	-0.0067		0.0307
PRET	0.0979	**	0.5458	-0.2368	0.0095		0.2988
ERET	0.0093		0.0876	-0.0382	0.0017		0.0476
SIZE	5.8405	***	1.7190	4.6111	5.6729	***	6.9690
MAAR	0.0076	***	0.0314	-0.0118	0.0059	***	0.0254
BM	0.6238	***	0.5744	0.2435	0.4566	***	0.8191
IO	0.5695	***	0.4952	0.0000	1.0000	***	1.0000
LIT	0.4348	***	0.4958	0.0000	0.0000	***	1.0000

Panel B - Consistent Non-Discloser Sample (N = 2377)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.2195	***	1.3180	0.0000	0.0000	***	0.0000
RETURN	0.0049		0.0693	0.0000	0.0000		0.0000
PROFIT	0.0041	***	0.1515	0.0000	0.0000		0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	0.0017	***	0.0886	-0.0336	-0.0023	***	0.0293
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0702	**	0.3946	-0.1607	0.0075		0.2205
ERET	0.0092		0.0695	-0.0268	0.0028		0.0350
SIZE	6.0577	***	2.1432	4.3330	5.8973	***	7.6456
MAAR	0.0041	***	0.0256	-0.0108	0.0035	***	0.0179
BM	0.8228	***	0.6883	0.3631	0.6388	***	1.0463
IO	0.4157	***	0.4929	0.0000	0.0000	***	1.0000
LIT	0.1641	***	0.3704	0.0000	0.0000	***	0.0000

Notes to Table 4:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 5
Descriptive statistics for Consistent Disclosers and Non-Disclosers switching to Disclosers

Panel A -Consistent Discloser Sample (N = 4430)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.5510	***	2.2908	0.0000	0.0000	***	0.0000
RETURN	0.0036		0.1068	0.0000	0.0000		0.0000
PROFIT	-0.0163	***	0.2792	0.0000	0.0000		0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	-0.0052	***	0.0944	-0.0434	-0.0067	***	0.0307
BSD*ABACC	-0.0031		0.1531	-0.0434	-0.0067		0.0307
PRET	0.0979	**	0.5458	-0.2368	0.0095		0.2988
ERET	0.0093		0.0876	-0.0382	0.0017		0.0476
SIZE	5.8405	***	1.7190	4.6111	5.6729	***	6.9690
MAAR	0.0076	***	0.0314	-0.0118	0.0059	***	0.0254
BM	0.6238	***	0.5744	0.2435	0.4566	***	0.8191
IO	0.5695	***	0.4952	0.0000	1.0000	***	1.0000
LIT	0.4348	***	0.4958	0.0000	0.0000	***	1.0000

Panel B - Non-Disclosers switching to Discloser (N = 1643)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.3160	***	1.7322	0.0000	0.0000	***	0.0000
RETURN	0.0041		0.0808	0.0000	0.0000		0.0000
PROFIT	-0.0017	**	0.1803	0.0000	0.0000		0.0000
BSD	0.4279	***	0.4949	0.0000	0.0000	***	1.0000
ABACC	0.0040	***	0.0867	-0.0345	-0.0042	***	0.0335
BSD*ABACC	0.0099	***	0.1562	0.0000	0.0000	***	0.0000
PRET	0.0910		0.4206	-0.1683	0.0233	**	0.2821
ERET	0.0110		0.0764	-0.0273	0.0043	**	0.0462
SIZE	6.2404	***	1.8360	4.7538	6.1544	***	7.4354
MAAR	0.0069		0.0285	-0.0090	0.0040		0.0225
BM	0.7076	***	0.5948	0.3192	0.5246	***	0.8687
IO	0.5733		0.4947	0.0000	1.0000		1.0000
LIT	0.1966	***	0.3975	0.0000	0.0000	***	0.0000

Notes to Table 5:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 6
Descriptive statistics for Consistent Non-Disclosers and Disclosers switching to Non-Disclosers

Panel A -Consistent Non-Discloser Sample (N = 2377)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.2195	***	1.3180	0.0000	0.0000		0.0000
RETURN	0.0049		0.0693	0.0000	0.0000	*	0.0000
PROFIT	0.0041		0.1515	0.0000	0.0000	*	0.0000
BSD	0.0000	***	0.0000	0.0000	0.0000	***	0.0000
ABACC	0.0017		0.0886	-0.0336	-0.0023		0.0293
BSD*ABACC	0.0000		0.0000	0.0000	0.0000	***	0.0000
PRET	0.0702	***	0.3946	-0.1607	0.0075		0.2205
ERET	0.0092	*	0.0695	-0.0268	0.0028	*	0.0350
SIZE	6.0577	***	2.1432	4.3330	5.8973	**	7.6456
MAAR	0.0041		0.0256	-0.0108	0.0035		0.0179
BM	0.8228	***	0.6883	0.3631	0.6388	***	1.0463
IO	0.4157	***	0.4929	0.0000	0.0000	***	1.0000
LIT	0.1641	***	0.3704	0.0000	0.0000	***	0.0000

Panel B - Disclosers switching to Non-Discloser (N = 1499)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.3730	***	1.8917	0.0000	0.0000		0.0000
RETURN	0.0009		0.0802	0.0000	0.0000	*	0.0000
PROFIT	-0.0028		0.2288	0.0000	0.0000	*	0.0000
BSD	0.6785	***	0.4672	0.0000	1.0000	***	1.0000
ABACC	0.0016		0.0948	-0.0400	-0.0062		0.0338
BSD*ABACC	-0.0007		0.0830	-0.0228	0.0000	***	0.0098
PRET	0.1160	***	0.5116	-0.2037	0.0147		0.3211
ERET	0.0140	*	0.0838	-0.0313	0.0053	*	0.0529
SIZE	5.8463	***	1.8277	4.3253	5.7983	**	7.1449
MAAR	0.0051		0.0273	-0.0124	0.0038		0.0207
BM	0.6687	***	0.5872	0.2813	0.5201	***	0.8610
IO	0.5664	***	0.4957	0.0000	1.0000	***	1.0000
LIT	0.3102	***	0.4627	0.0000	0.0000	***	1.0000

Notes to Table 6:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 7
Descriptive statistics for Consistent Disclosers and Non-Disclosers switching to Disclosers

Panel A - Disclosers switching to Non-Discloser Sample (N = 1499)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.3730		1.8917	0.0000	0.0000		0.0000
RETURN	0.0009		0.0802	0.0000	0.0000		0.0000
PROFIT	-0.0028		0.2288	0.0000	0.0000		0.0000
BSD	0.6785		0.4672	0.0000	1.0000		1.0000
ABACC	0.0016		0.0948	-0.0400	-0.0062		0.0338
BSD*ABACC	-0.0007	*	0.0830	-0.0228	0.0000	***	0.0098
PRET	0.1160		0.5116	-0.2037	0.0147		0.3211
ERET	0.0140		0.0838	-0.0313	0.0053		0.0529
SIZE	5.8463	***	1.8277	4.3253	5.7983	***	7.1449
MAAR	0.0051	*	0.0273	-0.0124	0.0038	*	0.0207
BM	0.6687	*	0.5872	0.2813	0.5201	**	0.8610
IO	0.5664		0.4957	0.0000	1.0000		1.0000
LIT	0.3102	*	0.4627	0.0000	0.0000	***	1.0000

Panel B - Non-Disclosers switching to Discloser (N = 1643)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.3160		1.7322	0.0000	0.0000		0.0000
RETURN	0.0041		0.0808	0.0000	0.0000		0.0000
PROFIT	-0.0017		0.1803	0.0000	0.0000		0.0000
BSD	0.4279		0.4949	0.0000	0.0000		1.0000
ABACC	0.0040		0.0867	-0.0345	-0.0042		0.0335
BSD*ABACC	0.0099	*	0.1562	0.0000	0.0000	***	0.0000
PRET	0.0910		0.4206	-0.1683	0.0233		0.2821
ERET	0.0110		0.0764	-0.0273	0.0043		0.0462
SIZE	6.2404	***	1.8360	4.7538	6.1544	***	7.4354
MAAR	0.0069	*	0.0285	-0.0090	0.0040	*	0.0225
BM	0.7076	*	0.5948	0.3192	0.5246	**	0.8687
IO	0.5733		0.4947	0.0000	1.0000		1.0000
LIT	0.1966	*	0.3975	0.0000	0.0000	***	0.0000

Notes to Table 7:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 8
Descriptive statistics for Non-Disclosers switching to Disclosers

Panel A -Trading Firms (N=55)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	2.6054		4.3190	0.0986	0.3559		2.9720
RETURN	0.0155		0.1920	-0.1090	-0.0101		0.1613
PROFIT	0.0612		0.5284	-0.0422	0.0000		0.1480
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	0.0165		0.0896	-0.0413	-0.0051		0.0510
BSD*ABACC	0.0230		0.1234	-0.0413	-0.0051		0.0510
PRET	0.1970		0.4554	-0.0963	0.1090		0.4041
ERET	0.0000		0.0864	-0.0339	0.0111		0.0465
SIZE	6.9013	***	1.6646	5.6914	7.1280	***	8.0083
MAAR	0.0077		0.0207	-0.0062	0.0048		0.0217
BM	0.4850	***	0.4295	0.2715	0.3808	***	0.5937
IO	0.6727	*	0.4735	0.0000	1.0000	**	1.0000
LIT	0.1818		0.3892	0.0000	0.0000		0.0000

Panel B - Non-Trading Firms (N=326)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0000		0.0000	0.0000	0.0000		0.0000
RETURN	0.0000		0.0000	0.0000	0.0000		0.0000
PROFIT	0.0000		0.0000	0.0000	0.0000		0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	0.0034		0.0955	-0.0340	-0.0051		0.0283
BSD*ABACC	0.0069		0.1140	-0.0340	-0.0051		0.0283
PRET	0.1105		0.4385	-0.1844	0.0550		0.3440
ERET	0.0119		0.0784	-0.0306	0.0079		0.0493
SIZE	6.0392	***	1.8398	4.5874	5.9014	***	7.2165
MAAR	0.0066		0.0277	-0.0090	0.0035		0.0211
BM	0.7091	***	0.5947	0.3217	0.5254	***	0.9062
IO	0.5491	*	0.4984	0.0000	1.0000	**	1.0000
LIT	0.2485		0.4328	0.0000	0.0000		0.0000

Notes to Table 8:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 9
Descriptive statistics for Disclosers switching to Non-Disclosers

Panel A -Trading Firms (N=46)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	2.9742		4.5596	0.1053	0.7120		4.3580
RETURN	0.0169		0.1954	-0.1151	-0.0202		0.1142
PROFIT	0.0360		0.5566	-0.0574	-0.0008		0.1228
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	0.0228		0.1318	-0.0396	-0.0067		0.0775
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.1684		0.6076	-0.1677	0.0498		0.3903
ERET	0.0297		0.0865	-0.0146	0.0151		0.0598
SIZE	6.4131	**	1.8248	5.0349	6.7687	***	7.7061
MAAR	0.0099		0.0264	-0.0070	0.0093	**	0.0279
BM	0.4970	**	0.5835	0.1573	0.3205	***	0.5315
IO	0.6087		0.4934	0.0000	1.0000		1.0000
LIT	0.3913	*	0.4934	0.0000	0.0000	**	1.0000

Panel B - Non-Trading Firms (N=305)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0000		0.0000	0.0000	0.0000		0.0000
RETURN	0.0000		0.0000	0.0000	0.0000		0.0000
PROFIT	0.0000		0.0000	0.0000	0.0000		0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	-0.0037		0.1023	-0.0478	-0.0090		0.0362
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0504		0.4383	-0.2269	0.0000		0.2525
ERET	0.0239		0.0904	-0.0216	0.0127		0.0625
SIZE	5.7282	**	1.8201	4.3022	5.6255	***	7.0716
MAAR	0.0035		0.0294	-0.0163	0.0007	**	0.0211
BM	0.7225	**	0.6201	0.3055	0.5603	***	0.9035
IO	0.5377		0.4994	0.0000	1.0000		1.0000
LIT	0.2623	*	0.4406	0.0000	0.0000	**	1.0000

Notes to Table 9:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 10
Descriptive statistics for switching firms that traded

Panel A -Disclosers switching to non-disclosers (N=46)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	2.9742		4.5596	0.1053	0.7120		4.3580
RETURN	0.0169		0.1954	-0.1151	-0.0202		0.1142
PROFIT	0.0360		0.5566	-0.0574	-0.0008		0.1228
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	0.0228		0.1318	-0.0396	-0.0067		0.0775
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.1684		0.6076	-0.1677	0.0498		0.3903
ERET	0.0297	*	0.0865	-0.0146	0.0151		0.0598
SIZE	6.4131		1.8248	5.0349	6.7687		7.7061
MAAR	0.0099		0.0264	-0.0070	0.0093		0.0279
BM	0.4970		0.5835	0.1573	0.3205		0.5315
IO	0.6087		0.4934	0.0000	1.0000		1.0000
LIT	0.3913	***	0.4934	0.0000	0.0000	***	1.0000

Panel B -Non-disclosers switching to disclosers (N=55)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	2.6054		4.3190	0.0986	0.3559		2.9720
RETURN	0.0155		0.1920	-0.1090	-0.0101		0.1613
PROFIT	0.0612		0.5284	-0.0422	0.0000		0.1480
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	0.0165		0.0896	-0.0413	-0.0051		0.0510
BSD*ABACC	0.0230		0.1234	-0.0413	-0.0051		0.0510
PRET	0.1970		0.4554	-0.0963	0.1090		0.4041
ERET	0.0000	*	0.0864	-0.0339	0.0111		0.0465
SIZE	6.9013		1.6646	5.6914	7.1280		8.0083
MAAR	0.0077		0.0207	-0.0062	0.0048		0.0217
BM	0.4850		0.4295	0.2715	0.3808		0.5937
IO	0.6727		0.4735	0.0000	1.0000		1.0000
LIT	0.1818	***	0.3892	0.0000	0.0000	***	0.0000

Notes to Table 10:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 11
Descriptive statistics for switching firms non-trade quarters

Panel A - Disclosers switching to non-disclosers (N=305)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0000		0.0000	0.0000	0.0000		0.0000
RETURN	0.0000		0.0000	0.0000	0.0000		0.0000
PROFIT	0.0000		0.0000	0.0000	0.0000		0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	-0.0037		0.1023	-0.0478	-0.0090		0.0362
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0504	*	0.4383	-0.2269	0.0000	***	0.2525
ERET	0.0239	*	0.0904	-0.0216	0.0127	*	0.0625
SIZE	5.7282	**	1.8201	4.3022	5.6255	**	7.0716
MAAR	0.0035		0.0294	-0.0163	0.0007		0.0211
BM	0.7225		0.6201	0.3055	0.5603		0.9035
IO	0.5377		0.4994	0.0000	1.0000		1.0000
LIT	0.2623		0.4406	0.0000	0.0000		1.0000

Panel B -Non-disclosers switching to disclosers (N=326)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0000		0.0000	0.0000	0.0000		0.0000
RETURN	0.0000		0.0000	0.0000	0.0000		0.0000
PROFIT	0.0000		0.0000	0.0000	0.0000		0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	0.0034		0.0955	-0.0340	-0.0051		0.0283
BSD*ABACC	0.0069		0.1140	-0.0340	-0.0051		0.0283
PRET	0.1105	*	0.4385	-0.1844	0.0550	***	0.3440
ERET	0.0119	*	0.0784	-0.0306	0.0079	*	0.0493
SIZE	6.0392	**	1.8398	4.5874	5.9014	**	7.2165
MAAR	0.0066		0.0277	-0.0090	0.0035		0.0211
BM	0.7091		0.5947	0.3217	0.5254		0.9062
IO	0.5491		0.4984	0.0000	1.0000		1.0000
LIT	0.2485		0.4328	0.0000	0.0000		0.0000

Notes to Table 11:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 12
Descriptive statistics for the Buying Sample

Panel A - Discloser (N = 5206)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0118		0.2123	0.0000	0.0000	***	0.0000
RETURN	0.0030		0.0510	0.0000	0.0000		0.0000
PROFIT	0.0004		0.0400	0.0000	0.0000		0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	-0.0027	**	0.0929	-0.0410	-0.0065	**	0.0319
BSD*ABACC	-0.0027		0.0929	-0.0410	-0.0065		0.0319
PRET	0.0722		0.5132	-0.2412	-0.0064		0.2773
ERET	0.0080		0.0844	-0.0370	0.0000		0.0461
SIZE	5.7573	***	1.7271	4.4762	5.6277	***	6.8603
MAAR	0.0064	***	0.0301	-0.0120	0.0051	***	0.0234
BM	0.6900	***	0.5959	0.2936	0.5252	***	0.8920
IO	0.5640	***	0.4959	0.0000	1.0000	***	1.0000
LIT	0.3669	***	0.4820	0.0000	0.0000	***	1.0000

Panel B - Non-Discloser (N = 3427)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0085		0.1807	0.0000	0.0000	***	0.0000
RETURN	0.0020		0.0380	0.0000	0.0000		0.0000
PROFIT	0.0008		0.0263	0.0000	0.0000		0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	0.0023	**	0.0905	-0.0353	-0.0026	**	0.0314
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0570		0.4053	-0.1828	-0.0059		0.2170
ERET	0.0105		0.0752	-0.0280	0.0019		0.0386
SIZE	5.9442	***	2.0244	4.3330	5.7767	***	7.4469
MAAR	0.0045	***	0.0271	-0.0116	0.0030	***	0.0186
BM	0.8225	***	0.6788	0.3751	0.6383	***	1.0345
IO	0.4537	***	0.4979	0.0000	0.0000	***	1.0000
LIT	0.1797	***	0.3840	0.0000	0.0000	***	0.0000

Notes to Table 12:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 13
Descriptive statistics for the Selling Sample

Panel A - Discloser (N =5921)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.5392	***	2.3296	0.0000	0.0000	***	0.0000
RETURN	-0.0002	**	0.0906	0.0000	0.0000	**	0.0000
PROFIT	-0.0111	***	0.2671	0.0000	0.0000	**	0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	-0.0035	***	0.0929	-0.0412	-0.0067	***	0.0308
BSD*ABACC	-0.0035		0.0929	-0.0412	-0.0067		0.0308
PRET	0.1109	***	0.5311	-0.2131	0.0206		0.3135
ERET	0.0101		0.0847	-0.0357	0.0032		0.0481
SIZE	5.8765	***	1.7437	4.5932	5.7469	***	7.0117
MAAR	0.0072	***	0.0303	-0.0112	0.0056	***	0.0239
BM	0.6366	***	0.5767	0.2593	0.4711	***	0.8242
IO	0.5717	***	0.4949	0.0000	1.0000	***	1.0000
LIT	0.3866	***	0.4870	0.0000	0.0000	***	1.0000

Panel B - Non-Discloser (N =3690)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.2621	***	1.5752	0.0000	0.0000	***	0.0000
RETURN	0.0038	**	0.0642	0.0000	0.0000	**	0.0000
PROFIT	0.0048	***	0.1625	0.0000	0.0000	**	0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	0.0024	***	0.0901	-0.0352	-0.0023	***	0.0320
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0745	***	0.4078	-0.1708	0.0101		0.2336
ERET	0.0117		0.0746	-0.0270	0.0039		0.0405
SIZE	6.0746	***	2.0540	4.4282	5.9083	***	7.5858
MAAR	0.0047	***	0.0269	-0.0112	0.0033	***	0.0189
BM	0.7794	***	0.6663	0.3391	0.5967	***	0.9697
IO	0.4694	***	0.4991	0.0000	0.0000	***	1.0000
LIT	0.1870	***	0.3900	0.0000	0.0000	***	0.0000

Notes to Table 13:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 14
Descriptive statistics for firms maintaining a consistent disclosure policy
Buying Sample

Panel A - Discloser (N =3697)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0146		0.2487	0.0000	0.0000	***	0.0000
RETURN	0.0033		0.0539	0.0000	0.0000		0.0000
PROFIT	0.0002		0.0441	0.0000	0.0000		0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	-0.0045	**	0.0945	-0.0430	-0.0066	**	0.0319
BSD*ABACC	-0.0045		0.0945	-0.0430	-0.0066		0.0319
PRET	0.0622		0.5262	-0.2625	-0.0148	***	0.2647
ERET	0.0074		0.0870	-0.0390	0.0000		0.0455
SIZE	5.7043	***	1.6958	4.5106	5.5459	**	6.7725
MAAR	0.0066	***	0.0312	-0.0125	0.0055	***	0.0249
BM	0.6819	***	0.5990	0.2820	0.5120	***	0.8879
IO	0.5632	***	0.4961	0.0000	1.0000	***	1.0000
LIT	0.4079	***	0.4915	0.0000	0.0000	***	1.0000

Panel B - Non-Discloser (N = 2145)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0105		0.2236	0.0000	0.0000	***	0.0000
RETURN	0.0019		0.0347	0.0000	0.0000		0.0000
PROFIT	0.0012		0.0328	0.0000	0.0000		0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	0.0010	**	0.0892	-0.0345	-0.0033	**	0.0281
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0578		0.3946	-0.1699	-0.0013	***	0.2031
ERET	0.0085		0.0704	-0.0270	0.0012		0.0342
SIZE	5.9028	***	2.1109	4.1766	5.7345	**	7.4887
MAAR	0.0039	***	0.0260	-0.0114	0.0035	***	0.0176
BM	0.8682	***	0.7027	0.4069	0.6750	***	1.1006
IO	0.3935	***	0.4886	0.0000	0.0000	***	1.0000
LIT	0.1515	***	0.3586	0.0000	0.0000	***	0.0000

Notes to Table 14:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 15
Descriptive statistics for firms maintaining a consistent disclosure policy
Selling Sample

Panel A - Discloser (N =4255)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.5880	***	2.4406	0.0000	0.0000	***	0.0000
RETURN	0.0008		0.0967	0.0000	0.0000		0.0000
PROFIT	-0.0135	***	0.2814	0.0000	0.0000		0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	-0.0055	***	0.0941	-0.0434	-0.0067	***	0.0306
BSD*ABACC	-0.0055		0.0941	-0.0434	-0.0067		0.0306
PRET	0.1031	***	0.5450	-0.2306	0.0145		0.3053
ERET	0.0098		0.0874	-0.0378	0.0020		0.0481
SIZE	5.8372	***	1.7200	4.6133	5.6708	***	6.9617
MAAR	0.0076	***	0.0315	-0.0118	0.0058	***	0.0256
BM	0.6231	***	0.5776	0.2428	0.4541	***	0.8172
IO	0.5692	***	0.4952	0.0000	1.0000	***	1.0000
LIT	0.4331	***	0.4956	0.0000	0.0000	***	1.0000

Panel B - Non-Discloser (N =2316)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.2190	***	1.3499	0.0000	0.0000	***	0.0000
RETURN	0.0032		0.0619	0.0000	0.0000		0.0000
PROFIT	0.0038	***	0.1514	0.0000	0.0000		0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	0.0020	***	0.0890	-0.0337	-0.0018	***	0.0300
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0712	***	0.3951	-0.1602	0.0097		0.2223
ERET	0.0096		0.0697	-0.0265	0.0029		0.0352
SIZE	6.0471	***	2.1503	4.3083	5.8582	***	7.6469
MAAR	0.0040	***	0.0257	-0.0113	0.0036	***	0.0179
BM	0.8237	***	0.6929	0.3595	0.6384	***	1.0475
IO	0.4158	***	0.4930	0.0000	0.0000	***	1.0000
LIT	0.1649	***	0.3712	0.0000	0.0000	***	0.0000

Notes to Table 15:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 16
Descriptive statistics for firms maintaining an inconsistent disclosure policy
Buying Sample

Panel A - Disclosers (N=1509)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0049		0.0622	0.0000	0.0000		0.0000
RETURN	0.0023		0.0429	0.0000	0.0000		0.0000
PROFIT	0.0008		0.0275	0.0000	0.0000		0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	0.0018		0.0889	-0.0375	-0.0063		0.0317
BSD*ABACC	0.0018		0.0889	-0.0375	-0.0063		0.0317
PRET	0.0968	**	0.4791	-0.1950	0.0137	**	0.3023
ERET	0.0095		0.0778	-0.0313	0.0028		0.0475
SIZE	5.8870	*	1.7954	4.4068	5.8358		7.0253
MAAR	0.0056		0.0272	-0.0102	0.0047		0.0208
BM	0.7099		0.5881	0.3217	0.5484		0.9081
IO	0.5659		0.4958	0.0000	1.0000		1.0000
LIT	0.2664	**	0.4422	0.0000	0.0000	**	1.0000

Panel B - Non-Disclosers (N =1282)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0051		0.0608	0.0000	0.0000		0.0000
RETURN	0.0022		0.0429	0.0000	0.0000		0.0000
PROFIT	0.0002		0.0069	0.0000	0.0000		0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	0.0047		0.0926	-0.0371	-0.0020		0.0358
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0556	**	0.4228	-0.2028	-0.0083	**	0.2302
ERET	0.0139		0.0824	-0.0299	0.0034		0.0479
SIZE	6.0134	*	1.8695	4.5106	5.8341		7.3740
MAAR	0.0054		0.0289	-0.0118	0.0024		0.0210
BM	0.7460		0.6296	0.3412	0.5759		0.9019
IO	0.5546		0.4972	0.0000	1.0000		1.0000
LIT	0.2270	**	0.4190	0.0000	0.0000	**	0.0000

Notes to Table 16:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 17
Descriptive statistics for firms maintaining an inconsistent disclosure policy
Selling Sample

Panel A - Disclosers (N=1666)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.4146		2.0142	0.0000	0.0000	**	0.0000
RETURN	-0.0028	**	0.0728	0.0000	0.0000	**	0.0000
PROFIT	-0.0052		0.2264	0.0000	0.0000	**	0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	0.0015		0.0898	-0.0377	-0.0067		0.0311
BSD*ABACC	0.0015		0.0898	-0.0377	-0.0067		0.0311
PRET	0.1306	***	0.4934	-0.1718	0.0411	***	0.3339
ERET	0.0108		0.0775	-0.0302	0.0045		0.0482
SIZE	5.9767	***	1.7995	4.4772	5.9231	**	7.1524
MAAR	0.0063		0.0271	-0.0096	0.0050		0.0212
BM	0.6712		0.5733	0.2947	0.5035		0.8540
IO	0.5780		0.4940	0.0000	1.0000		1.0000
LIT	0.2677	***	0.4429	0.0000	0.0000	***	1.0000

Panel B - Non-disclosers (N=1374)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.3349		1.8936	0.0000	0.0000	**	0.0000
RETURN	0.0047	**	0.0681	0.0000	0.0000	**	0.0000
PROFIT	0.0066		0.1796	0.0000	0.0000	**	0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	0.0031		0.0919	-0.0374	-0.0026		0.0350
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0801	***	0.4285	-0.1868	0.0106	***	0.2557
ERET	0.0154		0.0821	-0.0281	0.0053		0.0504
SIZE	6.1209	***	1.8803	4.5640	5.9649	**	7.4950
MAAR	0.0058		0.0287	-0.0109	0.0027		0.0213
BM	0.7047		0.6118	0.3122	0.5326		0.8747
IO	0.5597		0.4966	0.0000	1.0000		1.0000
LIT	0.2242	***	0.4172	0.0000	0.0000	***	0.0000

Notes to Table 17:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 18
Firms changing disclosure policy in the quarter of change
Buying Sample

Panel A - Disclosing Firms (N=335)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0022		0.0187	0.0000	0.0000		0.0000
RETURN	0.0028		0.0409	0.0000	0.0000		0.0000
PROFIT	0.0002		0.0034	0.0000	0.0000		0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	0.0045		0.0958	-0.0340	-0.0048		0.0283
BSD*ABACC	0.0045		0.0958	-0.0340	-0.0048		0.0283
PRET	0.1058		0.4445	-0.1899	0.0490	**	0.3316
ERET	0.0099	**	0.0798	-0.0313	0.0067	*	0.0470
SIZE	6.0681	***	1.8460	4.5925	5.9265	***	7.2824
MAAR	0.0067	*	0.0279	-0.0092	0.0036		0.0212
BM	0.7152		0.5997	0.3217	0.5361		0.9204
IO	0.5433		0.4989	0.0000	1.0000		1.0000
LIT	0.2478		0.4324	0.0000	0.0000		0.0000

Panel B - Non-disclosing firms (N=312)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.0042		0.0614	0.0000	0.0000		0.0000
RETURN	0.0009		0.0313	0.0000	0.0000		0.0000
PROFIT	0.0003		0.0053	0.0000	0.0000		0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	-0.0010		0.1051	-0.0473	-0.0066		0.0407
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0504		0.4538	-0.2357	-0.0026	**	0.2511
ERET	0.0234	**	0.0904	-0.0219	0.0122	*	0.0629
SIZE	5.6913	***	1.8350	4.2613	5.6083	***	7.0252
MAAR	0.0030	*	0.0294	-0.0163	0.0004		0.0208
BM	0.7319		0.6372	0.3054	0.5678		0.9091
IO	0.5417		0.4991	0.0000	1.0000		1.0000
LIT	0.2692		0.4443	0.0000	0.0000		1.0000

Notes to Table 18:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 19
Firms changing disclosure policy in the quarter of change
Selling Sample

Panel A - Disclosers (N=372)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.3868		1.9242	0.0000	0.0000		0.0000
RETURN	-0.0002		0.0624	0.0000	0.0000		0.0000
PROFIT	0.0096		0.2046	0.0000	0.0000		0.0000
BSD	1.0000		0.0000	1.0000	1.0000		1.0000
ABACC	0.0043		0.0944	-0.0342	-0.0053		0.0283
BSD*ABACC	0.0043		0.0944	-0.0342	-0.0053		0.0283
PRET	0.1276	*	0.4360	-0.1727	0.0810	**	0.3459
ERET	0.0120	**	0.0784	-0.0294	0.0099		0.0501
SIZE	6.1408	**	1.8343	4.7128	6.0573	**	7.3453
MAAR	0.0066		0.0266	-0.0085	0.0036		0.0211
BM	0.6704		0.5733	0.2982	0.4890		0.8074
IO	0.5726		0.4954	0.0000	1.0000		1.0000
LIT	0.2392		0.4272	0.0000	0.0000		0.0000

Panel B - Non-disclosers (N=343)

Variable	Mean		Standard Deviation	Lower Quartile	Median		Upper Quartile
VALUE	0.4249		2.0344	0.0000	0.0000		0.0000
RETURN	0.0028		0.0691	0.0000	0.0000		0.0000
PROFIT	0.0100		0.2173	0.0000	0.0000		0.0000
BSD	0.0000		0.0000	0.0000	0.0000		0.0000
ABACC	-0.0025		0.1046	-0.0478	-0.0093		0.0404
BSD*ABACC	0.0000		0.0000	0.0000	0.0000		0.0000
PRET	0.0678	*	0.4510	-0.2135	0.0000	**	0.2728
ERET	0.0243	**	0.0887	-0.0204	0.0129		0.0622
SIZE	5.8493	**	1.8183	4.4164	5.7452	**	7.1911
MAAR	0.0046		0.0290	-0.0119	0.0021		0.0216
BM	0.6849		0.6034	0.2882	0.5239		0.8789
IO	0.5452		0.4987	0.0000	1.0000		1.0000
LIT	0.2711		0.4452	0.0000	0.0000		1.0000

Notes to Table 19:
I winsorize the top and bottom one-percentiles of all continuous variables. The notation *, **, and *** indicate that the difference between samples is significant at the 10, 5, and 1 percent levels, respectively. The tests of mean differences are based on the *t*-statistic, and the tests for median differences are based on the Wilcoxon signed rank statistic.

Table 20
Simple Correlations
Pearson (Spearman) coefficients above (below) the diagonal

ALL FIRMS -Buy Sample N=8633

	VALUE	RETURN	PROFIT	BSD	ABACC	BSD* ABACC	PRET	ERET	SIZE	MAAR	BM	IO	LIT
VALUE		0.0794 <.0001	0.27421 <.0001	0.00821 0.4456	0.00136 0.8991	-0.00012 0.9911	0.02367 0.0279	-0.02314 0.0315	0.02017 0.061	-0.0001 0.9923	-0.02467 0.0219	-0.00185 0.8637	0.02561 0.0173
RETURN	0.27719 <.0001		0.33224 <.0001	0.01037 0.3352	-0.00381 0.7232	0.00336 0.7551	0.00183 0.8648	-0.00156 0.8848	-0.00387 0.7192	0.0079 0.463	0.01332 0.2158	-0.01551 0.1496	0.02439 0.0234
PROFIT	0.27179 <.0001	0.97027 <.0001		-0.00624 0.5621	0.01325 0.2185	0.01012 0.3471	0.02913 0.0068	0.00723 0.502	-0.00287 0.7899	-0.00436 0.6852	-0.00046 0.9657	-0.00199 0.8535	-0.00816 0.4483
BSD	0.03063 0.0044	0.0008 0.9405	0.00212 0.844		-0.02665 0.0133	0.00374 0.728	0.01577 0.143	-0.01531 0.1549	-0.04935 <.0001	0.03199 0.003	-0.10229 <.0001	0.10794 <.0001	0.20125 <.0001
ABACC	0.00538 0.617	-0.01642 0.127	-0.01443 0.1801	-0.02633 0.0144		0.58554 <.0001	0.03101 0.004	0.00207 0.8472	-0.00252 0.8147	0.00961 0.3721	-0.01304 0.2256	-0.00941 0.3818	-0.03397 0.0016
BSD* ABACC	0.00511 0.6352	-0.01707 0.1127	-0.01449 0.1782	-0.08978 <.0001	0.75836 <.0001		0.01989 0.0645	-0.00457 0.6714	0.01859 0.0841	0.00416 0.6989	-0.01425 0.1856	0.00603 0.5752	-0.02004 0.0627
PRET	-0.05392 <.0001	-0.03017 0.0051	-0.02889 0.0073	-0.01138 0.2905	0.02011 0.0617	0.0173 0.1081		-0.01638 0.128	-0.0639 <.0001	0.09677 <.0001	-0.25751 <.0001	-0.035 0.0011	-0.00311 0.773
ERET	-0.03427 0.0014	-0.00676 0.5298	-0.00971 0.3668	-0.01654 0.1243	-0.00418 0.6979	0.0014 0.8962	-0.00952 0.3763		-0.08854 <.0001	-0.00143 0.8942	0.07385 <.0001	-0.03589 0.0009	0.03202 0.0029
SIZE	0.03873 0.0003	0.00626 0.5611	0.00679 0.528	-0.03564 0.0009	0.00943 0.3811	0.00282 0.7931	-0.0049 0.6492	-0.06424 <.0001		-0.0514 <.0001	-0.13863 <.0001	0.01105 0.3048	-0.18531 <.0001
MAAR	0.01226 0.2548	0.01153 0.2841	0.00903 0.4014	0.03394 0.0016	0.00471 0.6615	0.00224 0.835	0.09219 <.0001	-0.00188 0.8616	-0.04782 <.0001		-0.10414 <.0001	0.00693 0.52	0.04954 <.0001
BM	0.00047 0.9652	0.02578 0.0166	0.02559 0.0174	-0.11278 <.0001	-0.01044 0.3319	0.00643 0.5502	-0.26606 <.0001	0.06285 <.0001	-0.1261 <.0001	-0.10667 <.0001		-0.13404 <.0001	-0.14907 <.0001
IO	0.01152 0.2844	-0.0232 0.0311	-0.01946 0.0706	0.10794 <.0001	-0.01195 0.2667	-0.00474 0.6599	-0.02462 0.0221	-0.02838 0.0084	0.01323 0.2191	0.00863 0.4228	-0.14109 <.0001		0.05399 <.0001
LIT	0.03396 0.0016	0.01016 0.3453	0.00805 0.4543	0.20125 <.0001	-0.03491 0.0012	-0.04038 0.0002	-0.06071 <.0001	0.01246 0.2471	-0.19307 <.0001	0.05308 <.0001	-0.19816 <.0001	0.05399 <.0001	

Table 21
Simple Correlations
Pearson (Spearman) coefficients above (below) the diagonal

ALL FIRMS -Sell Sample N=9611

	VALUE	RETURN	PROFIT	BSD	ABACC	BSD* ABACC	PRET	ERET	SIZE	MAAR	BM	IO	LIT
VALUE		-0.02392 0.019	-0.1721 <.0001	0.06416 <.0001	-0.01034 0.3109	-0.01218 0.2326	0.09626 <.0001	0.01751 0.0861	0.15723 <.0001	0.04921 <.0001	-0.14872 <.0001	0.01199 0.24	0.12179 <.0001
RETURN	-0.02633 0.0098		0.64624 <.0001	-0.02352 0.0211	-0.00627 0.5388	-0.00881 0.3878	-0.03557 0.0005	0.00262 0.7972	-0.00061 0.9524	0.02178 0.0328	-0.00758 0.4578	0.01417 0.1649	-0.0077 0.4502
PROFIT	-0.02566 0.0119	0.98401 <.0001		-0.03858 0.0002	-0.00325 0.7498	-0.00698 0.4938	-0.03746 0.0002	0.00249 0.8071	-0.02287 0.025	0.00951 0.3511	0.02369 0.0202	0.00673 0.5094	-0.03171 0.0019
BSD	0.08228 <.0001	-0.01984 0.0517	-0.0185 0.0698		-0.03147 0.002	-0.00055 0.9573	0.03624 0.0004	-0.00986 0.3338	-0.05149 <.0001	0.04246 <.0001	-0.11263 <.0001	0.09973 <.0001	0.2099 <.0001
ABACC	-0.00991 0.3313	0.0006 0.953	0.00114 0.9107	-0.03354 0.001		0.6045 <.0001	0.02908 0.0044	0.00553 0.5875	0.00362 0.7225	0.00435 0.67	-0.01094 0.2835	-0.00926 0.3643	-0.04055 <.0001
BSD* ABACC	-0.02503 0.0141	-0.00603 0.5542	-0.00491 0.6304	-0.09799 <.0001	0.76554 <.0001		0.01754 0.0855	0.00049 0.962	0.01846 0.0703	0.00006 0.9954	-0.00894 0.3809	0.00349 0.7321	-0.01936 0.0577
PRET	0.14784 <.0001	-0.0254 0.0128	-0.02454 0.0161	0.00961 0.3464	0.01846 0.0704	0.01495 0.1429		-0.01037 0.3094	-0.05267 <.0001	0.1155 <.0001	-0.27338 <.0001	-0.01641 0.1076	0.01987 0.0514
ERET	0.04528 <.0001	-0.00058 0.9549	-0.00125 0.9027	-0.01164 0.2541	0.00532 0.6018	0.0091 0.3722	-0.00598 0.5576		-0.07878 <.0001	-0.00106 0.917	0.05599 <.0001	-0.02512 0.0138	0.03671 0.0003
SIZE	0.18357 <.0001	-0.02009 0.0489	-0.0206 0.0435	-0.03934 0.0001	0.01429 0.1611	0.00241 0.8135	0.01045 0.3059	-0.0534 <.0001		-0.04644 <.0001	-0.16417 <.0001	-0.00171 0.8669	-0.1632 <.0001
MAAR	0.05222 <.0001	0.00753 0.4606	0.00735 0.471	0.04212 <.0001	-0.00062 0.9518	-0.00256 0.8022	0.10638 <.0001	-0.00098 0.9233	-0.04736 <.0001		-0.10802 <.0001	0.01129 0.2683	0.06278 <.0001
BM	-0.27602 <.0001	0.01143 0.2626	0.01285 0.2077	-0.12662 <.0001	-0.00604 0.5536	0.0156 0.1263	-0.29309 <.0001	0.04267 <.0001	-0.15554 <.0001	-0.11662 <.0001		-0.13724 <.0001	-0.17048 <.0001
IO	0.06613 <.0001	0.01464 0.1514	0.01236 0.2256	0.09973 <.0001	-0.01115 0.2746	-0.00697 0.4944	-0.00791 0.4379	-0.01991 0.0509	0.00139 0.8918	0.01359 0.1828	-0.14195 <.0001		0.05724 <.0001
LIT	0.1155 <.0001	-0.01246 0.2221	-0.01158 0.2564	0.2099 <.0001	-0.04426 <.0001	-0.05046 <.0001	-0.0346 0.0007	0.01392 0.1725	-0.17101 <.0001	0.06355 <.0001	-0.23031 <.0001	0.05724 <.0001	

Table 22
Simple Correlations
Pearson (Spearman) coefficients above (below) the diagonal

Consistant Firms -Buy Sample N=5842

	VALUE	RETURN	PROFIT	BSD	ABACC	BSD* ABACC	PRET	ERET	SIZE	MAAR	BM	IO	LIT
VALUE		0.0762 <.0001	0.25769 <.0001	0.0083 0.5261	-0.00272 0.8351	-0.0025 0.8484	0.03427 0.0088	-0.02022 0.1223	0.02061 0.1153	0.00159 0.9031	-0.03031 0.0205	-0.00074 0.9547	0.0261 0.0461
RETURN	0.28742 <.0001		0.33396 <.0001	0.01422 0.2771	-0.00559 0.6695	0.00634 0.6282	-0.00461 0.7246	0.00389 0.7661	0.00632 0.6294	0.0032 0.8067	0.01484 0.2569	-0.01418 0.2784	0.02845 0.0297
PROFIT	0.27919 <.0001	0.97423 <.0001		-0.01267 0.3329	0.00512 0.6954	0.00465 0.7222	0.0412 0.0016	0.02542 0.0521	-0.00275 0.8338	-0.00633 0.6288	0.00338 0.7962	0.00205 0.8755	-0.00902 0.4904
BSD	0.0459 0.0004	0.01097 0.4019	0.00944 0.4706		-0.02831 0.0305	-0.00895 0.4941	0.00443 0.7349	-0.00665 0.6112	-0.0514 <.0001	0.04473 0.0006	-0.13913 <.0001	0.16359 <.0001	0.26634 <.0001
ABACC	-0.00846 0.518	-0.02216 0.0904	-0.01753 0.1803	-0.02555 0.0509		0.62537 <.0001	0.04243 0.0012	-0.00261 0.8422	0.00526 0.688	0.00761 0.5608	-0.02996 0.022	-0.01022 0.4349	-0.04919 0.0002
BSD* ABACC	-0.00487 0.7096	-0.01398 0.2854	-0.00773 0.5547	-0.08964 <.0001	0.78623 <.0001		0.02988 0.0224	-0.01395 0.2864	0.02483 0.0577	0.00634 0.6279	-0.01829 0.1622	0.00481 0.713	-0.03495 0.0076
PRET	-0.04604 0.0004	-0.04103 0.0017	-0.03849 0.0033	-0.03267 0.0125	0.03657 0.0052	0.0269 0.0398		-0.02177 0.0961	-0.05561 <.0001	0.08808 <.0001	-0.27324 <.0001	-0.04805 0.0002	-0.00703 0.5914
ERET	-0.03419 0.009	-0.00401 0.7593	-0.01039 0.4273	-0.01512 0.2479	0.00153 0.9066	0.00603 0.6449	-0.00786 0.5479		-0.08117 <.0001	-0.00601 0.6459	0.07395 <.0001	-0.03689 0.0048	0.03833 0.0034
SIZE	0.03727 0.0044	0.01154 0.3778	0.01442 0.2704	-0.0301 0.0214	0.01427 0.2755	0.008 0.5411	0.00381 0.771	-0.05744 <.0001		-0.03368 0.01	-0.15258 <.0001	-0.0007 0.9572	-0.1621 <.0001
MAAR	0.01813 0.1659	0.01105 0.3985	0.00711 0.5871	0.04344 0.0009	0.00425 0.7454	0.00821 0.5302	0.0912 <.0001	-0.00915 0.4845	-0.03119 0.0171		-0.10961 <.0001	0.00122 0.9256	0.05992 <.0001
BM	-0.00839 0.5213	0.02503 0.0558	0.02338 0.074	-0.15382 <.0001	-0.02298 0.079	0.00558 0.6698	-0.27351 <.0001	0.06599 <.0001	-0.149 <.0001	-0.10641 <.0001		-0.13232 <.0001	-0.16203 <.0001
IO	0.014 0.2846	-0.0204 0.1191	-0.01515 0.247	0.16359 <.0001	-0.00439 0.7371	-0.00664 0.6121	-0.03926 0.0027	-0.0337 0.01	0.00421 0.7477	-0.00462 0.7241	-0.14141 <.0001		0.07742 <.0001
LIT	0.03137 0.0165	0.01098 0.4016	0.00807 0.5373	0.26634 <.0001	-0.04846 0.0002	-0.06295 <.0001	-0.07078 <.0001	0.01639 0.2102	-0.17145 <.0001	0.06062 <.0001	-0.21057 <.0001	0.07742 <.0001	

Table 23
Simple Correlations
Pearson (Spearman) coefficients above (below) the diagonal

Consistent Firms - Sell Sample N=6571

	VALUE	RETURN	PROFIT	BSD	ABACC	BSD* ABACC	PRET	ERET	SIZE	MAAR	BM	IO	LIT
VALUE		-0.03336 0.0068	-0.21495 <.0001	0.08106 <.0001	-0.01522 0.2175	-0.01598 0.1952	0.0937 <.0001	0.01416 0.2511	0.17121 <.0001	0.04653 0.0002	-0.15646 <.0001	0.00122 0.921	0.14825 <.0001
RETURN	-0.01586 0.1987		0.64777 <.0001	-0.0132 0.2847	-0.00833 0.4998	-0.00872 0.4796	-0.0363 0.0033	-0.00428 0.729	-0.0015 0.903	0.0159 0.1976	-0.0065 0.5985	0.02053 0.0961	-0.01638 0.1843
PROFIT	-0.01536 0.2133	0.9884 <.0001		-0.03969 0.0013	-0.00844 0.4937	-0.01049 0.3954	-0.04019 0.0011	0.00113 0.9269	-0.02818 0.0224	0.01341 0.277	0.03025 0.0142	0.01357 0.2713	-0.05645 <.0001
BSD	0.09799 <.0001	-0.01329 0.2815	-0.01402 0.2558		-0.03898 0.0016	-0.01382 0.2626	0.03066 0.0129	0.00131 0.9154	-0.05318 <.0001	0.05729 <.0001	-0.15263 <.0001	0.14665 <.0001	0.27075 <.0001
ABACC	-0.0038 0.7583	0.00242 0.8447	0.0036 0.7707	-0.03938 0.0014		0.64188 <.0001	0.03707 0.0026	0.0025 0.8398	0.01355 0.2721	0.00913 0.4595	-0.02361 0.0556	-0.01452 0.2394	-0.05763 <.0001
BSD* ABACC	-0.02757 0.0254	0.00131 0.9155	0.0035 0.7768	-0.09566 <.0001	0.79485 <.0001		0.02639 0.0324	-0.00954 0.4395	0.02627 0.0332	0.0098 0.4271	-0.0119 0.3349	-0.00046 0.9706	-0.03647 0.0031
PRET	0.14522 <.0001	-0.01968 0.1107	-0.0185 0.1337	-0.00442 0.7205	0.0339 0.006	0.027 0.0286		-0.00474 0.7006	-0.04603 0.0002	0.10886 <.0001	-0.28962 <.0001	-0.02835 0.0215	0.02337 0.0582
ERET	0.04628 0.0002	-0.00506 0.6818	-0.00625 0.6124	-0.00747 0.5447	0.01344 0.2761	0.01544 0.2107	-0.00199 0.8721		-0.07416 <.0001	-0.008 0.5165	0.0548 <.0001	-0.02607 0.0345	0.04321 0.0005
SIZE	0.19293 <.0001	-0.01955 0.1131	-0.0183 0.138	-0.0341 0.0057	0.02287 0.0638	0.00777 0.5288	0.01911 0.1214	-0.04948 <.0001		-0.02837 0.0215	-0.18071 <.0001	-0.012 0.3307	-0.13545 <.0001
MAAR	0.054 <.0001	0.00598 0.6279	0.00886 0.4728	0.05344 <.0001	0.00379 0.7589	0.00973 0.4306	0.1055 <.0001	-0.00909 0.4613	-0.02918 0.018		-0.11336 <.0001	0.00123 0.9209	0.07654 <.0001
BM	-0.29579 <.0001	0.01834 0.1371	0.01998 0.1053	-0.1701 <.0001	-0.01709 0.166	0.0135 0.2739	-0.30454 <.0001	0.04255 0.0006	-0.18158 <.0001	-0.11623 <.0001		-0.13436 <.0001	-0.18895 <.0001
IO	0.07542 <.0001	0.02081 0.0916	0.01863 0.131	0.14665 <.0001	-0.00679 0.5822	-0.00925 0.4536	-0.02121 0.0856	-0.02731 0.0269	-0.00527 0.6692	-0.00203 0.8693	-0.1406 <.0001		0.08095 <.0001
LIT	0.14754 <.0001	-0.01957 0.1127	-0.02235 0.0701	0.27075 <.0001	-0.05983 <.0001	-0.07217 <.0001	-0.0373 0.0025	0.0182 0.1402	-0.14294 <.0001	0.0728 <.0001	-0.2525 <.0001	0.08095 <.0001	

Table 24
Simple Correlations
Pearson (Spearman) coefficients above (below) the diagonal

Switching Firms - Buy Sample N=2791

	VALUE	RETURN	PROFIT	BSD	ABACC	BSD* ABACC	PRET	ERET	SIZE	MAAR	BM	IO	LIT
VALUE		0.16782 <.0001	0.5953 <.0001	-0.00054 0.9774	0.04179 0.0273	0.02268 0.231	-0.04448 0.0188	-0.06356 0.0008	0.0425 0.0248	-0.01508 0.4259	-0.00004 0.9983	-0.00199 0.9163	0.02954 0.1187
RETURN	0.25356 <.0001		0.3604 <.0001	0.00022 0.9906	0.00096 0.9597	-0.00289 0.8786	0.01812 0.3385	-0.01409 0.4569	-0.02723 0.1504	0.0194 0.3056	0.00924 0.6256	-0.01768 0.3505	0.01307 0.4902
PROFIT	0.25464 <.0001	0.96106 <.0001		0.01715 0.3651	0.04731 0.0124	0.0323 0.088	-0.01696 0.3705	-0.06372 0.0008	-0.00398 0.8334	0.0031 0.87	-0.01629 0.3897	-0.01837 0.3319	-0.00534 0.7781
BSD	-0.00393 0.8355	-0.02233 0.2383	-0.01472 0.437		-0.01589 0.4013	0.03476 0.0664	0.04512 0.0171	-0.02751 0.1463	-0.03441 0.0691	0.00469 0.8046	-0.02961 0.1179	0.01138 0.5478	0.04546 0.0163
ABACC	0.0364 0.0545	-0.00372 0.8443	-0.00741 0.6956	-0.02368 0.211		0.50298 <.0001	0.00358 0.8501	0.01032 0.5858	-0.02328 0.2188	0.01432 0.4494	0.027 0.1538	-0.01278 0.4999	0.007 0.7118
BSD* ABACC	0.03066 0.1053	-0.02438 0.1979	-0.03059 0.1061	-0.08848 <.0001	0.6973 <.0001		-0.00272 0.8859	0.01319 0.4862	0.0028 0.8824	-0.0003 0.9875	-0.00433 0.8193	0.00455 0.8103	0.01715 0.3651
PRET	-0.0705 0.0002	-0.00488 0.7965	-0.00652 0.7307	0.03827 0.0432	-0.01601 0.3979	-0.00415 0.8265		-0.00545 0.7736	-0.08523 <.0001	0.11728 <.0001	-0.21966 <.0001	-0.00914 0.6295	0.01012 0.5929
ERET	-0.03309 0.0805	-0.01165 0.5383	-0.0068 0.7197	-0.01396 0.4611	-0.01651 0.3833	-0.00971 0.6081	-0.0154 0.416		-0.10773 <.0001	0.009 0.6348	0.07502 <.0001	-0.03776 0.0461	0.02268 0.2311
SIZE	0.04387 0.0205	-0.00563 0.7661	-0.01073 0.5709	-0.03057 0.1064	-0.00356 0.8507	-0.01245 0.5109	-0.02903 0.1252	-0.08386 <.0001		-0.09097 <.0001	-0.10524 <.0001	0.02884 0.1277	-0.23107 <.0001
MAAR	-0.00174 0.9267	0.01221 0.5192	0.01276 0.5005	0.01497 0.4293	0.00516 0.7851	-0.01244 0.5111	0.09546 <.0001	0.01412 0.4557	-0.08158 <.0001		-0.09153 <.0001	0.02003 0.2902	0.02487 0.1891
BM	0.01955 0.3018	0.02834 0.1344	0.03126 0.0987	-0.03016 0.1112	0.01736 0.3593	0.00738 0.6966	-0.25043 <.0001	0.05838 0.002	-0.07981 <.0001	-0.10726 <.0001		-0.13558 <.0001	-0.1234 <.0001
IO	0.00771 0.684	-0.02852 0.1319	-0.02829 0.1351	0.01138 0.5478	-0.03062 0.1058	-0.00262 0.8901	0.00211 0.9112	-0.02276 0.2293	0.02777 0.1424	0.04004 0.0344	-0.14069 <.0001		0.01406 0.4578
LIT	0.03825 0.0433	0.00703 0.7106	0.007 0.7116	0.04546 0.0163	-0.00054 0.9773	0.01921 0.3103	-0.03359 0.0761	0.00857 0.651	-0.23219 <.0001	0.03588 0.0581	-0.17303 <.0001	0.01406 0.4578	

Table 25
Simple Correlations
Pearson (Spearman) coefficients above (below) the diagonal

Switching Firms - Sell Sample N= 3040

	VALUE	RETURN	PROFIT	BSD	ABACC	BSD* ABACC	PRET	ERET	SIZE	MAAR	BM	IO	LIT
VALUE		0.00293 0.8718	-0.05062 0.0052	0.02018 0.266	0.00336 0.8531	-0.00169 0.9257	0.10412 <.0001	0.0271 0.1352	0.12598 <.0001	0.05579 0.0021	-0.12967 <.0001	0.04174 0.0214	0.04739 0.009
RETURN	-0.05754 0.0015		0.64246 <.0001	-0.05251 0.0038	-0.00027 0.9883	-0.00863 0.6343	-0.03338 0.0657	0.02164 0.233	0.00255 0.8883	0.03826 0.0349	-0.01077 0.5528	-0.00129 0.9432	0.01491 0.4112
PROFIT	-0.05649 0.0018	0.97168 <.0001		-0.03235 0.0745	0.00885 0.6257	0.00021 0.9908	-0.03102 0.0872	0.00513 0.7774	-0.01089 0.5484	-0.00079 0.9653	0.00636 0.726	-0.01336 0.4614	0.04171 0.0215
BSD	0.03371 0.0631	-0.03764 0.038	-0.03116 0.0859		-0.00849 0.6397	0.03349 0.0649	0.05396 0.0029	-0.02839 0.1176	-0.03906 0.0313	0.00916 0.6135	-0.02824 0.1195	0.01845 0.3093	0.05018 0.0057
ABACC	-0.02343 0.1966	-0.00389 0.8304	-0.00483 0.79	-0.01838 0.3111		0.52506 <.0001	0.00905 0.6181	0.01089 0.5484	-0.02151 0.2358	-0.00647 0.7213	0.01914 0.2913	-0.00184 0.9194	0.00794 0.6615
BSD* ABACC	-0.01579 0.384	-0.02601 0.1516	-0.02821 0.1199	-0.1021 <.0001	0.69897 <.0001		-0.00334 0.854	0.0204 0.2608	-0.0008 0.9646	-0.02116 0.2434	-0.00196 0.914	0.00767 0.6725	0.02715 0.1345
PRET	0.15942 <.0001	-0.03924 0.0305	-0.03893 0.0319	0.04582 0.0115	-0.01621 0.3717	-0.014 0.4403		-0.02463 0.1746	-0.07021 0.0001	0.13209 <.0001	-0.23337 <.0001	0.00874 0.6301	0.01622 0.3713
ERET	0.04724 0.0092	0.01102 0.5437	0.01179 0.5158	-0.01475 0.4163	-0.01293 0.4761	-0.00635 0.7262	-0.01728 0.3408		-0.09138 <.0001	0.01557 0.3909	0.0592 0.0011	-0.02609 0.1503	0.02718 0.1341
SIZE	0.1719 <.0001	-0.02008 0.2684	-0.02471 0.1732	-0.03625 0.0456	-0.00603 0.7397	-0.01378 0.4477	-0.01319 0.4674	-0.06634 0.0003		-0.08873 <.0001	-0.12494 <.0001	0.01596 0.3791	-0.22335 <.0001
MAAR	0.04717 0.0093	0.01124 0.5354	0.00374 0.8367	0.019 0.295	-0.01109 0.5412	-0.03297 0.0691	0.10924 <.0001	0.01746 0.3358	-0.08587 <.0001		-0.09505 <.0001	0.03546 0.0506	0.02768 0.127
BM	-0.22651 <.0001	-0.00561 0.7571	-0.00489 0.7876	-0.02955 0.1033	0.0191 0.2924	0.01903 0.2943	-0.26926 <.0001	0.04379 0.0158	-0.10345 <.0001	-0.11731 <.0001		-0.14369 <.0001	-0.12838 <.0001
IO	0.05141 0.0046	0.0009 0.9604	-0.0015 0.9342	0.01845 0.3093	-0.02239 0.2172	-0.00371 0.838	0.01741 0.3373	-0.00892 0.6231	0.01349 0.4572	0.051 0.0049	-0.1486 <.0001		0.01757 0.3329
LIT	0.01798 0.3216	0.00432 0.8118	0.01526 0.4004	0.05018 0.0057	-0.00459 0.8002	0.01145 0.528	-0.02223 0.2204	0.01057 0.5603	-0.22658 <.0001	0.04117 0.0232	-0.17559 <.0001	0.01757 0.3329	

Table 26
Simple Correlations
Pearson (Spearman) coefficients above (below) the diagonal

Switching Firms in switching quarters - Buy Sample N= 647

	VALUE	RETURN	PROFIT	BSD	ABACC	BSD* ABACC	PRET	ERET	SIZE	MAAR	BM	IO	LIT
VALUE		0.16436 <.0001	0.66721 <.0001	-0.01412 0.7199	-0.01185 0.7635	-0.0129 0.7433	-0.07094 0.0713	-0.06148 0.1182	0.00787 0.8415	0.01855 0.6377	-0.00456 0.9079	-0.02429 0.5374	0.06034 0.1252
RETURN	0.17678 <.0001		0.337 <.0001	0.02633 0.5038	-0.01455 0.7118	-0.02091 0.5955	0.06144 0.1185	-0.03872 0.3254	0.01658 0.6738	-0.0689 0.0799	-0.00924 0.8146	-0.02642 0.5023	-0.02116 0.5911
PROFIT	0.17686 <.0001	0.99995 <.0001		0.02606 0.5081	-0.02977 0.4496	-0.03609 0.3594	-0.04947 0.2089	-0.1011 0.0101	-0.00221 0.9553	0.02006 0.6106	-0.00694 0.8602	0.02152 0.5848	-0.00782 0.8426
BSD	0.00412 0.9166	-0.00986 0.8023	-0.01016 0.7964		0.02708 0.4918	0.04845 0.2185	0.06158 0.1176	-0.07909 0.0443	0.1019 0.0095	0.06569 0.095	-0.01348 0.7321	0.00162 0.9672	-0.02452 0.5336
ABACC	0.08441 0.0318	0.01272 0.7467	0.01235 0.7539	0.02761 0.4833		0.66014 <.0001	0.00734 0.8522	0.02791 0.4785	-0.00698 0.8594	-0.04862 0.2168	-0.00335 0.9323	-0.04004 0.3092	-0.0138 0.7261
BSD* ABACC	0.04863 0.2167	-0.02015 0.6089	-0.02082 0.5972	-0.0823 0.0363	0.65056 <.0001		0.03561 0.3659	0.02194 0.5775	0.02392 0.5436	-0.11814 0.0026	0.01353 0.7312	-0.02905 0.4608	0.00346 0.93
PRET	-0.10418 0.008	-0.02605 0.5083	-0.02643 0.5021	0.08496 0.0307	-0.02171 0.5814	0.02461 0.5321		0.04752 0.2274	-0.07084 0.0718	0.03518 0.3716	-0.2244 <.0001	-0.00005 0.999	-0.0429 0.2758
ERET	-0.06031 0.1254	-0.03393 0.3889	-0.03439 0.3825	-0.06432 0.1021	-0.00711 0.8567	-0.00152 0.9693	0.02765 0.4827		-0.16513 <.0001	0.0279 0.4786	0.05496 0.1626	-0.03297 0.4025	-0.01646 0.676
SIZE	-0.00118 0.976	0.01146 0.7711	0.01144 0.7715	0.10048 0.0106	0.00322 0.9349	-0.01431 0.7163	-0.00031 0.9937	-0.1428 0.0003		-0.01992 0.613	-0.12955 0.001	0.04639 0.2387	-0.17656 <.0001
MAAR	-0.03477 0.3772	0.00691 0.8608	0.00765 0.846	0.05928 0.132	-0.06647 0.0912	-0.10887 0.0056	0.05691 0.1482	0.01323 0.737	-0.01619 0.681		-0.09761 0.013	-0.04325 0.272	0.03865 0.3263
BM	0.04103 0.2974	0.03786 0.3362	0.03763 0.3393	-0.0082 0.8351	-0.0272 0.4898	-0.02163 0.5828	-0.2104 <.0001	0.03231 0.412	-0.10989 0.0051	-0.12752 0.0012		-0.16603 <.0001	-0.10252 0.0091
IO	-0.02371 0.5472	-0.0312 0.4282	-0.03078 0.4344	0.00162 0.9672	-0.07676 0.051	-0.04667 0.2358	0.01281 0.7451	0.01394 0.7235	0.04443 0.2591	-0.01606 0.6834	-0.18861 <.0001		0.01703 0.6655
LIT	0.05835 0.1382	0.0045 0.909	0.00471 0.9048	-0.02452 0.5336	-0.0139 0.7242	0.01036 0.7925	-0.07526 0.0557	0.00047 0.9904	-0.18232 <.0001	0.05191 0.1873	-0.14805 0.0002	0.01703 0.6655	

Table 27
Simple Correlations
Pearson (Spearman) coefficients above (below) the diagonal

Switching Firms in switching quarters - Sell Sample N= 715

	VALUE	RETURN	PROFIT	BSD	ABACC	BSD* ABACC	PRET	ERET	SIZE	MAAR	BM	IO	LIT
VALUE		0.15585 <.0001	0.10886 0.0036	-0.00325 0.9309	0.06489 0.083	0.06908 0.0649	0.08582 0.0217	0.03777 0.3132	0.09628 0.01	0.06688 0.0739	-0.13363 0.0003	0.0553 0.1396	0.11465 0.0021
RETURN	-0.05342 0.1536		0.67612 <.0001	-0.02306 0.5382	0.05836 0.119	0.00888 0.8126	0.01707 0.6486	0.08105 0.0302	-0.04554 0.2239	0.09463 0.0114	-0.05031 0.179	-0.00119 0.9747	0.0757 0.043
PROFIT	-0.05383 0.1505	0.99922 <.0001		0.00059 0.9874	0.064 0.0873	0.04046 0.2799	0.01578 0.6736	0.06294 0.0926	-0.01466 0.6956	0.02539 0.4979	-0.03736 0.3185	-0.02664 0.4769	0.12532 0.0008
BSD	0.0171 0.648	0.0036 0.9235	0.00449 0.9046		0.03463 0.3552	0.05044 0.1779	0.06733 0.072	-0.07397 0.048	0.07957 0.0334	0.03631 0.3322	-0.01236 0.7414	0.02756 0.4618	-0.03657 0.3288
ABACC	-0.00093 0.9803	0.05602 0.1345	0.05638 0.132	0.03251 0.3854		0.65532 <.0001	0.01993 0.5946	0.02257 0.5469	0.00503 0.8931	-0.04402 0.2398	-0.02675 0.4751	-0.02021 0.5896	-0.0086 0.8185
BSD* ABACC	-0.01375 0.7137	0.01336 0.7213	0.01282 0.7321	-0.10117 0.0068	0.64778 <.0001		0.03081 0.4108	0.04453 0.2344	0.00321 0.9316	-0.124 0.0009	0.01177 0.7534	-0.03279 0.3814	0.02477 0.5084
PRET	0.11076 0.003	0.01593 0.6707	0.01454 0.6978	0.0922 0.0136	-0.01786 0.6335	0.0097 0.7958		0.01368 0.715	-0.05454 0.1451	0.066 0.0778	-0.22072 <.0001	0.02988 0.425	-0.06072 0.1047
ERET	0.02558 0.4946	0.08827 0.0182	0.08825 0.0183	-0.05709 0.1272	-0.02026 0.5886	-0.00424 0.91	0.00218 0.9537		-0.142 0.0001	0.04669 0.2124	0.03255 0.3849	-0.0465 0.2143	0.02111 0.573
SIZE	0.17569 <.0001	-0.09452 0.0114	-0.09435 0.0116	0.07595 0.0423	0.01018 0.7858	-0.02651 0.4792	0.00057 0.9879	-0.1213 0.0012		-0.01837 0.6239	-0.14402 0.0001	0.03945 0.2922	-0.16207 <.0001
MAAR	0.08629 0.021	0.04165 0.2661	0.03883 0.2998	0.02834 0.4493	-0.06251 0.0949	-0.11838 0.0015	0.07556 0.0434	0.01978 0.5975	-0.01829 0.6253		-0.10291 0.0059	-0.02535 0.4985	0.03894 0.2984
BM	-0.22481 <.0001	-0.05879 0.1163	-0.05696 0.1281	-0.00714 0.8488	-0.02665 0.4767	-0.00465 0.9013	-0.20291 <.0001	0.03486 0.3519	-0.12692 0.0007	-0.15543 <.0001		-0.17252 <.0001	-0.10885 0.0036
IO	0.08973 0.0164	-0.0021 0.9553	-0.00314 0.9331	0.02756 0.4618	-0.05637 0.1321	-0.03588 0.3381	0.03751 0.3166	0.00139 0.9705	0.03578 0.3394	-0.00562 0.8807	-0.18975 <.0001		0.00118 0.975
LIT	0.00657 0.8609	0.08575 0.0218	0.0891 0.0172	-0.03657 0.3288	-0.00986 0.7924	0.01182 0.7525	-0.08679 0.0203	0.03358 0.37	-0.17179 <.0001	0.05462 0.1446	-0.14879 <.0001	0.00118 0.975	

Variable Descriptions for Tables 28 -30

BSD is an indicator variable equal to 1 if the firm discloses enough balance sheet data at the earnings announcement determine accruals, 0 otherwise;

ABACC is the seasonally-adjusted abnormal accruals for firm i as estimated by a cross-sectional Jones (1991) model, as described in section 5.1;

PROFIT is the value of total insider trading (in millions of dollars) multiplied by the unadjusted return from 1 day after the day of the trade to 90 days after the day of the trade;

MAD = 1 if Compustat reports merger and acquisitions activity during the current quarter and 0 otherwise;

HTD = 1 if the firm reports Compustat SIC codes 2833-2836 (Pharmaceuticals), 8731-8734 (R&D Services), 7371-7379 (Programming), 3570-3577 (Computers), 3600-3674 (Electronics), or 3810-3845 (Precision Instruments), and 0 otherwise;

LOSS =1 if the firm suffered a loss and 0 otherwise;

AFED =1 if reported earnings less the most recent mean consensus analysts' forecast is larger than one cent and 0 otherwise;

AGE is the year of the quarterly earnings announcement less the first year the firm is publicly traded according to CRSP;

RV is the standard deviation of stock returns over the prior 250 days, where at least 100 days of stock returns are required for inclusion in the sample;

SIZE is natural log of the firms market value at the end of the current quarter;

AC is the number of analysts following the firm at the end of the current quarter; and

MB is the ratio of market value to book value at the end of the current quarter.

Table 28
The impact of insider trading profits and abnormal accruals on the decision to disclose accrual information early

$$BSD_i = \beta_0 + \beta_1 ABACC_i + \beta_2 VALUE_i + \beta_3 MAD_i + \beta_4 HTD_i + \beta_5 LOSS_i$$
$$+ \beta_6 AFED_i + \beta_7 AGE_i + \beta_8 RV_i + \beta_9 SIZE_i + \beta_{10} AC_i + \beta_{11} MB_i + \varepsilon_i$$

	Buy Sample			Sell Sample		
Independent Variables	**Predicted Sign**	**Mean Coefficient**	**t-value**	**Predicted Sign**	**Mean Coefficient**	**t-value**
Intercept		0.5487	2.5867		0.6494	2.8629
Test Variables:						
ABACC	-	-0.2564	-0.5744	-	-0.5811	-1.2911 +
VALUE	+	16.4940	1.5238 +	-	0.0630	2.7410
Control Variables:						
MAD	+	0.1951	1.4047 +	+	0.1934	1.5273 +
HTD	+	0.4759	6.5741 +++	+	0.4833	5.8922 +++
LOSS	+	0.0832	0.4757	+	0.1145	0.6592
AFED	+	-0.0161	-0.1403	+	-0.0108	-0.0980
AGE	-	-0.0088	-2.8523 +++	-	-0.0122	-4.0784 +++
RV	+	22.2194	5.0614 +++	+	20.3893	4.6861 +++
SIZE		-0.1418	-4.3246 ***		-0.1327	-4.4019 ***
AC		0.0440	4.2428 ***		0.0420	3.8664 ***
MB		-0.0171	-1.3655		-0.0191	-1.0187

Notes to Table 28:

*** = $p < 0.01$ (two-tailed). +++ = $p < 0.01$ (one-tailed).
** = $p < 0.05$ (two-tailed). ++ = $p < 0.05$ (one-tailed).
* = $p < 0.10$ (two-tailed). + = $p < 0.10$ (one-tailed).

t-statistics = the mean of the coefficients / the standard error of the coefficients.

The number of observations used to estimate the 16 quarterly regressions for the buy (sell) sample is 6,705 (7,775) including 286 (1,336) observations with insider trading

Table 29
The impact of insider trading profits and abnormal accruals on the decision to disclose accrual information early

$$BSD_i = \beta_0 + \beta_1 ABACC_i + \beta_2 RETURN_i + \beta_3 MAD_i + \beta_4 HTD_i + \beta_5 LOSS_i$$
$$+ \beta_6 AFED_i + \beta_7 AGE_i + \beta_8 RV_i + \beta_9 SIZE_i + \beta_{10} AC_i + \beta_{11} MB_i + \varepsilon_i$$

	Buy Sample			Sell Sample		
Independent Variables	**Predicted Sign**	**Mean Coefficient**	**t-value**	**Predicted Sign**	**Mean Coefficient**	**t-value**
Intercept		0.5518	2.5584		0.5768	2.5606
Test Variables:						
ABACC	-	-0.2635	-0.5967	-	-0.5537	-1.2280
RETURN	+	8.3700	1.2397	-	-0.4700	-1.4097 +
Control Variables:						
MAD	+	0.1924	1.4161 +	+	0.1866	1.4792 +
HTD	+	0.4589	6.0629 +++	+	0.4954	5.9080 +++
LOSS	+	0.0944	0.5433	+	0.1013	0.5877
AFED	+	-0.0234	-0.1990	+	0.0026	0.0237
AGE	-	-0.0082	-2.6883 +++	-	-0.0126	-4.0370 +++
RV	+	22.4624	5.1467 +++	+	20.7481	4.8902 +++
SIZE		-0.1451	-4.1224 ***		-0.1241	-3.8849 ***
AC		0.0452	4.3246 ***		0.0452	3.9771 ***
MB		-0.0148	-1.2292		-0.0164	-0.9056

Notes to Table29:

*** = $p < 0.01$ (two-tailed). +++ = $p < 0.01$ (one-tailed).
** = $p < 0.05$ (two-tailed). ++ = $p < 0.05$ (one-tailed).
* = $p < 0.10$ (two-tailed). + = $p < 0.10$ (one-tailed).

t-statistics = the mean of the coefficients / the standard error of the coefficients.

The number of observations used to estimate the 16 quarterly regressions for the buy (sell) sample is 6,705 (7,775) including 286 (1,336) observations with insider trading.

Table 30
The impact of insider trading profits and abnormal accruals on the decision to disclose accrual information early

$$BSD_i = \beta_0 + \beta_1 ABACC_i + \beta_2 PROFIT_i + \beta_3 MAD_i + \beta_4 HTD_i + \beta_5 LOSS_i$$
$$+ \beta_6 AFED_i + \beta_7 AGE_i + \beta_8 RV_i + \beta_9 SIZE_i + \beta_{10} AC_i + \beta_{11} MB_i + \varepsilon_i$$

	Buy Sample			Sell Sample		
Independent Variables	**Predicted Sign**	**Mean Coefficient**	**t-value**	**Predicted Sign**	**Mean Coefficient**	**t-value**	
Intercept		0.5547	2.6663		0.5754	2.6786	
Test Variables:							
ABACC	-	-0.2728	-0.6122	-	-0.5681	-1.2508	
PROFIT	+	103.6931	1.3015 +	-	-0.2678	-1.6291	++
Control Variables:							
MAD	+	0.1887	1.3646 +	+	0.1827	1.4049	+
HTD	+	0.4694	6.3923 +++	+	0.5055	5.9952	+++
LOSS	+	0.0891	0.5491	+	0.1184	0.6721	
AFED	+	-0.0326	-0.2901	+	0.0095	0.0886	
AGE	-	-0.0086	-2.7775 +++	-	-0.0125	-4.1245	+++
RV	+	22.2436	5.0863 +++	+	20.5935	4.7106	+++
SIZE		-0.1405	-4.1509 ***		-0.1243	-4.0971	***
AC		0.0441	4.2679 ***		0.0436	3.7208	***
MB		-0.0165	-1.2733		-0.0159	-0.8437	

Notes to Tables 30:

*** = $p < 0.01$ (two-tailed). +++ = $p < 0.01$ (one-tailed).
** = $p < 0.05$ (two-tailed). ++ = $p < 0.05$ (one-tailed).
* = $p < 0.10$ (two-tailed). + = $p < 0.10$ (one-tailed).

t-statistics = the mean of the coefficients / the standard error of the coefficients.

The number of observations used to estimate the 16 quarterly regressions for the buy (sell) sample is 6,705 (7,775) including 286 (1,336) observations with insider trading.

Table 31
Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel A –All Firms -Buy Sample (N = 8633)

Dependent Variable	Predicted Sign	VALUE Coeff.	VALUE t-value		RETURN Coeff.	RETURN t-value		PROFIT Coeff.	PROFIT t-value	
Constant		-0.0052	-0.61		0.0003	0.15		0.0006	0.34	
BSD		0.0010	0.25		0.0008	0.82		-0.0004	-0.57	
ABACC	-	0.0003	0.03		-0.0057	-1.26		-0.0014	-1.46	+
BSD*ABACC	+	0.0060	0.24		0.0070	0.72		0.0096	1.28	+
PRET		0.0095	0.75		0.0006	0.41		0.0024	1.32	*
ERET		-0.0514	-1.69	*	-0.0021	-0.26		0.0043	0.53	
SIZE		0.0026	2.05	**	0.0001	0.47		0.0000	-0.05	
MAAR		-0.0259	-0.46		0.0130	0.68		-0.0074	-0.88	
BM		-0.0033	-1.29		0.0014	2.00	**	0.0003	0.48	
IO		-0.0022	-0.49		-0.0014	-1.37		0.0000	-0.05	
LIT		0.0129	2.16	**	0.0027	2.06	**	-0.0003	-0.31	
R-square		0.0025			0.0026			0.0014		

Panel B –All Firms Sell Sample (N = 9611)

Dependent Variable	Predicted Sign	VALUE Coeff.	VALUE t-value		RETURN Coeff.	RETURN t-value		PROFIT Coeff.	PROFIT t-value	
Constant		-0.8674	-6.60		0.0071	2.40		0.0222	2.36	
BSD		0.1549	3.45	***	-0.0042	-2.67	***	-0.0148	-3.26	***
ABACC	+	0.4190	2.03	++	0.0164	1.54	+	0.0421	1.90	++
BSD*ABACC	-	-1.0309	-2.33	+++	-0.0349	-2.04	++	-0.0873	-1.67	++
PRET		0.3385	5.64	***	-0.0071	-2.78	***	-0.0148	-2.10	**
ERET		0.9378	2.51	***	0.0032	0.24		0.0292	0.70	
SIZE		0.1944	8.76	***	-0.0003	-0.74		-0.0029	-1.90	**
MAAR		2.6023	2.71	***	0.0718	2.15	**	0.1708	1.78	*
BM		-0.2443	-7.58	***	-0.0027	-2.83	***	-0.0007	-0.26	
IO		-0.0286	-0.47		0.0022	1.30		0.0061	1.20	
LIT		0.5525	6.13	***	-0.0016	-0.73		-0.0119	-1.64	*
R-Square		0.0663			0.0035			0.0038		

Notes to Table 31: All variables are defined as in Table 2. Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster . The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 32
Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i$$
$$+ \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel A – Consistent Disclosing Firms -Buy Sample (N =5842)

Dependent Variable	Predicted Sign	VALUE Coeff.	VALUE t-value		RETURN Coeff.	RETURN t-value		PROFIT Coeff.	PROFIT t-value	
Constant		-0.0052	-0.44		-0.0019	-0.82		-0.0003	-0.12	
BSD		0.0002	0.04		0.0012	1.03		-0.0009	-0.95	
ABACC	-	-0.0085	-0.76		-0.0107	-2.01	++	-0.0025	-1.59	+
BSD*ABACC	+	0.0004	0.01		0.0136	1.15		0.0053	1.05	
PRET		0.0160	0.89		0.0002	0.10		0.0039	1.52	
ERET		-0.0530	-1.24		0.0012	0.12		0.0136	1.29	
SIZE		0.0030	1.72	*	0.0004	1.33		0.0001	0.15	
MAAR		-0.0304	-0.39		0.0058	0.29		-0.0100	-0.88	
BM		-0.0048	-1.36		0.0017	2.05	**	0.0008	1.05	
IO		-0.0019	-0.29		-0.0015	-1.15		0.0006	0.63	
LIT		0.0150	1.86	*	0.0033	2.09	**	-0.0003	-0.20	
R-square		0.0031			0.0019			0.0029		

Panel B –Consistent Disclosing Firms Sell Sample (N =6571)

Dependent Variable	Predicted Sign	VALUE Coeff.	VALUE t-value		RETURN Coeff.	RETURN t-value		PROFIT Coeff.	PROFIT t-value	
Constant		-0.9529	-5.74		0.0080	2.11		0.0281	2.42	
BSD		0.1858	3.25	***	-0.0026	-1.35		-0.0139	-2.56	**
ABACC	+	0.3444	1.37	+	0.0156	1.16		0.0211	0.76	
BSD*ABACC	-	-1.0570	-1.93	++	-0.0352	-1.60	+	-0.0794	-1.23	
PRET		0.3179	4.48	***	-0.0075	-2.40	**	-0.0163	-1.92	*
ERET		0.7141	1.52		-0.0027	-0.17		0.0290	0.54	
SIZE		0.2088	7.38	***	-0.0005	-0.86		-0.0040	-2.07	**
MAAR		1.8334	1.56		0.0596	1.44		0.2081	1.76	
BM		-0.2362	-5.93	***	-0.0030	-2.42	**	-0.0006	-0.18	
IO		-0.0988	-1.23		0.0035	1.57		0.0107	1.60	
LIT		0.6518	5.89	***	-0.0037	-1.37		-0.0240	-2.71	***
R-Square		0.0768			0.0034			0.0060		

Notes to Table 32: All variables are defined as in Table 2. Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster . The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 33
Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i$$
$$+ \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel A – Switching Firms -Buy Sample (N =2791)

Dependent Variable	Predicted Sign	VALUE Coeff.	VALUE t-value		RETURN Coeff.	RETURN t-value		PROFIT Coeff.	PROFIT t-value	
Constant		-0.0037	-0.47		0.0052	1.53		0.0028	1.18	
BSD		-0.0003	-0.15		-0.0001	-0.09		0.0005	0.67	
ABACC	-	0.0099	0.62		0.0017	0.22		0.0001	0.06	
BSD*ABACC	+	0.0392	0.75		-0.0036	-0.23		0.0229	0.93	
PRET		-0.0053	-1.88	*	0.0016	0.77		-0.0009	-1.08	
ERET		-0.0453	-1.68	*	-0.0099	-0.66		-0.0154	-1.19	
SIZE		0.0015	2.04	**	-0.0005	-1.17		-0.0002	-1.02	
MAAR		-0.0152	-0.35		0.0256	0.58		0.0024	0.29	
BM		0.0002	0.07		0.0009	0.61		-0.0009	-1.08	
IO		-0.0009	-0.30		-0.0014	-0.80		-0.0012	-1.13	
LIT		0.0061	1.31		0.0010	0.40		-0.0004	-0.51	
R-square		0.0114			0.0020			0.0102		

Panel B –Switching Firms Sell Sample (N =3040)

Dependent Variable	Predicted Sign	VALUE Coeff.	VALUE t-value		RETURN Coeff.	RETURN t-value		PROFIT Coeff.	PROFIT t-value	
Constant		-0.6482	-3.36		0.0040	0.87		0.0026	0.18	
BSD		0.0663	1.01		-0.0072	-2.73		-0.0117	-1.46	
ABACC	+	0.4896	1.34	+	0.0173	0.99		0.0796	2.21	++
BSD*ABACC	-	-0.6201	-0.87		-0.0323	-1.36	+	-0.1063	-1.29	+
PRET		0.3904	3.45	***	-0.0059	-1.32		-0.0108	-0.86	
ERET		1.3899	2.33	**	0.0175	0.84		0.0347	0.57	
SIZE		0.1571	5.02	***	0.0002	0.31		0.0004	0.20	
MAAR		4.0225	2.42	**	0.1048	1.90	*	0.1166	0.72	
BM		-0.2537	-4.92	***	-0.0019	-1.48		-0.0020	-0.49	
IO		0.1122	1.45		-0.0005	-0.19		-0.0042	-0.59	
LIT		0.2694	2.22	**	0.0026	0.80		0.0204	2.00	
R-Square		0.0489			0.0069			0.0043		

Notes to Table 33: All variables are defined as in Table 2. Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster . The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 34
Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel A – Switching Firms in Quarter of Switch -Buy Sample (N =647)

Dependent Variable	Predicted Sign	VALUE Coeff.	VALUE t-value	RETURN Coeff.	RETURN t-value	PROFIT Coeff.	PROFIT t-value
Constant		0.0041	0.93	0.0018	0.32	0.0006	0.95
BSD		-0.0020	-0.57	0.0018	0.64	-0.0001	-0.17
ABACC	-	-0.0036	-0.46	0.0045	0.24	-0.0003	-0.42
BSD*ABACC	+	0.0023	0.20	-0.0248	-0.84	-0.0018	-0.89
PRET		-0.0062	-1.23	0.0054	0.78	-0.0003	-0.46
ERET		-0.0217	-1.03	-0.0156	-0.70	-0.0024	-0.71
SIZE		0.0003	0.49	0.0002	0.31	0.0000	-0.15
MAAR		0.0213	0.76	-0.0997	-1.17	-0.0014	-0.21
BM		-0.0010	-0.47	-0.0003	-0.07	-0.0001	-0.55
IO		-0.0034	-0.76	-0.0024	-0.81	-0.0002	-0.44
LIT		0.0066	1.02	-0.0011	-0.25	0.0002	0.29
R-square		0.0124		0.0138		0.0052	

Panel B – Switching Firms in Quarter of Switch Sell Sample (N =715)

Dependent Variable	Predicted Sign	VALUE Coeff.	VALUE t-value		RETURN Coeff.	RETURN t-value		PROFIT Coeff.	PROFIT t-value	
Constant		-0.5030	-1.68		0.0065	0.66		-0.0138	-0.44	
BSD		-0.0822	-0.55		-0.0025	-0.50		0.0017	0.10	
ABACC	+	1.1032	1.24	+	0.0677	2.00	++	0.2379	2.46	+++
BSD*ABACC	-	0.2686	0.17		-0.0591	-1.47	+	-0.2228	-1.28	+
PRET		0.3112	1.66	*	0.0011	0.16		0.0102	0.45	
ERET		1.5691	1.45		0.0560	1.07		0.1604	1.06	
SIZE		0.1342	2.86	***	-0.0010	-0.59		0.0023	0.45	
MAAR		4.3666	2.09	**	0.1912	2.01	**	0.0973	0.37	
BM		-0.2538	-3.00	***	-0.0041	-1.12		-0.0077	-0.87	
IO		0.1391	1.02		-0.0001	-0.01		-0.0118	-0.82	
LIT		0.6051	2.83	***	0.0097	1.40		0.0640	2.60	***
R-Square		0.0581			0.0279			0.0302		

Notes to Table 34: All variables are defined as in Table 2. Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 35
Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel A –All Firms less Endogenous Firms - Buy Sample (N = 7987)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		-0.0060	-0.66		0.0002	0.12		0.0007	0.34	
BSD		0.0011	0.26		0.0006	0.61		-0.0004	-0.55	
ABACC	-	-0.0006	-0.06		-0.0067	-1.48	+	-0.0018	-1.52	+
BSD*ABACC	+	0.0084	0.31		0.0091	0.90		0.0108	1.33	+
PRET		0.0107	0.79		0.0002	0.14		0.0026	1.33	
ERET		-0.0535	-1.61	*	-0.0009	-0.10		0.0051	0.57	
SIZE		0.0028	2.06	**	0.0001	0.43		0.0000	-0.05	
MAAR		-0.0312	-0.51		0.0216	1.13		-0.0084	-0.91	
BM		-0.0035	-1.26		0.0015	2.13	**	0.0003	0.50	
IO		-0.0020	-0.41		-0.0014	-1.30		0.0000	-0.02	
LIT		0.0133	2.09	**	0.0031	2.22	**	-0.0004	-0.33	
R-square		0.0027			0.0016			0.0016		

Panel B –All Firms less Endogenous Firms - Sell Sample (N = 8896)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		-0.9077	-6.55		0.0070	2.20		0.0241	2.45	
BSD		0.1806	3.77	***	-0.0042	-2.54	**	-0.0149	-3.27	***
ABACC	+	0.3237	1.63	+	0.0088	0.79		0.0161	0.76	
BSD*ABACC	-	-1.0593	-2.29	++	-0.0293	-1.61	+	-0.0695	-1.31	+
PRET		0.3413	5.47	***	-0.0076	-2.82	***	-0.0160	-2.17	**
ERET		0.8633	2.21	**	-0.0016	-0.12		0.0180	0.41	
SIZE		0.1996	8.58	***	-0.0003	-0.57		-0.0033	-2.04	**
MAAR		2.5337	2.51	**	0.0630	1.80	*	0.1742	1.73	*
BM		-0.2403	-7.22	***	-0.0025	-2.60	***	-0.0003	-0.11	
IO		-0.0414	-0.65		0.0025	1.36		0.0074	1.39	
LIT		0.5433	5.80	***	-0.0023	-1.02		-0.0169	-2.27	**
R-Square		0.0681			0.0036			0.0046		

Notes to Table 35: All variables are defined as in Table 2. Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5,

Table 36

Regression of Abnormal Accruals on Profit on Corporate Governance and Control Variables

$$ABACC_i = \beta_0 + \beta_1 G_i + \beta_2 BH + \beta_3 CEO_i + \beta_4 MB_i + \beta_5 Abs(NI)_i + \beta_6 LOSS_i + \beta_7 LTD_i + \beta_8 Ln(TA)_i + \varepsilon_i$$

(N = 813)

Dependent Variable	Predicted Sign	Coeff.	t-value
Constant		0.1183	0.63
G	+	-0.0488	-0.95
BH	-	-0.0690	-1.26
CEO		-0.8316	-1.34
MB		-0.0046	-1.57
Abs(NI)	+	0.0000	1.12
LOSS		-0.0538	-0.66
LTD		0.0385	1.06
LN(TA)		-0.0103	-0.58
R-square		0.0014	

Notes to Table 36:. Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 37
The impact of insider trading profits abnormal accruals and corporate governance on the decision to disclose accrual information early

$$BSD_i = \beta_0 + \beta_1 ABACC_i + \beta_2 VALUE_i + \beta_3 G_i + \beta_4 MAD_i + \beta_5 HTD_i$$
$$+ \beta_6 LOSS_i + \beta_7 AFED_i + \beta_8 AGE_i + \beta_9 RV_i + \beta_{10} SIZE_i + \beta_{11} AC_i + \beta_{12} MB_i + \varepsilon_i$$

	Buy Sample				Sell Sample			
Independent Variables	**Predicted Sign**	**Mean Coefficient**	**t-value**		**Predicted Sign**	**Mean Coefficient**	**t-value**	
Intercept		1.3461	3.55			1.3749	4.18	
Test Variables:								
ABACC	-	0.1688	0.25		+	-0.3716	-0.55	
VALUE	+	18.4573	1.69	++	-	0.0789	2.28	**
G	+	-0.5197	-4.44	+++	+	-0.4621	-3.07	***
Control Variables:								
MAD	+	0.2564	1.45	+	+	0.2650	2.14	++
HTD	+	0.3437	2.73	+++	+	0.4797	5.27	+++
LOSS	+	-0.0384	-0.27		+	0.0570	0.46	
AFED	+	0.1344	1.54	+	+	0.1127	1.02	
AGE	-	-0.0106	-3.73	+++	-	-0.0128	-4.43	+++
RV	+	28.9294	8.92	+++	+	25.5342	8.84	+++
SIZE		-0.2479	-4.63	***		-0.2290	-4.62	***
AC		0.0295	2.92	***		0.0294	2.40	**
MB		-0.0226	-1.00			-0.0217	-0.94	

Notes to Table 37:

*** = $p < 0.01$ (two-tailed). +++ = $p < 0.01$ (one-tailed).
** = $p < 0.05$ (two-tailed). ++ = $p < 0.05$ (one-tailed).
* = $p < 0.10$ (two-tailed). + = $p < 0.10$ (one-tailed).

t-statistics = the mean of the coefficients / the standard error of the coefficients.

The number of observations used to estimate the 16 quarterly regressions for the buy (sell) sample is 6,705 (7,775) including 286 (1,336) observations with insider trading.

Table 38
The impact of insider trading profits abnormal accruals and corporate governance on the decision to disclose accrual information early

$$BSD_i = \beta_0 + \beta_1 ABACC_i + \beta_2 VALUE_i + \beta_3 G_i + \beta_4 MAD_i + \beta_5 HTD_i$$
$$+ \beta_6 LOSS_i + \beta_7 AFED_i + \beta_8 AGE_i + \beta_9 RV_i + \beta_{10} SIZE_i + \beta_{11} AC_i + \beta_{12} MB_i + \varepsilon_i$$

	Buy Sample			Sell Sample		
Independent Variables	**Predicted Sign**	**Mean Coefficient**	**t-value**	**Predicted Sign**	**Mean Coefficient**	**t-value**	
Intercept		1.2578	2.74		1.2226	3.36	
Test Variables:							
ABACC	-	0.1431	0.21	+	-0.3448	-0.50	
RETURN	+	7.7216	1.37 +	-	-0.9844	-2.09	++
G	+	-0.4893	-4.00 +++	+	-0.4790	-3.09	+++
Control Variables:							
MAD	+	0.2453	1.34 +	+	0.2378	1.89	++
HTD	+	0.3420	2.53 +++	+	0.4791	5.66	+++
LOSS	+	-0.0525	-0.36	+	0.0412	0.31	
AFED	+	0.1426	1.38 +	+	0.1378	1.21	
AGE	-	-0.0097	-3.68 +++	-	-0.0141	-4.60	+++
RV	+	29.6394	8.30 +++	+	25.9141	9.30	+++
SIZE		-0.2449	-3.89 ***		-0.2060	-3.70	***
AC		0.0313	3.26 ***		0.0329	2.54	**
MB		-0.0127	-0.63		-0.0170	-0.74	

Notes to Table 38:

*** = $p < 0.01$ (two-tailed). +++ = $p < 0.01$ (one-tailed).
** = $p < 0.05$ (two-tailed). ++ = $p < 0.05$ (one-tailed).
* = $p < 0.10$ (two-tailed). + = $p < 0.10$ (one-tailed).

t-statistics = the mean of the coefficients / the standard error of the coefficients.

The number of observations used to estimate the 16 quarterly regressions for the buy (sell) sample is 6,705 (7,775) including 286 (1,336) observations with insider trading.

Table 39
The impact of insider trading profits abnormal accruals and corporate governance on the decision to disclose accrual information early

$$BSD_i = \beta_0 + \beta_1 ABACC_i + \beta_2 VALUE_i + \beta_3 G_i + \beta_4 MAD_i + \beta_5 HTD_i$$
$$+ \beta_6 LOSS_i + \beta_7 AFED_i + \beta_8 AGE_i + \beta_9 RV_i + \beta_{10} SIZE_i + \beta_{11} AC_i + \beta_{12} MB_i + \varepsilon_i$$

	Buy Sample			Sell Sample		
Independent Variables	**Predicted Sign**	**Mean Coefficient**	**t-value**	**Predicted Sign**	**Mean Coefficient**	**t-value**
Intercept		1.3300	3.12		1.2301	3.58
Test Variables:						
ABACC	-	0.0798	0.12	+	-0.3509	-0.52
PROFIT	+	61.4150	0.86	-	-0.2567	-1.94 ++
G	+	-0.5125	-4.16 +++	+	-0.4729	-2.96 +++
Control Variables:						
MAD	+	0.2536	1.38 +	+	0.2389	1.92 ++
HTD	+	0.3506	2.69 +++	+	0.4967	5.43 +++
LOSS	+	-0.0635	-0.47	+	0.0644	0.47
AFED	+	0.1379	1.43 +	+	0.1391	1.28 +
AGE	-	-0.0102	-3.71 +++	-	-0.0139	-4.79 +++
RV	+	28.6385	8.17 +++	+	25.8991	9.38 +++
SIZE		-0.2447	-4.23 ***		-0.2091	-3.98 ***
AC		0.0291	3.03 ***		0.0319	2.36 **
MB		-0.0155	-0.74		-0.0160	-0.69

Notes to Table 39:

*** = $p < 0.01$ (two-tailed). +++ = $p < 0.01$ (one-tailed).
** = $p < 0.05$ (two-tailed). ++ = $p < 0.05$ (one-tailed).
* = $p < 0.10$ (two-tailed). + = $p < 0.10$ (one-tailed).

t-statistics = the mean of the coefficients / the standard error of the coefficients.

The number of observations used to estimate the 16 quarterly regressions for the buy (sell) sample is 6,705 (7,775) including 286 (1,336) observations with insider trading

Table 40
Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, Corporate Governance, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 G_i + \alpha_5 PRET_i + \alpha_6 ERET_i + \alpha_7 SIZE_i + \alpha_8 MAAR_i + \alpha_9 BM_i + \alpha_{10} IO + \alpha_{11} LIT_i + \varepsilon_i$$

Panel A –All Firms -Buy Sample (N = 4376)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		-0.0003	-0.01		0.0010	0.23		0.0054	1.04	
BSD		0.0006	0.08		0.0003	0.21		-0.0014	-0.83	
ABACC	-	-0.0124	-0.62		0.0000	0.00		-0.0026	-0.79	
BSD*ABACC	+	0.0202	0.49		0.0025	0.14		0.0006	0.11	
G	-	-0.0103	-2.25	++	0.0020	0.95		-0.0011	-0.97	
PRET		0.0011	0.08		0.0000	0.02		0.0053	0.98	
ERET		-0.0330	-0.56		-0.0020	-0.17		0.0216	1.17	
SIZE		0.0029	1.21		-0.0001	-0.27		-0.0005	-0.87	
MAAR		0.0301	0.40		0.0061	0.21		-0.0058	-0.36	
BM		-0.0111	-2.01	**	0.0032	2.00	**	-0.0005	-0.40	**
IO		-0.0047	-0.76		-0.0005	-0.31		0.0002	0.15	
LIT		0.0136	1.57		0.0014	0.73		0.0001	0.04	
R-square		0.0026			0.0015			0.0031		

Panel B –All Firms Sell Sample (N = 5223)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		-1.9338	-3.48		0.0036	0.45		0.0371	1.09	
BSD		0.3952	3.04	***	-0.0092	-3.57	***	-0.0369	-3.18	***
ABACC	+	1.7903	2.38	+++	0.0378	1.29	+	0.1331	1.60	+
BSD*ABACC	-	-3.2206	-2.39	+++	-0.0605	-1.58	+	-0.2176	-1.39	+
G	-	0.2999	1.15		-0.0039	-0.87		-0.0075	-0.40	
PRET		0.6464	4.18	***	-0.0107	-2.25	***	-0.0371	-1.97	***
ERET		2.9156	2.84	***	0.0231	0.94		0.1541	1.29	
SIZE		0.3614	4.89	***	0.0006	0.66		-0.0036	-0.82	
MAAR		4.2441	1.38		0.0623	0.92		0.5298	1.74	*
BM		-0.7822	-6.13	***	-0.0030	-1.26		0.0052	0.48	
IO		-0.2131	-1.37		0.0027	0.98		0.0107	0.84	
LIT		1.2086	5.02	***	-0.0068	-1.92	*	-0.0437	-2.35	**
R-Square		0.0680			0.0074			0.0080		

Notes to Table 40: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 41
Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, Corporate Governance, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 G_i + \alpha_5 PRET_i + \alpha_6 ERET_i + \alpha_7 SIZE_i + \alpha_8 MAAR_i + \alpha_9 BM_i + \alpha_{10} IO + \alpha_{11} LIT_i + \varepsilon_i$$

Panel A – Consistent Disclosing Firms -Buy Sample (N =2875)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		0.0080	0.23		0.0006	0.11		0.0088	1.12	
BSD		-0.0022	-0.17		0.0006	0.34		-0.0024	-0.84	
ABACC	-	-0.0202	-0.55		-0.0036	-0.29		-0.0070	-1.09	
BSD*ABACC	+	0.0284	0.45		0.0131	0.56		0.0052	0.64	
G	-	-0.0155	-2.15	++	0.0031	1.14		-0.0021	-1.25	
PRET		0.0048	0.22		-0.0007	-0.22		0.0077	0.96	
ERET		-0.0329	-0.37		-0.0005	-0.04		0.0336	1.21	
SIZE		0.0032	0.96		0.0000	-0.02		-0.0008	-0.98	
MAAR		0.0338	0.31		-0.0063	-0.19		-0.0012	-0.05	
BM		-0.0170	-1.85		0.0026	1.38		-0.0009	-0.39	
IO		-0.0068	-0.70		-0.0002	-0.11		0.0004	0.17	
LIT		0.0150	1.32		0.0018	0.76		0.0000	0.00	
R-square		0.0033			0.0015			0.0047		

Panel B –Consistent Disclosing Firms Sell Sample (N =3502)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		-2.3594	-3.21		-0.0011	-0.10		0.0361	0.83	
BSD		0.5999	3.22	***	-0.0065	-1.93	*	-0.0373	-2.52	**
ABACC	+	1.5115	1.61	+	0.0216	0.56		0.0729	0.63	
BSD*ABACC	-	-2.8284	-1.62	+	-0.0444	-0.89		-0.1653	-0.82	
G	-	0.4564	1.35	+	-0.0049	-0.86		-0.0223	-0.97	
PRET		0.5674	2.97	***	-0.0074	-1.23		-0.0305	-1.34	
ERET		2.8104	2.20	**	0.0159	0.53		0.1417	0.94	
SIZE		0.4145	4.28	***	0.0012	0.96		-0.0041	-0.74	
MAAR		1.3461	0.35		0.0283	0.33		0.7923	2.16	**
BM		-0.8411	-4.91	***	-0.0022	-0.67		0.0115	0.77	
IO		-0.4426	-2.10	**	0.0039	1.11		0.0227	1.35	
LIT		1.4183	4.92	***	-0.0119	-2.65	***	-0.0683	-3.09	***
R-Square		0.0841			0.0073			0.0121		

Notes to Table 41: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 42
Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, Corporate Governance, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 G_i + \alpha_5 PRET_i + \alpha_6 ERET_i + \alpha_7 SIZE_i + \alpha_8 MAAR_i + \alpha_9 BM_i + \alpha_{10} IO + \alpha_{11} LIT_i + \varepsilon_i$$

Panel A – Switching Firms -Buy Sample (N =1501)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		-0.0061	-0.79		0.0000	0.01		0.0001	0.09	
BSD		0.0018	0.83		-0.0008	-0.35		-0.0002	-0.38	
ABACC	-	-0.0110	-1.43	+	0.0049	0.33		-0.0006	-0.77	
BSD*ABACC	+	0.0157	1.27		-0.0209	-1.00		-0.0030	-1.40	
G	-	0.0003	0.10		-0.0006	-0.22		0.0003	0.49	
PRET		-0.0063	-2.59	***	0.0018	0.53		0.0004	0.79	
ERET		-0.0292	-1.91	*	-0.0041	-0.21		-0.0019	-0.56	
SIZE		0.0013	1.25		-0.0002	-0.20		0.0000	-0.08	
MAAR		0.0358	0.89		0.0357	0.58		-0.0044	-0.49	
BM		-0.0011	-0.76		0.0049	1.66		0.0003	0.76	
IO		0.0010	0.51		-0.0006	-0.28		-0.0001	-0.31	
LIT		0.0027	0.79		0.0003	0.09		0.0001	0.22	
R-square		0.0119			0.0039			0.0021		

Panel B –Switching Firms Sell Sample (N =1721)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		-1.0617	-1.38		0.0094	0.88		0.0333	0.65	
BSD		0.0549	0.37		-0.0115	-2.91	***	-0.0282	-1.48	
ABACC	+	2.2936	1.75	++	0.0629	1.39	+	0.2360	2.16	++
BSD*ABACC	-	-3.7917	-2.09	++	-0.0895	-1.60	+	-0.3256	-1.37	+
G	-	0.0696	0.22		-0.0036	-0.62		0.0213	0.76	
PRET		0.8110	3.03	***	-0.0172	-2.39	**	-0.0493	-1.52	
ERET		3.1426	1.84	*	0.0365	0.92		0.1899	1.01	
SIZE		0.2321	2.34	**	-0.0001	-0.07		-0.0010	-0.15	
MAAR		9.9743	2.09	**	0.1376	1.38		-0.0735	-0.14	
BM		-0.6294	-3.85	**	-0.0047	-1.56		-0.0134	-0.99	
IO		0.2442	1.43		0.0003	0.07		-0.0143	-0.82	
LIT		0.5525	1.67	*	0.0053	0.99		0.0251	0.97	
R-Square		0.0469			0.0172			0.0089		

Notes to Table 42: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 43
Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, Corporate Governance, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 G_i + \alpha_5 PRET_i + \alpha_6 ERET_i + \alpha_7 SIZE_i + \alpha_8 MAAR_i + \alpha_9 BM_i + \alpha_{10} IO + \alpha_{11} LIT_i + \varepsilon_i$$

Panel A – Switching Firms in Quarter of Switch -Buy Sample (N =331)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		0.0076	0.78		0.0088	1.02		0.0017	1.09	
BSD		0.0033	1.27		0.0033	0.82		0.0003	0.72	
ABACC	-	0.0013	0.19		0.0100	0.43		0.0002	0.27	
BSD*ABACC	+	-0.0036	-0.29		-0.0575	-1.11		-0.0049	-1.41	+
G	-	-0.0020	-1.43	+	0.0013	0.26		0.0001	0.28	
PRET		-0.0059	-1.14		-0.0056	-0.83		-0.0006	-0.72	
ERET		-0.0551	-1.22		-0.0209	-0.48		-0.0067	-0.88	
SIZE		-0.0009	-0.67		-0.0009	-0.65		-0.0002	-1.06	
MAAR		0.0793	1.38		-0.1677	-0.95		-0.0026	-0.18	
BM		-0.0005	-0.43		0.0027	0.50		-0.0001	-0.72	
IO		0.0012	0.55		-0.0009	-0.18		0.0005	1.31	
LIT		-0.0033	-0.93		-0.0097	-1.66	*	-0.0009	-1.42	*
R-square		0.0894			0.0379			0.0667		

Panel B – Switching Firms in Quarter of Switch Sell Sample (N =391)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		-0.4198	-0.35		0.0247	0.96		-0.0124	-0.11	
BSD		-0.5016	-1.44	+	-0.0025	-0.33		0.0007	0.02	
ABACC	+	3.7841	1.28	+	0.1438	1.92	++	0.5308	2.16	++
BSD*ABACC	-	-3.3310	-0.99		-0.1174	-1.42	+	-0.6253	-2.08	++
G	-	0.7743	1.46	+	0.0135	1.26		0.1205	2.07	++
PRET		0.7140	1.49		-0.0068	-0.64		-0.0162	-0.29	
ERET		2.3594	1.06		0.1098	1.21		0.4269	1.04	
SIZE		0.1661	1.09		-0.0031	-1.08		0.0023	0.17	
MAAR		3.1789	0.48		0.1580	1.03		-1.0672	-1.60	
BM		-0.6231	-2.52	**	-0.0114	-1.30		-0.0278	-0.95	
IO		0.2134	0.80		-0.0007	-0.08		-0.0272	-0.81	
LIT		0.9102	1.98	**	0.0053	0.53		0.1006	1.73	
R-Square		0.0613			0.0425			0.0478		

Notes to Table 43: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 44
Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, Corporate Governance, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 G_i + \alpha_5 PRET_i + \alpha_6 ERET_i + \alpha_7 SIZE_i + \alpha_8 MAAR_i + \alpha_9 BM_i + \alpha_{10} IO + \alpha_{11} LIT_i + \varepsilon_i$$

Panel A – All Firms Less Endogenous Firms -Buy Sample (N =4045)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		-0.0007	-0.03		0.0002	0.05		0.0058	1.02	
BSD		0.0003	0.03		0.0000	0.00		-0.0015	-0.83	
ABACC	-	-0.0157	-0.69		-0.0027	-0.26		-0.0033	-0.88	
BSD*ABACC	+	0.0259	0.57		0.0091	0.48		0.0017	0.30	
G	-	-0.0108	-2.17	++	0.0022	0.99		-0.0013	-1.01	
PRET		0.0017	0.11		0.0004	0.17		0.0058	0.99	
ERET		-0.0307	-0.47		0.0003	0.03		0.0246	1.20	
SIZE		0.0032	1.23		0.0000	-0.09		-0.0005	-0.86	
MAAR		0.0318	0.39		0.0223	0.79		-0.0055	-0.31	
BM		-0.0119	-1.98	**	0.0033	1.95	*	-0.0006	-0.39	
IO		-0.0051	-0.74		-0.0005	-0.33		0.0003	0.15	
LIT		0.0144	1.58		0.0023	1.14		0.0001	0.05	
R-square		0.0028			0.0018			0.0034		

Panel B – All Firms Less Endogenous Firms Sell Sample (N = 4832)

Dependent	Predicted	VALUE			RETURN			PROFIT		
Variable	Sign	Coeff.	t-value		Coeff.	t-value		Coeff.	t-value	
Constant		-2.0776	-3.57		0.0029	0.34		0.0465	1.28	
BSD		0.4843	3.46		-0.0096	-3.51		-0.0386	-3.32	
ABACC	+	1.5708	2.10	++	0.0223	0.71		0.0819	0.94	
BSD*ABACC	-	-3.1081	-2.18	++	-0.0478	-1.17		-0.1717	-1.05	
G	-	0.2779	1.02		-0.0053	-1.13		-0.0185	-0.99	
PRET		0.6420	3.97	***	-0.0106	-2.12	**	-0.0368	-1.86	*
ERET		2.9673	2.75	***	0.0142	0.56		0.1293	1.03	
SIZE		0.3780	4.87	***	0.0008	0.75		-0.0046	-1.01	
MAAR		4.4087	1.37		0.0492	0.69		0.6092	1.91	*
BM		-0.7916	-5.98	***	-0.0023	-0.92		0.0065	0.57	
IO		-0.2487	-1.52		0.0032	1.10		0.0136	1.02	
LIT		1.2098	4.84	***	-0.0075	-2.03	**	-0.0530	-2.78	***
R-Square		0.0706			0.0079			0.0096		

Notes to Table 44: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

5.0 Endogeneity

As mentioned previously, one drawback of the methodology used in this thesis is the potential for endogeneity. There is a potential for endogeneity because managers may be able to make two decisions in the period shortly before the earnings announcement. The first decision is whether or not to disclose balance sheet information and the second decision is whether or not to trade. An endogenous relationship would cause the results reported in Tables 31 through 35 to be biased. Although the descriptive statistics from this thesis and from the Chen, Defond, and Park study indicate that balance sheet disclosure is sticky, there may still be a possibility that managers could simultaneously make both disclosure and trading decisions in the same period. In my sample a small percentage of firms experienced both a change in disclosure and insider trading in the same quarter. In addition, some of the results of Table 31 appear to depend on this small subsample of firms. As a robustness check, I control for endogeneity using a 2-stage least squares approach.

For the first stage of the 2-stage least squares regression, I model the determinants of balance sheet disclosure (BSD). I start with all the variables used in Table 28 and as suggested by Larcker and Rusticus (2008) formed different combinations of these variables. One difficulty with this approach is that no single model provided the highest F-statistic for each of the 10 different subsamples. Some models produce a higher F-statistic for subsamples with more observations while other models produced higher F-Statistics for the subsamples with fewer observations. For the following analysis I chose the model with the highest F-statistics for the samples with the fewest observations. I selected this approach for two reasons: The first reason is that this also produced strong F-statistics for the subsamples with more observations. The second reason is that some of the results of Table 31 appear to be driven by the smaller subsamples.

Consequently I wanted the highest F-statistic possible for these samples. The model that produced the highest F-statistic for the smaller subsamples includes all the control variables in used in Table 28 through 30: MAD, HTD, LOSS, AFED, AGE, RV, SIZE, AC, and MB.

Panel A of Table 45 reports the results of the first stage regression for all firms that experienced insider buying. The partial R-square of the instrumental variables is 0.0258 with an F-Statistic of 8.40 (p-value 0.0000). The model appears to be well specified. Panel B reports the results of the second stage regression for each of the three dependent variables. For each of the three dependent variables endogeneity does not appear to be a problem. For the dependent variable VALUE, the results of the Hausman test does not indicate endogeneity with a C-Statistic of 0.184 (p-value 0.6678). For the dependent variable RETURN, the Hausman test reports a C-Statistic of 0.371 (p-value 0.5425). For the dependent variable PROFIT, the Hausman test reports a C-Statistic of 0.533 (p-value 0.4653). These results suggest that the results of the ordinary least squares regression reported in Table 7 are robust.

Panel A of Table 46 reports the results of the first stage regression for all firms that experienced insider selling. The partial R-square of the instrumental variables is 0.0308 with an F-Statistic of 9.88 (p-value 0.0000). The model appears to be well specified. Panel B reports the results of the second stage regression for each of the three dependent variables. For the dependent variable VALUE endogeneity appears to be a problem. The result of the Hausman test reports a C-statistic of 21.190 (p-value 0.0000) indicating endogeneity is a problem and the OLS results of Table 7 may be biased. For the other two dependent variables RETURN and PROFIT endogeneity does not appear to be a problem. The results of the Hausman test for these two variables are C-Statistics of 0.151 (p-value 0.6972) and 0.076 (p-value 0.7821), respectively. Why one variable is endogenous while the other two are exogenous is somewhat puzzling. One

potential explanation is that while insiders do have control over the amount of the trade. They do not have control over the return from the trade. In other words, they can control both balance sheet disclosure and the amount of the trade but not the return or profit from the trade. The results from Table 46 indicate the results of Table 7 for the variable VALUE are not robust when adjusted for endogeneity. The coefficients of both test variables loose their significance in the 2SLS model. However the results for Table 7 with respect to RETURN and PROFIT are robust.

Panel A of Table 47 reports the results of the first stage regression for all firms that experienced insider buying less the firms the endogenous firms.[11] I remove these firms from the sample because it is likely that endogeneity may be a problem for these firms. The partial R-square of the instrumental variables is 0.0308 with an F-Statistic of 8.46 (p-value 0.0000). The model appears to be well specified. Panel B reports the results of the second stage regression for each of the three dependent variables. Similar to Table 45, endogeneity does not appear to be a problem for each of the three dependent variables. For the dependent variable VALUE, the results of the Hausman test does not indicate endogeneity with a C-Statistic of 0.241 (p-value 0.6233). For the dependent variable RETURN, the Hausman test reports a C-Statistic of 0.835 (p-value 0.3606). For the dependent variable PROFIT, the Hausman test reports a C-Statistic of 0.599 (p-value 0.4391). These results suggest that the results of the ordinary least squares regression reported in Table 7 are robust.

Panel A of Table 48 reports the results of the first stage regression for all firms that experienced insider Selling less the firms the endogenous firms. The partial R-square of the instrumental variables is 0.0354 with an F-Statistic of 10.13 (p-value 0.0000). The model appears to be well specified. Panel B reports the results of the second stage regression for each of the

[11] I define endogenous firms as the firm-quarter where disclosure changed and insiders have either traded or refrained from trading. I use this term because these are the firm quarters where insiders do have an opportunity to change both disclosure policy and trade during the same quarter.

three dependent variables. As with Table 46, endogeneity appears to be a problem only for the dependent variable VALUE. The result of the Hausman test reports a C-statistic of 22.074 (p-value 0.0000) indicating endogeneity is a problem and the OLS results of Table 7 may be biased. For the other two dependent variables, RETURN and PROFIT, endogeneity does not appear to be a problem. The results of the Hausman test for these two variables are C-Statistics of 0.010 (p-value 0.9217) and 0.017 (p-value 0.8951), respectively. The results from Table 48 indicate the results of Table 7 for the variable VALUE are not robust when adjusted for endogeneity. The coefficients of both test variables loose their significance in the 2SLS model. However the results for Table 7 with respect to RETURN and PROFIT are robust.

Panel A of Table 49 reports the results of the first stage regression for all firms that maintained a consistent disclosure policy throughout the sample period and experienced insider buying. The partial R-square of the instrumental variables is 0.0367 with an F-Statistic of 6.55 (p-value 0.0000). The model appears to be well specified. Panel B reports the results of the second stage regression for each of the three dependent variables. For each of the three dependent variables endogeneity does not appear to be a problem. For the dependent variable VALUE, the results of the Hausman test does not indicate endogeneity with a C-Statistic of 0.008 (p-value 0.9277). For the dependent variable RETURN, the Hausman test reports a C-Statistic of 0.029 (p-value 0.8655). For the dependent variable PROFIT, the Hausman test reports a C-Statistic of 0.105 (p-value 0.7456). These results suggest that the results of the ordinary least squares regression reported in Table 7 are robust.

Panel A of Table 50 reports the results of the first stage regression for all firms that experienced insider selling. The partial R-square of the instrumental variables is 0.0435 with an F-Statistic of 8.03 (p-value 0.0000). The model appears to be well specified. Panel B reports the

results of the second stage regression for each of the three dependent variables. For the dependent variable VALUE endogeneity appears to be a problem. The result of the Hausman test reports a C-statistic of 23.844 (p-value 0.0000) indicating endogeneity is a problem and the OLS results of Table 7 may be biased. For the other two dependent variables RETURN and PROFIT endogeneity does not appear to be a problem. The results of the Hausman test for these two variables are C-Statistics of 0.007 (p-value 0.9325) and 0.534 (p-value 0.4648), respectively. The results from Table 46 indicate the results of Table 7 for the variable VALUE are not robust when adjusted for endogeneity. The coefficients of both test variables loose their significance in the 2SLS model. The results for Table 7 with respect to RETURN and PROFIT are robust.

Panel A of Table 51 reports the results of the first stage regression for all firms that changed disclosure policy sometime during the sample period and experienced insider buying. The partial R-square of the instrumental variables is 0.0079 with an F-Statistic of 1.51 (p-value 0.1611). The model does not appear to be well specified. Panel B reports the results of the second stage regression for each of the three dependent variables. For each of the three dependent variables endogeneity appears to be a problem. For the dependent variable VALUE, the results of the Hausman test indicates endogeneity with a C-Statistic of 3.435 (p-value 0.0638). For the dependent variable RETURN, the Hausman test reports a C-Statistic of 4.829 (p-value 0.0280). For the dependent variable PROFIT, the Hausman test reports a C-Statistic of 2.787 (p-value 0.095). These results suggest that the results of the ordinary least squares regression reported in Table 31 are not robust. However, this conclusion should be interpreted with caution because of the low partial R-square and F-statistic of the fist stage regression.

Panel A of Table 52 reports the results of the first stage regression for all firms that changed disclosure policy sometime during the sample period and experienced insider selling.

The partial R-square of the instrumental variables is 0.0055 with an F-Statistic of 1.20 (p-value 0.2998). The model does not appear to be well specified for this subsample. Panel B reports the results of the second stage regression for each of the three dependent variables. For each of the three dependent variables endogeneity does not appear to be a problem. For the dependent variable VALUE, the results of the Hausman test indicates no endogeneity with a C-Statistic of 0.169 (p-value 0.6808). For the dependent variable RETURN, the Hausman test reports a C-Statistic of 0.001 (p-value 0.9713). For the dependent variable PROFIT, the Hausman test reports a C-Statistic of 0.321 (p-value 0.5712). These results suggest that the results of the ordinary least squares regression reported in Table 7 are robust. However, this conclusion should be interpreted with caution because of the low partial R-square and F-statistic of the fist stage regression.

Panel A of Table 53 reports the results of the first stage regression for all firm-quarters for firms that changed disclosure policy and experienced insider buying. The partial R-square of the instrumental variables is 0.0260 with an F-Statistic of 2.26 (p-value 0.0292). The model does appear to be well specified. Panel B reports the results of the second stage regression for each of the three dependent variables. For each of the three dependent variables endogeneity does not appear to be a problem. For the dependent variable VALUE, the results of the Hausman test indicates no endogeneity with a C-Statistic of 0.349 (p-value 0.5548). For the dependent variable RETURN, the Hausman test reports a C-Statistic of 0.398 (p-value 0.5282). For the dependent variable PROFIT, the Hausman test reports a C-Statistic of 0.371 (p-value 0.5426). These results suggest that the results of the ordinary least squares regression reported in Table 7 are robust. However, this conclusion should be interpreted with caution because of the low partial R-square and F-statistic of the fist stage regression.

Panel A of Table 54 reports the results of the first stage regression for all firm-quarters for firms that changed disclosure policy and experienced insider selling. The partial R-square of the instrumental variables is 0.0220 with an F-Statistic of 2.23 (p-value 0.0313). The model does appear to be well specified. Panel B reports the results of the second stage regression for each of the three dependent variables. For each of the three dependent variables endogeneity does not appear to be a problem. For the dependent variable VALUE, the results of the Hausman test indicates no endogeneity with a C-Statistic of 0.094 (p-value 0.7588). For the dependent variable RETURN, the Hausman test reports a C-Statistic of 1.125 (p-value 0.2888). For the dependent variable PROFIT, the Hausman test reports a C-Statistic of 0.975 (p-value 0.3235). These results suggest that the results of the ordinary least squares regression reported in Table 7 are robust. However, this conclusion should be interpreted with caution because of the low partial R-square and F-statistic of the fist stage regression.

Table 45

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$BSD_i = \beta_0 + \beta_1 MAD_i + \beta_2 HTD_i + \beta_3 AGE_i + \beta_4 RV_i + \beta_5 AC_i + \varepsilon_i$$

Panel A – First Stage Results
All Firms Buy Sample (N=6071)

Dependent	VALUE		RETURN		PROFIT	
Variable	Coeff	t-value	Coeff	t-value	Coeff	t-value
Constant	0.5625	7.10	0.5625	7.10	0.5625	7.10
ABACC	-0.0679	-1.02	-0.0679	-1.02	-0.0679	-1.02
PRET	-0.0038	-0.26	-0.0038	-0.26	-0.0038	-0.26
ERET	-0.1439	-1.97	-0.1439	-1.97	-0.1439	-1.97
SIZE	-0.0208	-1.83	-0.0208	-1.83	-0.0208	-1.83
MAAR	0.1044	0.32	0.1044	0.32	0.1044	0.32
BM	-0.0073	-0.32	-0.0073	-0.32	-0.0073	-0.32
IO	0.0471	2.25	0.0471	2.25	0.0471	2.25
LIT	0.0868	2.85	0.0868	2.85	0.0868	2.85
MAD	0.0352	1.72	0.0352	1.72	0.0352	1.72
HTD	0.0242	0.78	0.0242	0.78	0.0242	0.78
LOSS	-0.0033	-0.17	-0.0033	-0.17	-0.0033	-0.17
AFED	-0.0067	-0.44	-0.0067	-0.44	-0.0067	-0.44
AGE	-0.0015	-1.81	-0.0015	-1.81	-0.0015	-1.81
RV	3.9906	5.59	3.9906	5.59	3.9906	5.59
AC	0.0051	1.80	0.0051	1.80	0.0051	1.80
R-Square	0.0805		0.0805		0.0805	
Partial R-Square	0.0258		0.0258		0.0258	
F-Statistic	8.40		8.40		8.40	
Prob > F	0.0000		0.0000		0.0000	

Table 45

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel B – Second Stage Results
All Firms Buy Sample (N=6071)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE z-value		RETURN Coeff	RETURN z-value		PROFIT Coeff	PROFIT z-value
Constant		-0.0779	-1.85		-0.0029	-0.42		-0.0023	-0.25
BSD		0.0950	1.70		0.0070	0.84		0.0063	0.69
ABACC	-	-0.0094	-0.41		-0.0026	-0.39		-0.0027	-1.23
BSD *ABACC	+	0.0558	1.37		0.0145	1.08		0.0124	1.16
PRET		0.0171	0.93		0.0000	0.01		0.0032	1.02
ERET		-0.0342	-0.85		-0.0044	-0.37		0.0034	0.27
SIZE		0.0060	2.49	**	0.0001	0.14		-0.0001	-0.09
MAAR		-0.1166	-1.09		0.0121	0.47		-0.0110	-0.93
BM		-0.0039	-0.69		0.0037	2.38	**	0.0001	0.10
IO		-0.0117	-1.31		-0.0030	-1.97		-0.0007	-0.45
LIT		0.0009	0.15		0.0014	0.63		-0.0010	-0.89
R-Square		-0.0344			-0.0008			-0.0041	
C-Statistic		0.184			0.3710			0.533	
P-value		0.6678			0.5425			0.4653	

Table 45

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel C –OLS Regression Results
All Firms Buy Sample (N=6071)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE t-value		RETURN Coeff	RETURN t-value		PROFIT Coeff	PROFIT t-value
Constant		-0.0017	-0.12		0.0022	0.70		0.0034	1.14
BSD		-0.0011	-0.19		-0.0024	-0.36		-0.0024	-1.24
ABACC	-	-0.0059	-0.34		0.0133	1.02		0.0110	1.04
BSD *ABACC	+	0.0377	1.08		0.0000	-0.03		0.0031	1.02
PRET		0.0162	0.90		-0.0053	-0.44		0.0024	0.21
ERET		-0.0471	-1.20		-0.0002	-0.44		-0.0003	-0.80
SIZE		0.0027	1.44		0.0139	0.54		-0.0091	-0.82
MAAR		-0.0909	-0.99		0.0037	2.35	**	0.0001	0.06
BM		-0.0046	-0.88		-0.0027	-1.89		-0.0003	-0.26
IO		-0.0069	-1.03		0.0025	1.41		0.0002	0.10
LIT		0.0171	2.06	**	0.0006	0.45		-0.0008	-0.72
R-Square		0.0033			0.0026			0.0016	

Notes to Table 45: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 46

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$BSD_i = \beta_0 + \beta_1 MAD_i + \beta_2 HTD_i + \beta_3 AGE_i + \beta_4 RV_i + \beta_5 AC_i + \varepsilon_i$$

Panel A – First Stage Results
All Firms Sell Sample (N=7009)

Dependent	VALUE		RETURN		PROFIT	
Variable	Coeff	t-value	Coeff	t-value	Coeff	t-value
Constant	0.5687	7.44	0.5687	7.44	0.5687	7.44
ABACC	-0.0794	-1.30	-0.0794	-1.30	-0.0794	-1.30
PRET	0.0079	0.60	0.0079	0.60	0.0079	0.60
ERET	-0.1397	-2.14	-0.1397	-2.14	-0.1397	-2.14
SIZE	-0.0188	-1.70	-0.0188	-1.70	-0.0188	-1.70
MAAR	0.1510	0.49	0.1510	0.49	0.1510	0.49
BM	-0.0073	-0.32	-0.0073	-0.32	-0.0073	-0.32
IO	0.0369	1.84	0.0369	1.84	0.0369	1.84
LIT	0.0862	2.73	0.0862	2.73	0.0862	2.73
MAD	0.0322	1.63	0.0322	1.63	0.0322	1.63
HTD	0.0222	0.69	0.0222	0.69	0.0222	0.69
LOSS	-0.0018	-0.10	-0.0018	-0.10	-0.0018	-0.10
AFED	-0.0020	-0.14	-0.0020	-0.14	-0.0020	-0.14
AGE	-0.0021	-2.46	-0.0021	-2.46	-0.0021	-2.46
RV	3.9463	5.72	3.9463	5.72	3.9463	5.72
AC	0.0051	1.91	0.0051	1.91	0.0051	1.91
R-Square	0.0865		0.0865		0.0865	
Partial R-Square	0.0294		0.0294		0.0294	
F-Statistic	9.88		9.88		9.88	
Prob > F	0.0000		0.0000		0.0000	

Table 46

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel B – Second Stage Results
All Firms Sell Sample (N=7009)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE z-value		RETURN Coeff	RETURN z-value		PROFIT Coeff	PROFIT z-value	
Constant		-5.7085	-5.67		-0.0011	-0.08		0.0738	1.23	
BSD		5.8166	5.24	***	0.0066	0.41		-0.0772	-1.09	
ABACC	+	0.8218	0.83		0.0223	1.12		0.0971	1.78	++
BSD *ABACC	-	-0.8904	-0.73		-0.0374	-1.37	+	-0.2071	-2.07	++
PRET		0.4303	3.67	***	-0.0095	-2.78	***	-0.0201	-1.87	*
ERET		2.0367	2.72	***	-0.0042	-0.23		-0.0039	-0.06	
SIZE		0.4621	6.52	***	0.0001	0.10		-0.0055	-1.39	
MAAR		2.0507	0.85		0.0966	2.00	**	0.3960	2.15	**
BM		-0.5539	-3.91	***	-0.0039	-2.01	**	0.0012	0.16	
IO		-0.3215	-1.98	**	0.0022	0.94		0.0099	1.03	
LIT		-0.1487	-0.63		-0.0041	-1.12		-0.0083	-0.64	
R-Square		-0.7097			0.0005			-0.0011		
C-Statistic		21.190			0.151			0.076		
P-value		0.0000			0.6972			0.7821		

Table 46

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i$$
$$+ \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel C –OLS Regression Results
All Firms Sell Sample (N=7009)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE t-value		RETURN Coeff	RETURN t-value		PROFIT Coeff	PROFIT t-value	
Constant		-1.2683	-5.06		0.0088	1.75		0.0310	1.69	
BSD		0.2731	3.44	***	-0.0058	-2.63	**	-0.0237	-2.94	***
ABACC	+	0.8033	1.91	++	0.0222	1.11		0.0973	1.82	++
BSD *ABACC	-	-1.8189	-2.33	+++	-0.0395	-1.44	+	-0.1981	-2.02	++
PRET		0.4588	4.69	***	-0.0095	-2.78	***	-0.0204	-1.89	*
ERET		1.3574	2.16	**	-0.0057	-0.31		0.0027	0.04	
SIZE		0.2771	7.25	***	-0.0003	-0.53		-0.0037	-1.46	
MAAR		4.0573	2.34	**	0.1011	2.10	**	0.3766	2.08	**
BM		-0.5975	-7.72	***	-0.0040	-2.04	**	0.0016	0.21	
IO		-0.1093	-1.06		0.0027	1.18		0.0078	0.91	
LIT		0.8138	5.57	***	-0.0019	-0.67		-0.0176	-1.52	
R-Square		0.0681			0.0041			0.0044		

Notes to Table 46: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 47

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$BSD_i = \beta_0 + \beta_1 MAD_i + \beta_2 HTD_i + \beta_3 AGE_i + \beta_4 RV_i + \beta_5 AC_i + \varepsilon_i$$

Panel A – First Stage Results
All Firms Less Endogenous Firms Buy Sample (N=5579)

Dependent	VALUE		RETURN		PROFIT	
Variable	Coeff	t-value	Coeff	t-value	Coeff	t-value
Constant	0.5689	6.68	0.5689	6.68	0.5689	6.68
ABACC	-0.0841	-1.21	-0.0841	-1.21	-0.0841	-1.21
PRET	-0.0096	-0.65	-0.0096	-0.65	-0.0096	-0.65
ERET	-0.1321	-1.80	-0.1321	-1.80	-0.1321	-1.80
SIZE	-0.0218	-1.77	-0.0218	-1.77	-0.0218	-1.77
MAAR	0.0594	0.17	0.0594	0.17	0.0594	0.17
BM	-0.0104	-0.42	-0.0104	-0.42	-0.0104	-0.42
IO	0.0516	2.28	0.0516	2.28	0.0516	2.28
LIT	0.0849	2.60	0.0849	2.60	0.0849	2.60
MAD	0.0345	1.58	0.0345	1.58	0.0345	1.58
HTD	0.0305	0.91	0.0305	0.91	0.0305	0.91
LOSS	0.0069	0.33	0.0069	0.33	0.0069	0.33
AFED	-0.0003	-0.02	-0.0003	-0.02	-0.0003	-0.02
AGE	-0.0018	-1.99	-0.0018	-1.99	-0.0018	-1.99
RV	4.0827	5.42	4.0827	5.42	4.0827	5.42
AC	0.0055	1.81	0.0055	1.81	0.0055	1.81
R-Square	0.0933		0.0933		0.0933	
Partial R-Square	0.0308		0.0308		0.0308	
F-Statistic	8.46		8.46		8.46	
Prob > F	0.0000		0.0000		0.0000	

Table 47

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel B – Second Stage Results
All Firms Less Endogenous Firms Buy Sample (N=5579)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE z-value		RETURN Coeff	RETURN z-value		PROFIT Coeff	PROFIT z-value
Constant		-0.0847	-1.92		-0.0053	-0.75		-0.0026	-0.27
BSD		0.0991	1.75	*	0.0093	1.13		0.0066	0.70
ABACC	-	-0.0051	-0.20		-0.0036	-0.48		-0.0026	-1.07
BSD *ABACC	+	0.0561	1.29	+	0.0184	1.33	+	0.0136	1.20
PRET		0.0195	0.98		0.0001	0.03		0.0036	1.05
ERET		-0.0374	-0.85		-0.0059	-0.49		0.0037	0.27
SIZE		0.0067	2.52	**	0.0002	0.38		0.0000	-0.04
MAAR		-0.1176	-1.05		0.0154	0.61		-0.0116	-0.93
BM		-0.0039	-0.62		0.0035	2.21	**	0.0001	0.09
IO		-0.0123	-1.27		-0.0027	-1.73	*	-0.0006	-0.38
LIT		-0.0004	-0.06		0.0010	0.47		-0.0013	-1.03
R-Square		-0.0335			-0.0045			0.0018	
C-Statistic		0.241			0.835			0.599	
P-value		0.6233			0.3606			0.4391	

Table 47

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i$$
$$+ \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel C –OLS Regression Results
All Firms Less Endogenous Firms Buy Sample (N=5579)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE t-value		RETURN Coeff	RETURN t-value		PROFIT Coeff	PROFIT t-value
Constant		-0.0030	-0.19		0.0023	0.72		0.0036	1.09
BSD		-0.0011	-0.16		0.0000	0.03		-0.0010	-0.74
ABACC	-	-0.0056	-0.28		-0.0036	-0.50		-0.0027	-1.17
BSD *ABACC	+	0.0407	1.07		0.0170	1.25		0.0124	1.10
PRET		0.0179	0.94		-0.0001	-0.05		0.0034	1.04
ERET		-0.0497	-1.16		-0.0071	-0.59		0.0027	0.21
SIZE		0.0030	1.48		-0.0002	-0.44		-0.0003	-0.76
MAAR		-0.0972	-0.98		0.0172	0.70		-0.0101	-0.84
BM		-0.0047	-0.85		0.0034	2.16	**	0.0001	0.04
IO		-0.0068	-0.94		-0.0022	-1.56		-0.0002	-0.15
LIT		0.0173	1.98	**	0.0027	1.54		0.0000	0.02
R-Square		0.0035			0.0024			0.0018	

Notes to Table 47: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 48

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$BSD_i = \beta_0 + \beta_1 MAD_i + \beta_2 HTD_i + \beta_3 AGE_i + \beta_4 RV_i + \beta_5 AC_i + \varepsilon_i$$

Panel A – First Stage Results
All Firms Less Endogenous Firms Sell Sample (N=6442)

Dependent	VALUE		RETURN		PROFIT	
Variable	Coeff	t-value	Coeff	t-value	Coeff	t-value
Constant	0.5712	6.94	0.5712	6.94	0.5712	6.94
ABACC	-0.0912	-1.43	-0.0912	-1.43	-0.0912	-1.43
PRET	0.0021	0.16	0.0021	0.16	0.0021	0.16
ERET	-0.1149	-1.80	-0.1149	-1.80	-0.1149	-1.80
SIZE	-0.0195	-1.63	-0.0195	-1.63	-0.0195	-1.63
MAAR	0.1641	0.51	0.1641	0.51	0.1641	0.51
BM	-0.0097	-0.39	-0.0097	-0.39	-0.0097	-0.39
IO	0.0389	1.80	0.0389	1.80	0.0389	1.80
LIT	0.0851	2.53	0.0851	2.53	0.0851	2.53
MAD	0.0325	1.55	0.0325	1.55	0.0325	1.55
HTD	0.0274	0.80	0.0274	0.80	0.0274	0.80
LOSS	0.0076	0.38	0.0076	0.38	0.0076	0.38
AFED	0.0034	0.23	0.0034	0.23	0.0034	0.23
AGE	-0.0024	-2.54	-0.0024	-2.54	-0.0024	-2.54
RV	4.1151	5.66	4.1151	5.66	4.1151	5.66
AC	0.0054	1.89	0.0054	1.89	0.0054	1.89
R-Square	0.1005		0.1005		0.1005	
Partial R-Square	0.0354		0.0354		0.0354	
F-Statistic	10.13		10.13		10.13	
Prob > F	0.0000		0.0000		0.0000	

Table 48

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel B – Second Stage Results
All Firms Less Endogenous Firms Sell Sample (N=6442)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE z-value		RETURN Coeff	RETURN z-value		PROFIT Coeff	PROFIT z-value	
Constant		-5.5303	-5.59		-0.0006	-0.04		0.0742	1.26	
BSD		5.3866	5.20	***	0.0033	0.22		-0.0786	-1.18	
ABACC	+	0.9740	0.99		0.0069	0.33		0.0379	0.72	
BSD *ABACC	-	-1.1234	-0.92		-0.0217	-0.76		-0.1467	-1.49	+
PRET		0.4432	3.86	***	-0.0095	-2.74	***	-0.0194	-1.82	*
ERET		1.7080	2.54	**	-0.0105	-0.59		-0.0308	-0.47	
SIZE		0.4687	6.42	***	0.0003	0.30		-0.0059	-1.44	
MAAR		1.6598	0.71		0.0798	1.66	*	0.3911	2.08	**
BM		-0.5422	-3.81	***	-0.0034	-1.69	*	0.0042	0.57	
IO		-0.3339	-2.01	**	0.0027	1.09		0.0129	1.31	
LIT		-0.1196	-0.53		-0.0043	-1.16		-0.0152	-1.21	
R-Square		0.1005			0.0022			-0.0011		
C-Statistic		22.074			0.0100			0.017		
P-value		0.0000			0.9217			0.8951		

Table 48

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel C –OLS Regression Results
All Firms Less Endogenous Firms Sell Sample (N=6442)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE t-value		RETURN Coeff	RETURN t-value		PROFIT Coeff	PROFIT t-value	
Constant		-1.3534	-5.20		0.0066	1.27		0.0276	1.47	
BSD		0.3108	3.70	***	-0.0054	-2.40	**	0.0408	0.80	
ABACC	+	0.7124	1.66	++	0.0064	0.31		-0.1401	-1.44	+
BSD *ABACC	-	-1.7151	-2.17	++	-0.0227	-0.80		-0.0194	-1.82	++
PRET		0.4427	4.59	***	-0.0095	-2.74	***	-0.0251	-0.39	
ERET		1.2026	2.14	**	-0.0113	-0.64		-0.0038	-1.44	
SIZE		0.2863	7.14	***	-0.0001	-0.09		0.3704	2.01	**
MAAR		3.5127	2.13	**	0.0830	1.73	*	0.0047	0.62	
BM		-0.5867	-7.59	***	-0.0035	-1.71	*	0.0106	1.19	
IO		-0.1263	-1.19		0.0030	1.28		-0.0255	-2.18	**
LIT		0.8034	5.38	***	-0.0027	-0.92		-0.0219	-2.85	**
R-Square		0.0070			0.0039			0.0050		

Notes to Table 48: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 49

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$BSD_i = \beta_0 + \beta_1 MAD_i + \beta_2 HTD_i + \beta_3 AGE_i + \beta_4 RV_i + \beta_5 AC_i + \varepsilon_i$$

Panel A – First Stage Results
Consistent Firms Buy Sample (N=4210)

Dependent	VALUE		RETURN		PROFIT	
Variable	Coeff	t-value	Coeff	t-value	Coeff	t-value
Constant	0.6544	6.62	0.6544	6.62	0.6544	6.62
ABACC	-0.0388	-0.52	-0.0388	-0.52	-0.0388	-0.52
PRET	-0.0108	-0.70	-0.0108	-0.70	-0.0108	-0.70
ERET	-0.0425	-0.53	-0.0425	-0.53	-0.0425	-0.53
SIZE	-0.0321	-2.22	-0.0321	-2.22	-0.0321	-2.22
MAAR	0.2643	0.74	0.2643	0.74	0.2643	0.74
BM	-0.0172	-0.60	-0.0172	-0.60	-0.0172	-0.60
IO	0.0832	3.19	0.0832	3.19	0.0832	3.19
LIT	0.0779	2.14	0.0779	2.14	0.0779	2.14
MAD	0.0434	1.71	0.0434	1.71	0.0434	1.71
HTD	0.0455	1.23	0.0455	1.23	0.0455	1.23
LOSS	0.0017	0.07	0.0017	0.07	0.0017	0.07
AFED	0.0025	0.14	0.0025	0.14	0.0025	0.14
AGE	-0.0020	-1.80	-0.0020	-1.80	-0.0020	-1.80
RV	3.5543	4.24	3.5543	4.24	3.5543	4.24
AC	0.0074	2.18	0.0074	2.18	0.0074	2.18
R-Square	0.1254		0.1254		0.1254	
Partial R-Square	0.0367		0.0367		0.0367	
F-Statistic	6.65		6.65		6.65	
Prob > F	0.0000		0.0000		0.0000	

Table 49

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel B – Second Stage Results
Consistent Firms Buy Sample (N=4210)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE z-value		RETURN Coeff	RETURN z-value		PROFIT Coeff	PROFIT z-value
Constant		-0.0957	-1.77		0.0008	0.09		-0.0021	-0.17
BSD		0.1053	1.69	*	0.0019	0.20		0.0041	0.35
ABACC	-	-0.0379	-1.18		0.0000	0.00		-0.0039	-0.99
BSD *ABACC	+	0.0656	1.39	+	0.0109	0.68		0.0037	0.78
PRET		0.0270	1.07		-0.0008	-0.39		0.0050	1.16
ERET		-0.0292	-0.56		-0.0064	-0.46		0.0130	0.92
SIZE		0.0079	2.22	**	0.0000	0.00		0.0000	-0.05
MAAR		-0.1407	-1.00		-0.0119	-0.45		-0.0095	-0.63
BM		-0.0054	-0.76		0.0038	2.22	**	0.0009	0.58
IO		-0.0166	-1.24		-0.0034	-1.68	*	0.0002	0.10
LIT		-0.0005	-0.08		0.0036	1.41		-0.0005	-0.35
R-Square		-0.0263			0.0032			-0.0001	
C-Statistic		0.008			0.029			0.105	
P-value		0.9277			0.8655			0.7456	

Table 49

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i$$
$$+ \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel C –OLS Regression Results
Consistent Firms Buy Sample (N=4210)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE t-value	RETURN Coeff	RETURN t-value		PROFIT Coeff	PROFIT t-value
Constant		-0.0021	-0.10	0.0024	0.65		0.0033	0.82
BSD		-0.0027	-0.28	0.0000	0.01		-0.0022	-1.20
ABACC	-	-0.0228	-1.09	0.0003	0.03		-0.0030	-0.90
BSD *ABACC	+	0.0364	0.99	0.0104	0.68		0.0020	0.43
PRET		0.0250	1.03	-0.0008	-0.41		0.0048	1.17
ERET		-0.0349	-0.68	-0.0065	-0.47		0.0127	0.92
SIZE		0.0034	1.29	-0.0001	-0.18		-0.0003	-0.61
MAAR		-0.1034	-0.83	-0.0113	-0.44		-0.0074	-0.51
BM		-0.0075	-1.19	0.0038	2.16	**	0.0008	0.52
IO		-0.0069	-0.75	-0.0032	-1.84	*	0.0008	0.52
LIT		0.0193	1.77	0.0040	1.93	*	0.0006	0.30
R-Square		0.0041		0.0035			0.0029	

Notes to Table 49: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 50

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$BSD_i = \beta_0 + \beta_1 MAD_i + \beta_2 HTD_i + \beta_3 AGE_i + \beta_4 RV_i + \beta_5 AC_i + \varepsilon_i$$

Panel A – First Stage Results
Consistent Disclosing Firms Sell Sample (N=4926)

Dependent	VALUE		RETURN		PROFIT	
Variable	Coeff	t-value	Coeff	t-value	Coeff	t-value
Constant	0.6501	6.78	0.6501	6.78	0.6501	6.78
ABACC	-0.0671	-0.98	-0.0671	-0.98	-0.0671	-0.98
PRET	-0.0010	-0.07	-0.0010	-0.07	-0.0010	-0.07
ERET	-0.0460	-0.67	-0.0460	-0.67	-0.0460	-0.67
SIZE	-0.0282	-1.99	-0.0282	-1.99	-0.0282	-1.99
MAAR	0.2453	0.74	0.2453	0.74	0.2453	0.74
BM	-0.0229	-0.81	-0.0229	-0.81	-0.0229	-0.81
IO	0.0639	2.58	0.0639	2.58	0.0639	2.58
LIT	0.0734	1.92	0.0734	1.92	0.0734	1.92
MAD	0.0333	1.37	0.0333	1.37	0.0333	1.37
HTD	0.0392	1.01	0.0392	1.01	0.0392	1.01
LOSS	0.0089	0.40	0.0089	0.40	0.0089	0.40
AFED	0.0056	0.33	0.0056	0.33	0.0056	0.33
AGE	-0.0025	-2.31	-0.0025	-2.31	-0.0025	-2.31
RV	3.7786	4.64	3.7786	4.64	3.7786	4.64
AC	0.0070	2.13	0.0070	2.13	0.0070	2.13
R-Square	0.1302		0.1302		0.1302	
Partial R-Square	0.0435		0.0435		0.0435	
F-Statistic	8.03		8.03		8.03	
Prob > F	0.0000		0.0000		0.0000	

Table 50

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i$$
$$+ \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel B – Second Stage Results
Consistent Disclosing Firms Sell Sample (N=4926)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE z-value		RETURN Coeff	RETURN z-value		PROFIT Coeff	PROFIT z-value	
Constant		-6.3048	-5.07		0.0034	0.22		0.1017	1.43	
BSD		5.8538	4.78	***	0.0037	0.22		-0.0939	-1.25	
ABACC	+	0.8348	0.62		0.0282	1.08		0.0632	0.87	
BSD *ABACC	-	-1.1996	-0.74		-0.0439	-1.26		-0.1947	-1.59	+
PRET		0.4183	3.01	***	-0.0091	-2.24	**	-0.0209	-1.68	*
ERET		1.3430	1.56		-0.0149	-0.70		0.0086	0.10	
SIZE		0.5346	5.71	***	-0.0001	-0.13		-0.0082	-1.57	
MAAR		1.5658	0.55		0.0994	1.68	*	0.5728	2.59	***
BM		-0.5053	-2.83	***	-0.0044	-1.82	*	0.0007	0.08	
IO		-0.5534	-2.49	**	0.0034	1.10		0.0215	1.63	*
LIT		-0.1097	-0.40		-0.0067	-1.50		-0.0237	-1.65	*
R-Square		-0.5575			0.0029			0.0001		
C-Statistic		23.844			0.0070			0.534		
P-value		0.0000			0.9325			0.4648		

Table 50

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel C –OLS Regression Results
Consistent Disclosing Firms Sell Sample (N=4926)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE t-value		RETURN Coeff	RETURN t-value		PROFIT Coeff	PROFIT t-value	
Constant		-1.4816	-4.61		0.0108	1.69		0.0413	1.85	
BSD		0.3649	3.31	***	-0.0047	-1.67	*	-0.0251	-2.55	**
ABACC	+	0.8321	1.50	+	0.0282	1.07		0.0633	0.91	
BSD *ABACC	-	-1.9651	-2.01	++	-0.0451	-1.29	+	-0.1851	-1.55	+
PRET		0.3913	3.40	***	-0.0092	-2.25	**	-0.0205	-1.66	*
ERET		1.0815	1.40		-0.0153	-0.72		0.0118	0.15	
SIZE		0.3079	6.24	***	-0.0005	-0.61		-0.0054	-1.66	*
MAAR		3.7472	1.72	*	0.1027	1.74	*	0.5454	2.49	**
BM		-0.6388	-6.64	***	-0.0046	-1.83	*	0.0024	0.25	
IO		-0.1780	-1.33		0.0040	1.39		0.0168	1.54	
LIT		0.9096	5.23	***	-0.0052	-1.48		-0.0365	-2.69	***
R-Square		0.0782			0.0042			0.0077		

Notes to Table 50: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 51

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$BSD_i = \beta_0 + \beta_1 MAD_i + \beta_2 HTD_i + \beta_3 AGE_i + \beta_4 RV_i + \beta_5 AC_i + \varepsilon_i$$

Panel A – First Stage Results
Switching Firms Buy Sample (N=1861)

Dependent	VALUE		RETURN		PROFIT	
Variable	Coeff	t-value	Coeff	t-value	Coeff	t-value
Constant	0.3586	3.19	0.3586	3.19	0.3586	3.19
ABACC	-0.1431	-1.08	-0.1431	-1.08	-0.1431	-1.08
PRET	0.0349	1.01	0.0349	1.01	0.0349	1.01
ERET	-0.3256	-2.19	-0.3256	-2.19	-0.3256	-2.19
SIZE	0.0150	0.95	0.0150	0.95	0.0150	0.95
MAAR	0.1050	0.16	0.1050	0.16	0.1050	0.16
BM	0.0174	0.53	0.0174	0.53	0.0174	0.53
IO	-0.0056	-0.19	-0.0056	-0.19	-0.0056	-0.19
LIT	0.0274	0.57	0.0274	0.57	0.0274	0.57
MAD	0.0168	0.53	0.0168	0.53	0.0168	0.53
HTD	0.0163	0.33	0.0163	0.33	0.0163	0.33
LOSS	-0.0051	-0.13	-0.0051	-0.13	-0.0051	-0.13
AFED	-0.0391	-1.47	-0.0391	-1.47	-0.0391	-1.47
AGE	-0.0003	-0.27	-0.0003	-0.27	-0.0003	-0.27
RV	3.3733	2.52	3.3733	2.52	3.3733	2.52
AC	-0.0039	-0.85	-0.0039	-0.85	-0.0039	-0.85
R-Square	0.0163		0.0163		0.0163	
Partial R-Square	0.0079		0.0079		0.0079	
F-Statistic	1.51		1.51		1.51	
Prob > F	0.1611		0.1611		0.1611	

Table 51

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel B – Second Stage Results
Switching Firms Buy Sample (N=1861)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE z-value	RETURN Coeff	RETURN z-value	PROFIT Coeff	PROFIT z-value
Constant		-0.0393	-1.67	-0.0174	-1.53	0.0019	0.47
BSD		0.0713	1.50	0.0352	1.71	0.0092	0.99
ABACC	-	0.0168	0.53	-0.0009	-0.06	-0.0006	-0.21
BSD *ABACC	+	0.0881	0.92	0.0215	0.73	0.0433	0.99
PRET		-0.0111	-1.59	0.0011	0.35	-0.0016	-0.87
ERET		-0.0556	-1.21	0.0069	0.29	-0.0215	-1.04
SIZE		0.0015	1.06	-0.0001	-0.12	-0.0004	-0.93
MAAR		-0.0682	-0.83	0.0650	0.97	-0.0112	-0.76
BM		0.0009	0.09	0.0022	0.61	-0.0020	-1.02
IO		-0.0027	-0.48	-0.0009	-0.34	-0.0023	-1.17
LIT		0.0046	0.53	-0.0043	-1.05	-0.0017	-0.93
R-Square		-0.2098		-0.1268		-0.0081	
C-Statistic		3.435		4.8290		2.787	
P-value		0.0638		0.028		0.095	

Table 51

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i$$
$$+ \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel C –OLS Regression Results
Switching Firms Buy Sample (N=1861)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE t-value	RETURN Coeff	RETURN t-value	PROFIT Coeff	PROFIT t-value
Constant		0.0006	0.04	0.0017	0.29	0.0064	1.06
BSD		-0.0008	-0.21	0.0009	0.39	0.0010	0.88
ABACC	-	0.0098	0.34	-0.0042	-0.37	-0.0014	-0.73
BSD *ABACC	+	0.0815	0.89	0.0183	0.67	0.0426	0.99
PRET		-0.0084	-1.64	0.0024	0.86	-0.0013	-0.83
ERET		-0.0777	-1.62	-0.0036	-0.15	-0.0240	-1.05
SIZE		0.0010	0.79	-0.0003	-0.53	-0.0005	-0.98
MAAR		-0.0437	-0.67	0.0766	1.26	-0.0084	-0.69
BM		0.0033	0.35	0.0034	1.00	-0.0017	-1.00
IO		-0.0033	-0.60	-0.0012	-0.48	-0.0024	-1.17
LIT		0.0094	1.25	-0.0020	-0.62	-0.0011	-0.87
R-Square		0.0179		0.0041		0.0179	

Notes to Table 51: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 52

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$BSD_i = \beta_0 + \beta_1 MAD_i + \beta_2 HTD_i + \beta_3 AGE_i + \beta_4 RV_i + \beta_5 AC_i + \varepsilon_i$$

Panel A – First Stage Results
Switching Firms Sell Sample (N=2083)

Dependent	VALUE		RETURN		PROFIT	
Variable	Coeff	t-value	Coeff	t-value	Coeff	t-value
Constant	0.4288	4.01	0.4288	4.01	0.4288	4.01
ABACC	-0.1203	-0.98	-0.1203	-0.98	-0.1203	-0.98
PRET	0.0493	1.57	0.0493	1.57	0.0493	1.57
ERET	-0.3192	-2.23	-0.3192	-2.23	-0.3192	-2.23
SIZE	0.0084	0.55	0.0084	0.55	0.0084	0.55
MAAR	0.2160	0.34	0.2160	0.34	0.2160	0.34
BM	0.0271	0.80	0.0271	0.80	0.0271	0.80
IO	-0.0012	-0.04	-0.0012	-0.04	-0.0012	-0.04
LIT	0.0402	0.85	0.0402	0.85	0.0402	0.85
MAD	0.0290	0.96	0.0290	0.96	0.0290	0.96
HTD	0.0023	0.05	0.0023	0.05	0.0023	0.05
LOSS	-0.0062	-0.17	-0.0062	-0.17	-0.0062	-0.17
AFED	-0.0338	-1.36	-0.0338	-1.36	-0.0338	-1.36
AGE	-0.0007	-0.62	-0.0007	-0.62	-0.0007	-0.62
RV	2.3342	1.86	2.3342	1.86	2.3342	1.86
AC	-0.0024	-0.56	-0.0024	-0.56	-0.0024	-0.56
R-Square	0.0152		0.0152		0.0152	
Partial R-Square	0.0055		0.0055		0.0055	
F-Statistic	1.2		1.2		1.2	
Prob > F	0.2998		0.2998		0.2998	

Table 52

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel B – Second Stage Results
Switching Firms Sell Sample (N=2083)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE z-value		RETURN Coeff	RETURN z-value	PROFIT Coeff	PROFIT z-value	
Constant		-2.9979	-2.13		0.0016	0.07	-0.0147	-0.14	
BSD		3.9599	1.54		-0.0088	-0.22	0.0204	0.12	
ABACC	+	0.8793	0.86		0.0114	0.37	0.1482	1.80	+
BSD *ABACC	-	-0.4593	-0.32		-0.0339	-0.87	-0.1970	-1.20	
PRET		0.4584	1.90	*	-0.0100	-1.62	-0.0227	-1.03	
ERET		3.1857	2.49	**	0.0230	0.64	0.0098	0.07	
SIZE		0.2340	3.58	***	0.0004	0.41	0.0009	0.21	
MAAR		2.8467	0.79		0.1017	1.37	-0.0562	-0.18	
BM		-0.6307	-3.19	***	-0.0025	-0.73	-0.0044	-0.35	
IO		0.0570	0.33		0.0006	0.17	-0.0128	-0.93	
LIT		0.2129	0.68		0.0062	1.27	0.0369	1.88	
R-Square		-0.4778			0.0089		0.0018		
C-Statistic		0.169			0.001		0.321		
P-value		0.6808			0.9713		0.5712		

Table 52

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel C –OLS Regression Results
Switching Firms Sell Sample (N=2083)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE t-value		RETURN Coeff	RETURN t-value		PROFIT Coeff	PROFIT t-value	
Constant		-0.8117	-2.20		0.0015	0.19		0.0070	0.23	
BSD		0.0966	0.99		-0.0086	-2.43	**	-0.0180	-1.25	
ABACC	+	0.7938	1.19		0.0114	0.37		0.1474	1.80	++
BSD *ABACC	-	-1.2171	-1.02		-0.0339	-0.87		-0.2046	-1.22	
PRET		0.6572	3.47	***	-0.0100	-1.64		-0.0207	-0.96	
ERET		2.0230	1.96	**	0.0230	0.69		-0.0017	-0.01	
SIZE		0.2032	3.88	***	0.0004	0.44		0.0006	0.15	
MAAR		4.4242	1.81	*	0.1016	1.34		-0.0405	-0.13	
BM		-0.4920	-4.40	***	-0.0025	-0.86		-0.0030	-0.28	
IO		0.0380	0.29		0.0006	0.17		-0.0129	-0.96	
LIT		0.4560	2.16	**	0.0062	1.30		0.0393	2.07	**
R-Square		0.0482			0.0089			0.0058		

Notes to Table 52: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 53

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$BSD_i = \beta_0 + \beta_1 MAD_i + \beta_2 HTD_i + \beta_3 AGE_i + \beta_4 RV_i + \beta_5 AC_i + \varepsilon_i$$

Panel A – First Stage Results
Switching Firms in Quarter of Change Buy Sample (N=437)

Dependent	VALUE		RETURN		PROFIT	
Variable	Coeff	t-value	Coeff	t-value	Coeff	t-value
Constant	0.4758	3.39	0.4758	3.39	0.4758	3.39
ABACC	0.1022	0.37	0.1022	0.37	0.1022	0.37
PRET	0.0795	1.30	0.0795	1.30	0.0795	1.30
ERET	-0.2602	-0.85	-0.2602	-0.85	-0.2602	-0.85
SIZE	0.0201	1.13	0.0201	1.13	0.0201	1.13
MAAR	1.9337	2.28	1.9337	2.28	1.9337	2.28
BM	0.0236	0.48	0.0236	0.48	0.0236	0.48
IO	-0.0213	-0.49	-0.0213	-0.49	-0.0213	-0.49
LIT	0.0491	0.70	0.0491	0.70	0.0491	0.70
MAD	0.0255	0.57	0.0255	0.57	0.0255	0.57
HTD	-0.0531	-0.75	-0.0531	-0.75	-0.0531	-0.75
LOSS	-0.1495	-2.30	-0.1495	-2.30	-0.1495	-2.30
AFED	-0.0806	-1.61	-0.0806	-1.61	-0.0806	-1.61
AGE	0.0016	1.40	0.0016	1.40	0.0016	1.40
RV	-0.4764	-0.26	-0.4764	-0.26	-0.4764	-0.26
AC	-0.0043	-0.84	-0.0043	-0.84	-0.0043	-0.84
R-Square	0.0515		0.0515		0.0515	
Partial R-Square	0.0260		0.0260		0.0260	
F-Statistic	2.26		2.26		2.26	
Prob > F	0.0292		0.0292		0.0292	

Table 53

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel B – Second Stage Results
Switching Firms in Quarter of Change Buy Sample (N=437)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE z-value	RETURN Coeff	RETURN z-value	PROFIT Coeff	PROFIT z-value
Constant		0.0195	0.82	-0.0193	-1.33	0.0004	0.18
BSD		-0.0428	-0.97	0.0521	1.35	0.0007	0.16
ABACC	-	-0.0003	-0.01	-0.0086	-0.30	-0.0013	-1.22
BSD *ABACC	+	0.0098	0.35	-0.0107	-0.21	-0.0004	-0.16
PRET		-0.0037	-0.92	-0.0055	-1.15	-0.0003	-1.22
ERET		-0.0053	-0.34	0.0293	0.95	0.0024	1.31
SIZE		0.0014	1.21	-0.0006	-0.42	0.0000	-0.07
MAAR		0.0492	0.66	-0.2411	-1.27	-0.0102	-0.77
BM		0.0001	0.02	0.0027	0.35	-0.0003	-0.56
IO		-0.0085	-1.07	-0.0038	-0.88	-0.0007	-1.00
LIT		0.0118	1.25	-0.0028	-0.49	0.0006	0.68
R-Square		-0.1104		-0.3579		0.0003	
C-Statistic		0.349		0.398		0.371	
P-value		0.5548		0.5282		0.5426	

Table 53

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i$$
$$+ \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel C –OLS Regression Results
Switching Firms in Quarter of Change Buy Sample (N=437)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE t-value	RETURN Coeff	RETURN t-value	PROFIT Coeff	PROFIT t-value
Constant		0.0074	0.64	-0.0039	-0.51	0.0007	0.63
BSD		-0.0042	-0.89	0.0045	0.35	-0.0003	-0.76
ABACC	-	-0.0106	-0.67	-0.0247	-0.57	-0.0010	-0.82
BSD *ABACC	+	0.0208	1.18	-0.0003	-0.08	-0.0007	-0.23
PRET		-0.0078	-1.10	0.0183	0.90	-0.0002	-0.35
ERET		0.0033	0.33	0.0008	1.05	0.0021	1.47
SIZE		0.0003	0.58	-0.1414	-1.06	0.0000	0.40
MAAR		-0.0291	-0.78	0.0041	0.53	-0.0082	-0.83
BM		-0.0010	-0.23	-0.0044	-1.17	-0.0003	-0.48
IO		-0.0081	-1.07	-0.0035	-0.61	-0.0007	-1.06
LIT		0.0123	1.23	0.0031	0.90	0.0006	0.63
R-Square		0.0219		0.0241		0.0113	

Notes to Table 53: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

Table 54

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$BSD_i = \beta_0 + \beta_1 MAD_i + \beta_2 HTD_i + \beta_3 AGE_i + \beta_4 RV_i + \beta_5 AC_i + \varepsilon_i$$

Panel A – First Stage Results
Switching Firms in Quarter of Change Sell Sample (N=506)

Dependent	VALUE		RETURN		PROFIT	
Variable	Coeff	t-value	Coeff	t-value	Coeff	t-value
Constant	0.5770	4.65	0.5770	4.65	0.5770	4.65
ABACC	0.0584	0.22	0.0584	0.22	0.0584	0.22
PRET	0.0596	1.06	0.0596	1.06	0.0596	1.06
ERET	-0.2820	-0.99	-0.2820	-0.99	-0.2820	-0.99
SIZE	0.0082	0.51	0.0082	0.51	0.0082	0.51
MAAR	1.0671	1.36	1.0671	1.36	1.0671	1.36
BM	0.0091	0.18	0.0091	0.18	0.0091	0.18
IO	0.0018	0.05	0.0018	0.05	0.0018	0.05
LIT	0.0484	0.87	0.0484	0.87	0.0484	0.87
MAD	0.0255	0.65	0.0255	0.65	0.0255	0.65
HTD	-0.0753	-1.32	-0.0753	-1.32	-0.0753	-1.32
LOSS	-0.1341	-2.18	-0.1341	-2.18	-0.1341	-2.18
AFED	-0.0717	-1.56	-0.0717	-1.56	-0.0717	-1.56
AGE	0.0010	0.91	0.0010	0.91	0.0010	0.91
RV	-1.3483	-0.81	-1.3483	-0.81	-1.3483	-0.81
AC	-0.0020	-0.46	-0.0020	-0.46	-0.0020	-0.46
R-Square	0.0365		0.0365		0.0365	
Partial R-Square	0.0220		0.0220		0.0220	
F-Statistic	2.23		2.23		2.23	
Prob > F	0.0313		0.0313		0.0313	

Table 54

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i + \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel B – Second Stage Results
Switching Firms in Quarter of Change Sell Sample (N=506)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE z-value		RETURN Coeff	RETURN z-value		PROFIT Coeff	PROFIT z-value	
Constant		-0.4018	-0.38		-0.0022	-0.09		-0.0569	-0.48	
BSD		0.1598	0.09		0.0267	0.51		0.1884	0.79	
ABACC	+	1.6143	1.07		0.1304	2.11	++	0.4793	2.10	++
BSD *ABACC	-	0.0780	0.03		-0.1190	-1.65	++	-0.4946	-1.59	+
PRET		0.6003	1.68	*	0.0013	0.11		0.0075	0.16	
ERET		2.4478	1.23		0.1031	1.26		0.3890	1.23	
SIZE		0.1345	1.68	*	-0.0022	-0.83		-0.0043	-0.39	
MAAR		3.5470	0.70		0.2836	1.63		-0.1942	-0.28	
BM		-0.5977	-3.05	***	-0.0056	-0.86		-0.0214	-0.89	
IO		0.0718	0.33		0.0026	0.34		-0.0249	-0.89	
LIT		0.8930	2.21	**	0.0130	1.31		0.1230	2.43	**
R-Square		0.0572			-0.0005			-0.0510		
C-Statistic		0.094			1.1250			0.975		
P-value		0.7588			0.2888			0.3235		

Table 54

2SLS Regression of Profit and Components of Profit on Accrual Disclosure, Abnormal Accruals, and Control Variables

$$PROFIT_i, RETURN_i, or\ VALUE_i = \alpha_0 + \alpha_1 BSD + \alpha_2 ABACC_i + \alpha_3 BSD * ABACC_i$$
$$+ \alpha_4 PRET_i + \alpha_5 ERET_i + \alpha_6 SIZE_i + \alpha_7 MAAR_i + \alpha_8 BM_i + \alpha_9 IO + \alpha_{10} LIT_i + \varepsilon_i$$

Panel C –OLS Regression Results
Switching Firms in Quarter of Change Sell Sample (N=506)

Dependent Variable	Predicted Sign	VALUE Coeff	VALUE t-value		RETURN Coeff	RETURN t-value		PROFIT Coeff	PROFIT t-value	
Constant		-0.2827	-0.47		0.0107	0.67		0.0197	0.30	
BSD		-0.1454	-0.58		-0.0065	-0.87		-0.0080	-0.25	
ABACC	+	1.6703	1.08		0.1365	2.21	++	0.5153	2.27	++
BSD *ABACC	-	0.0153	0.01		-0.1258	-1.76	++	-0.5349	-1.64	+
PRET		0.6246	1.95	*	0.0039	0.34		0.0231	0.53	
ERET		2.3645	1.30		0.0940	1.11		0.3354	1.09	
SIZE		0.1404	1.72	*	-0.0015	-0.69		-0.0004	-0.05	
MAAR		3.8950	0.95		0.3214	1.99		0.0297	0.05	
BM		-0.5966	-2.98	***	-0.0055	-0.87		-0.0207	-0.93	
IO		0.0751	0.35		0.0030	0.38		-0.0228	-0.84	
LIT		0.8819	2.42	**	0.0118	1.14		0.1158	2.47	**
R-Square		0.0605			0.0435			0.0418		

Notes to Table 54: Because a firm may be included in the sample up to 16 times (16 quarters), there is a possibility that inferences from the pooled regression are affected by serial correlation. To alleviate this problem, I use the Rogers (1993) robust standard error technique to compute the t-statistics. This technique produces White standard errors that are robust within firm cluster. The notation *, **, and *** indicate significance at the 10, 5, and 1 percent levels, respectively, using a two-tail t-test. The notation $^{+}$, $^{++}$, and $^{+++}$ indicate significance at the 10, 5, and 1 percent levels, respectively, using a one-tail t-test.

6.0 Conclusions

My first hypothesis tests if balance sheet disclosure at the earnings announcement is negatively associated with the level of accruals. The results of the tests performed provide weak evidence supporting this hypothesis. Out of the three insider trading metrics used in this paper, only VALUE, returned a significant result for the selling sample. The remaining 2 metrics, RETURN and PROFIT, were not significant at conventional levels. For the buying sample none of the metrics were significant. The second hypothesis tested in the paper that insider trading profits are a determinant of balance sheet disclosure is also supported. For the buy sample, the coefficients of the insider trading metrics are of the predicted sign and two out of the three are significant at conventional levels. For the selling sample two out of the three insider trading metrics are of the predicted sign and statistically significant. The third hypothesis tested that balance sheet disclosure is associated with insider trading profits subsequent to the earnings announcement date is also supported. For the selling sample the results seem to be driven by the subsample of firms that changed disclosure policy. This raises the issue of endogeneity because managers could have made both disclosure and trading decisions simultaneously. The results are robust with respect for endogeneity.

To investigate whether strong corporate governance reduces insider trading on accrual information, I investigate three separate research questions: First, does strong corporate governance reduce the level of income increasing accruals? Second, is balance sheet disclosure positively associated with strong corporate governance? Third, does strong corporate governance reduce the profitability of insider trading on accruals? I find limited evidence that strong corporate governance reduces the level of abnormal accruals. Opposite to my prediction I find that strong corporate governance is negatively associated with balance sheet disclosure. Finally I

find no evidence that insider trading profits are associated with the strength of corporate governance. For the sample of firms which changed disclosure policy in the quarter of change I actually find that good corporate governance actually increases the insiders' trading profits.

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VITA

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