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Economic consequences of regulated changes in disclosure: the case of executive compensation â˜†

Kin Lo

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Abstract

The 1992 revision of executive compensation disclosure rules in the U.S. could have benefited shareholders by inducing corporate governance improvements or harmed them by increasing disclosure costs. Consistent with the governance improvement hypothesis, companies that lobbied against the regulation had, relative to control firms: (i) return-on-assets and return-on-equity that improved by 0.5% and 3%, respectively; and (ii) excess stock returns of 6% over the 8-month period between the announcement and the adoption of the proposed regulation. Also, firms lobbying more vigorously against the proposal had more positive abnormal stock returns during events that increased the probability of regulation.

JEL classification

D61; G38; G34; K22; M40

Keywords

Corporate governance; Disclosure; Executive compensation; Securities regulation

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