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The Effects of the 2006 SEC Executive Compensation Disclosure Rules of Managerial Incentives

1. Description of grant-supported activity
The grant provided the time necessary to conduct research on the effect of 2006 SEC rules related to the disclosure of executive compensation on management behavior. This time has been dedicated to collecting and analyzing the data, and writing up the report.

2. Were you able to complete the project? Describe any difficulty you had.
Yes. The first draft of the article is complete. I plan to submit the article to a referred journal for publication.

3. Did, or will, the project result in a specific product -- a manuscript, composition, syllabus, etc? If so, please describe and indicate state of development.
Yes. As stated above the first draft is complete. Below is a summary of the article.

Using a sample of firm-years obtained from Compustat’s ExecuComp database, we find that the more extensive disclosure requirements for executive compensation and stock ownership mitigate the information asymmetry between management and shareholders and thus the opportunistic behavior of management.

Specifically, we find that after the effective date of the SEC rules, the positive associations between executives’ option holdings and repurchases, and between executives’ shareholdings and dividend payouts, have weakened. In addition, the positive associations between bonus and discretionary accruals, between bonus and real earnings management, and between option holdings and real earnings management have decreased.