

The Timeliness of Market Reactions to Regulation FD Events

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ABSTRACT

This paper examines the timeliness of market reactions to six important Regulation Fair Disclosure (Reg. FD) events using a sample of firms that previously restricted access to conference calls (closed-call) and a sample of firms that voluntarily allowed unlimited real time access to their calls (open-call) in the pre-Reg. FD period. It investigates the point at which any difference in the information asymmetry between the previous open-call firms and the previous closed-call firms vanished during the six events leading to the SEC's adoption of Reg. FD. We find there is a significant difference in stock price responsiveness between open-call firms and closed-call firms around the first Reg. FD event, while there is no significant difference around the subsequent five events. Our findings are consistent with the prediction from the Choi and Salamon (1995) model that a change in the market perception of the variance of the firm's disclosure policy can lead to contemporaneous price changes.

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Keywords: regulation; conference calls; market reactions; disclosure.

Data Availability: All data employed in this study are commercially available from the sources described in the text.

I. INTRODUCTION

On October 23, 2000, the U.S. Securities and Exchange Commission (SEC) issued Regulation Fair Disclosure (hereinafter Reg. FD), which requires that, if and when a firm discloses material nonpublic information to certain financial analysts and institutional investors, it must make the same information available to the general public immediately. The regulation raises a number of issues that have been actively debated and researched subsequently (Heflin, Subramanyam and Zhang 2003; Eleswarapu, Thompson and Venkataraman 2004; Irani and Karamanou 2004; Shane, Soderstorm and Yoon 2001; Bushee, Matsumoto and Miller 2004). Among the issues that have arisen are the effect of Reg. FD on the rate and volume of information dissemination to the market, and whether investors may misinterpret the information provided.

Despite many research papers that have examined the market effect of Reg. FD, the question whether investors correctly anticipated the effect of Reg. FD, and if so, how early this reaction was has not been examined. The objective of this study is to investigate the point at which any difference in the information asymmetry between the previous open-call (OPC) firms and the previous closed-call (CLC) firms vanished during the six events leading to the passage of Reg. FD. By examining the daily cumulative abnormal returns (CARs) of both CLC and OPC firms around six significant Reg. FD events first identified by Irani and Karamanou (2004), we are able to demonstrate the unbiased way in which the potential effect of Reg. FD on the CLC firms was impounded into stock prices.

The six Reg. FD events examined in this study are (see Appendix I for exact dates):

1. The initial article in Wall Street Journal (*WSJ*) reflecting the SEC's first indication of its intention to limit selective disclosure.
2. Another *WSJ* article that clearly identified the SEC proposal of Reg. FD.
3. The SEC's solicitation of public comments on the proposed rule.
4. An article in *The New York Times* that identified some changes in the final rule as compared to the initial proposal (McGeehan 2000).
5. The date the final rule was adopted.
6. The date the SEC started to enforce the rule.

Our study differs from previous Reg. FD studies in two significant respects. First of all, we extend the Irani and Karamanou (2004) study by dividing our sample into two groups, CLC firms and OPC firms, and examining the stock price movements around these Reg. FD dates in four short-term windows. Secondly, as compared to Bushee, Matsumoto and Miller (2004), we examine the evolution of the market reaction to Reg. FD, and not just the market reaction at the final enactment date. The examination of the differential market reaction to CLC and OPC firms, together with the study of the evolution of the market response, allow us to contribute to the Reg. FD literature by demonstrating that investors correctly inferred the economic effect of Reg. FD on the CLC firms.

The remainder of this study is organized as follows. Section II presents a theoretical development of hypotheses based on the Choi and Salamon (1995) model. Section III discusses our sample, empirical tests and robustness results. We provide conclusions in the final section.

II. THEORETICAL DEVELOPMENT

For the purposes of this study, we adopted the model by Choi and Salamon (1995) to provide the theoretical framework. Choi and Salamon (1995) link the firms' external reporting system to price changes around earnings announcements and provide a theoretical explanation of the change in prices around changes in accounting methods. They interpret the information structure of the markets for firm k as a function of the prior uncertainty and the noise in the information signal by using the following model.

$$\tilde{y}_k = \tilde{x}_k + \delta_k + \tilde{\varepsilon}_k \quad (1)$$

where \tilde{y}_k denotes firm k 's possible signals or messages, \tilde{x}_k represents firm k 's outcome to be realized in the next accounting period and δ_k is a known constant, system bias. $\tilde{\varepsilon}_k$ is independent of \tilde{x}_k and has a normal distribution with $E(\tilde{\varepsilon}_k) = 0$ and $\text{Var}(\tilde{\varepsilon}_k) = \Phi_k^2$. Furthermore, they assume that $\tilde{\varepsilon}_k$ represents a separately unobservable noise component of \tilde{y}_k and Φ_k^2 represents investors' assessments of the variance of this noise. Moreover, because x is a random variable, it is subject to its own variance (which can be denoted as σ^2). Thus, the meaning of any specific signal received by the market is filtered through both the known system bias (zero variance) and the two other sources of uncertainty, σ^2 and Φ_k^2 . The presence of the bias term δ_k in (1) will potentially allow but not require investors to make an adjustment to the level of that signal (Feltham, 1972, p.123).

More specifically, the relationship between the variance of y_k and the variance of $\tilde{\varepsilon}_k$ is given by Equation (2):

$$\text{Var}(\tilde{y}_k) = \sigma_k^2 + \Phi_k^2 \quad (2)$$

As given in Equation (2), for a fixed σ_k^2 , an increase in $\text{var}(\tilde{y}_k)$ without any associated increase in business uncertainty can be caused by an increase in Φ_k^2 . In another words, a change in

the market perception of the variance of the firm's reporting system can lead to contemporaneous price changes. Thus, one way in which Reg. FD can lead to price changes is through its effect on Φ^2 . By prohibiting selective disclosure, Reg. FD attempts to reduce the signal-to-noise ratio by forcing CLC firms to disclose their material information directly to the public instead of through financial analysts. The removal of analysts as an information filtering system is supposed to change Φ^2 since investors would interpret all the information disclosed by the previous-CLC firms differently without the guidance of financial analysts after Reg. FD enacted.

From this perspective, the Reg. FD events may be regarded as external shocks that can potentially trigger a shift in the market's perception of Φ_k^2 for previous CLC firms if Reg. FD did achieve its ultimate objective.

This reasoning leads to the following two formal hypotheses:

H1: CLC firms in the pre-Reg. FD period would be subject to higher uncertainty, and hence relatively more depressed stock returns, once the issue of non-exclusive information disclosure was raised as a public policy issue.

H2: The difference in the market reactions between OPC and CLC firms will vanish once investors are convinced that Reg. FD will be adopted, thus removing the information asymmetry penalty for CLC firms.

The net effect of the two hypotheses is that the price reactions around these six Reg. FD event dates are expected to result in an initial divergence followed by a convergence once investors became convinced that the regulation would be adopted. The prediction of initial divergence is consistent with the prior empirical findings by Lev (1979) that the announcement of SFAS No. 19 was associated with a stock price decline for "full cost" (FC) firms.

III. EMPIRICAL TESTS

3.1 Data

According to Bowen, Davis and Matsumoto (2002) (hereafter BDM), Bestcalls.com in March 1999 launched a website publicizing the dates and times of conference calls open to individual investors. However, some firms did not allow individuals access to their calls. Meanwhile, some firms began live broadcasts of their conference calls via the Internet (web casts). So it is reasonable to assume that after March 1999, all firms on the Bestcalls.com list had open-calls. Therefore, we divided the samples into two groups, open-call and closed-call firms before the final Reg. FD enforcement date. More specifically, the firms listed by Bestcalls.com are regarded as OPC firms, and the firms listed by First Call Corporation but not included in the Bestcalls.com list are regarded as CLC firms. This classification methodology is also consistent with the one used by Bushee, Matsumoto and Miller (2004). The data used in this study therefore consisted of all firms with non-missing daily stock price obtained from CRSP that were listed by Bestcalls.com or First Call as having held conference calls. The final sample includes 718 OPC and 2,202 CLC firms.

3.2 Empirical Results

We compare the different market reactions to six significant Reg. FD events between CLC and OPC firms during four windows, (-1, +1), (-2, +4), (-5, +10), (-5, +15), using the cumulative abnormal returns (CARs). The cumulative abnormal returns are obtained from CRSP before six Reg. FD events (255 days) in order to provide estimated parameters for the prediction of residuals during the event dates.

$$R_{it} = \alpha_{it} + \beta_{it} R_{mt} + e_{it} \quad (3)$$

where: R_{it} is the daily return of the common stock of firm i , R_{mt} is the daily return of an equal-weighted market index from CRSP on day t , e_i is a residual reflecting that portion of security i 's return that varies independently of the market return, R_{mt} .

After computing the alpha, beta, mean return and residual return deviation for each firm, we derived the mean cumulative abnormal return, the difference between the predicted and actual returns, for the windows, (-30, +30) around those Reg. FD-event dates.

$$u_{it} = R_{it} - (\hat{\alpha}_i + \hat{\beta}_i R_{mt}) \quad (4)$$

where u_{it} = an abnormal (residual, or unexpected) return, the difference between an actual return and a predicted return.

Figures 1 to 6 present the trend of daily cumulative abnormal returns (CARs) for both OPC and CLC firms around six Reg. FD-event dates. Both Figure 1 and Figure 2 show the CARs for OPC firms are greater than CARs for CLC firms around the first and second Reg. FD-event dates. It shows that market participants are affected by firms' different disclosure policies because open calls are accessible to the general public and closed calls are limited to certain analysts. Those results are consistent with the Bushee, Matsumoto, and Miller (2004) findings that open calls are associated with higher price volatility than closed calls while both calls appear to convey new information to the market on average.

After the SEC voted to solicit public comments on the proposed rule (the 3rd event) on December 15, 1999, and some rule changes from the initial proposal were revealed in the *New York Times* (the 4th event), however, the market behavior of those two groups becomes not significantly different. Market reactions around the fifth and sixth Reg. FD-event dates show the same tendency as those around the fourth Reg. FD-event date.

Table 1 and Table 2 present the CARs' behavior between CLC and OPC firms during days -30 through +30 (-30, +30). From the event day 0 to the day 1, there is the same tendency for the change in CARs for both OPC and CLC firms around the first and second event dates, while the change in CARs is in the opposite directions between OPC and CLC firms around the third event date in Table 1. Furthermore, the change in CARs from day 0 to day 1 is in the same direction for the last three events in Table

2. That is to say, there is no significant difference in price reactions between OPC and CLC firms after the third Reg. FD event date.

At the same time, by comparing those CARs within the CLC group in a narrow window, (-1, +1), there is a negative trend around the first two event dates, whereas there is a positive trend around the following three event dates in Table 1 and Table 2. These results provide support for our hypotheses H1 and H2 in that the initial adverse reaction for OPC firms when the subject of potential regulatory intervention was first broached was subsequently reversed when investors became convinced that the regulation would eventually be adopted. The results could also be driven by the possibility that the CLC firms changed their exclusive disclosure policies when it became evident that the regulations would be adopted.

Table 3 presents formal statistical tests of the difference in CARs presented earlier. These differences in mean CARs are based on size in four windows, (-1, +1), (-2, +4), (-5, +10), (-5, +15), around the six Reg. FD-event dates using the t-test, respectively. Since the test for the equality of variance showed unequal variance, only the Satterthwaite unequal variance t value was presented at Table 3. The results show that the difference in mean levels of CARs is significant for the comparison between OPC and CLC firms in four windows only around the first event, and not be significant around the subsequent five events. More specifically, from the second to the sixth event, there is no significant difference in CARs between OPC firms and CLC firms in four windows except for only one comparison in the 5th event from day -1 to day +1. Thus, H1 appears to hold at the time of the first event date, and to gradually disappear by the third event date.

These results suggest that market participants had realized that Reg. FD would be enacted eventually, and the previous-CLC firms had to disclose their information directly to the public without the interpretation of financial analysts by the second Reg. FD event. Furthermore, the difference in price changes between OPC and CLC firms was altered between the first and the second Reg. FD event date. Thus, the first event and the second event are

the most important dates among those six dates leading to the passage of Reg. FD.

3.3 Robustness Tests

To obtain better control of extraneous factors, the sample is restricted to firms that retained their status in both the pre-Reg. FD and post-Reg. FD environments. The pre-Reg. FD period refers to the period before the final Reg. FD enforcement date, while the post-Reg. FD period refers to the period after the final Reg. FD enforcement date. We delete all the firms if they changed their classification category, such as from the pre-Reg. FD CLC or OPC group to the post-Reg. FD nonconference call group. We rerun the t-test for the remaining samples with the same CLC and OPC classification, which are available in both pre- and post-Reg. FD periods. This list includes 574 OPC and 1,137 CLC firms. Table 4 compares the significant difference in means of CARs in four windows, (-1, +1), (-2, +4), (-5, +10), (-5, +15), around six Reg. FD-event dates using the t-test respectively. Since the test for the equality of variance shows unequal variance, only Satterthwaite unequal variance t value is presented at Table 4.

Table 4 shows that the difference in mean levels of CARs is significant for the comparison between OPC and CLC firms in four windows only around the first event, but not significant around the following five events. More specifically, from the second event to the sixth event, there is no significant difference in CARs between OPC firms and CLC firms in four windows except for one comparison in the 4th event from day -2 to day +4 and one comparison in the 5th event from day -1 to day 1. This suggests that the difference in price changes between OPC and CLC firms was altered after the first Reg. FD event date, and therefore, the first event and the second events are the most important dates among these six Reg. FD dates.

To summarize, the price changes between OPC and CLC firms are not significantly different after the second Reg. FD event, and therefore, the first and the second event are the most significant events among these six Reg. FD events. We find the

first two events are the most important dates among these six Reg. FD events leading to the passage of Reg. FD.

VI. SUMMARY AND CONCLUSIONS

This study examines the effect of six important Reg. FD events on market reactions between the previous-CLC firms and previous-OPC firms by comparing the cumulative abnormal returns around six Reg. FD event dates in four windows, (-1, +1), (-2, +4), (-5, +10) and (-5, +15). As anticipated, the results provide evidence that there is a significant difference in price reactions between CLC and OPC firms around the first Reg. FD event date, but an insignificant difference between CLC firms and OPC firms around the following five Reg. FD events. These results are consistent with Mac's (2003) finding that CLC firms have already changed their voluntary disclosure policy in the pre-enactment period (December 20, 1999 - October 22, 2000). It is possible that some firms may have gradually changed their voluntary disclosure policy prior to the release of Reg. FD, partly because they feared the litigation due to the improper interpretation from individual investors, or partly because they anticipated the passage of Reg. FD or tried to convince the SEC that regulation was unnecessary.

In addition, these findings suggest that, to some extent, Reg. FD did "level the playing field" for all financial analysts and investors, consistent with Reg. FD's success in eliminating selective disclosure. In other words, Reg. FD did improve the information environment for all market participants. The graph presented in Appendix also shows the number of public 'preannouncements' has doubled in 2001, which means more information available for market participants after the implementation of Reg. FD. On the negative side, however, Reg. FD could potentially reduce the level of disclosure made by firms. Since empirical research by Bushee, Matsumoto and Miller (2004) and Heflin, Subramanyam and Zhang (2003) have shown that this effect did not occur, that issue is not pursued in this study.

Finally, since this study suggests that the previous CLC firms have already changed their disclosure policy prior to the implementation of Reg. FD, further research may define the pre-Reg. FD period as the period before the first Reg. FD event instead of the final date in order to avoid the potential effect before the release of Reg. FD.

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APPENDIX I

Chronicle of Events Surrounding the Regulation Fair Disclosure Events

<i>Date</i>	<i>Event</i>
3/16/1999	The initial article in <i>Wall Street Journal (WSJ)</i> reflecting the SEC's first intention of limiting selective disclosure (The 1st Event).
3/17/1999	An article in <i>The New York Times</i> reporting the SEC "is considering tightening disclosure rules so that companies will be forced to announce news to all investors at same time"; and "commission lawyers are reviewing situations in which companies might have given information to certain analysts and investors before it was available to public."
11/16/1999	A <i>WSJ</i> article describing some of the provisions in the SEC proposal not yet available to the public (The 2nd Event).
12/15/1999	The SEC voted to solicit public comments on the proposed rule (The 3rd Event).
12/16/1999	An article in <i>The New York Times</i> said Reg. FD would mandate that companies disclose material information--important information that can move stock price--except through public disclosure; rule adds that if such information is inadvertently disclosed, it should quickly be released to public. Also "Wall Streeters immediately warn that trying to shut off selective release of information could shut off any release of information."

- 12/20/1999 The SEC proposed new Regulation FD for "fair disclosure" to combat "selective disclosure".
- 8/4/2000 An *New York Times* article describing some final changes from the initial proposal before the final rule is made to the public (**The 4th Event**).
- 8/10/2000 SEC adoption (**The 5th Event**).
- 10/9/2000 An article in *BusinessWeek* regarding Reg. FD stated that "may be having an effect opposite to the one the agency intended. It is designed to give small and large investors alike equal access to market-sensitive information. Instead, it is cutting down on the amount of information received by anyone."
- 10/16/2000 AICPA made the following comments: "Neither support the proposed rule, nor recommend that our members do so." There are twelve concerns which lead us to this conclusion, such as the rulemaking process is too rushed; the rulemaking is not supported by a meaningful cost-benefit analysis; premature; the proposed rule would not promote clarity, but rather exacerbate uncertainty and confusion; etc.
- 10/23/2000 Enactment of Reg. FD (**The 6th Event**).

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When Regulation FD took effect in October 2000, companies began making public “preannouncements” or advance statements of their earnings. The number of such press releases doubled in 2001 and has continued to grow rapidly.

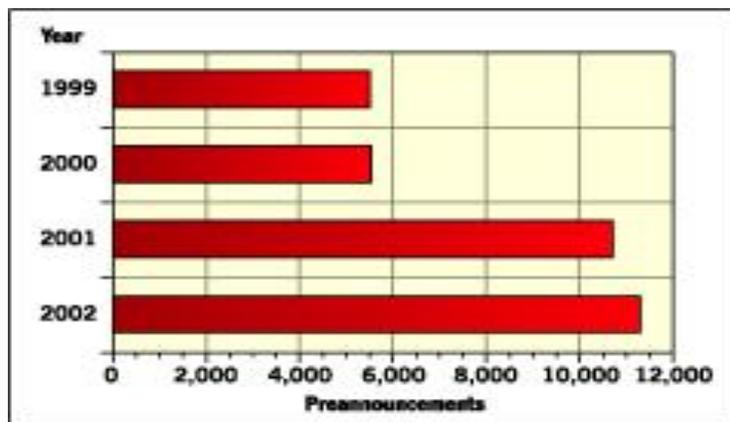


Figure 1: Cumulative Abnormal Returns (CARs) Around the First Reg. FD Event (3/16/1999)

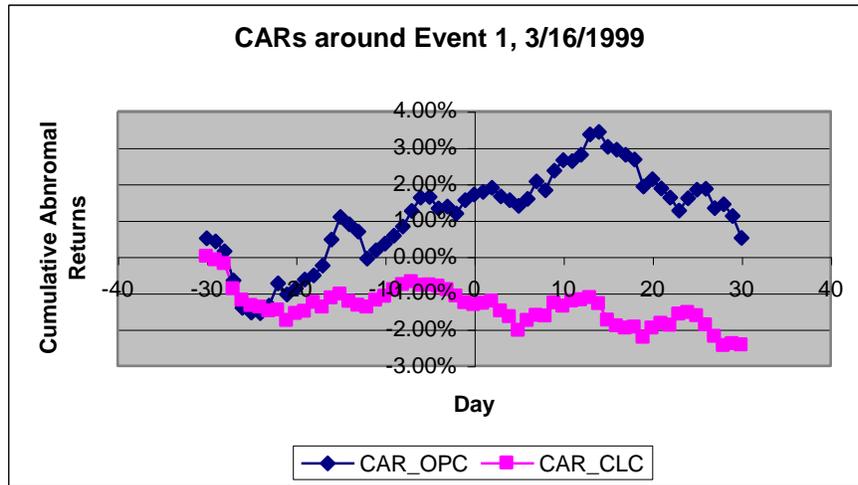


Figure 2: Cumulative Abnormal Returns (CARs) Around the Second Reg. FD Event (11/16/1999)

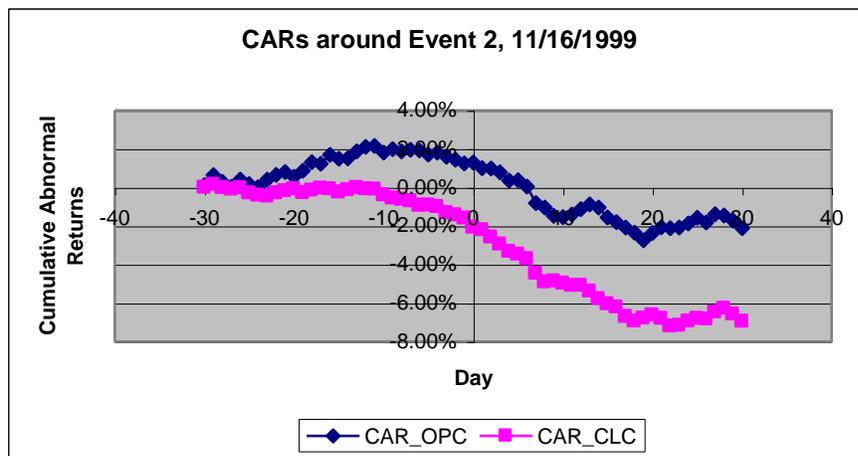


Figure 3: Cumulative Abnormal Returns (CARs) Around the Third Reg. FD Event (12/15/1999)

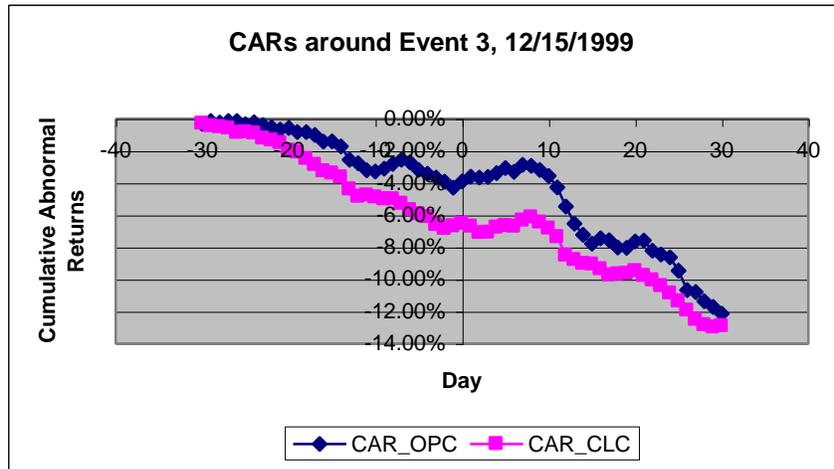


Figure 4: Cumulative Abnormal Returns (CARs) Around the Fourth Reg. FD Event (8/4/2000)

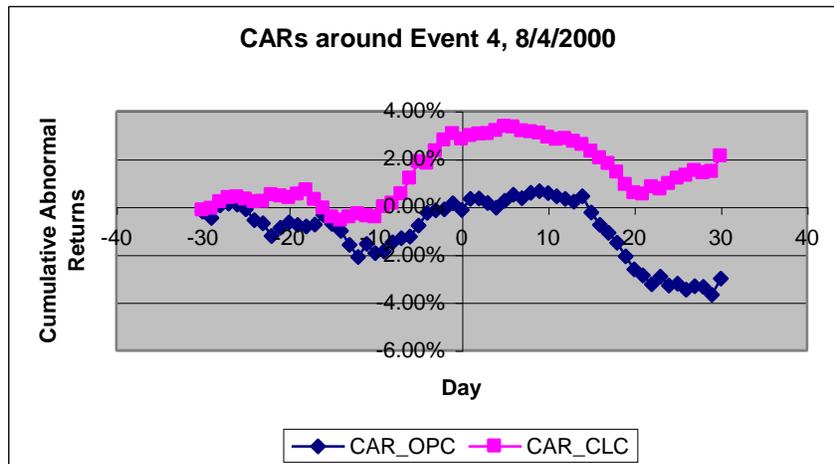


Figure 5: Cumulative Abnormal Returns (CARs) Around the Fifth Reg. FD Event (8/10/2000)

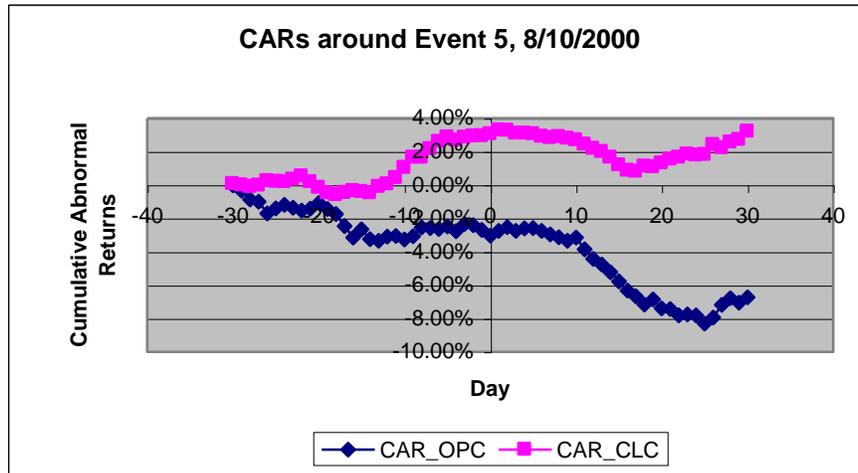


Figure 6: Cumulative Abnormal Returns (CARs) Around the Sixth Reg. FD Event (10/23/2000)

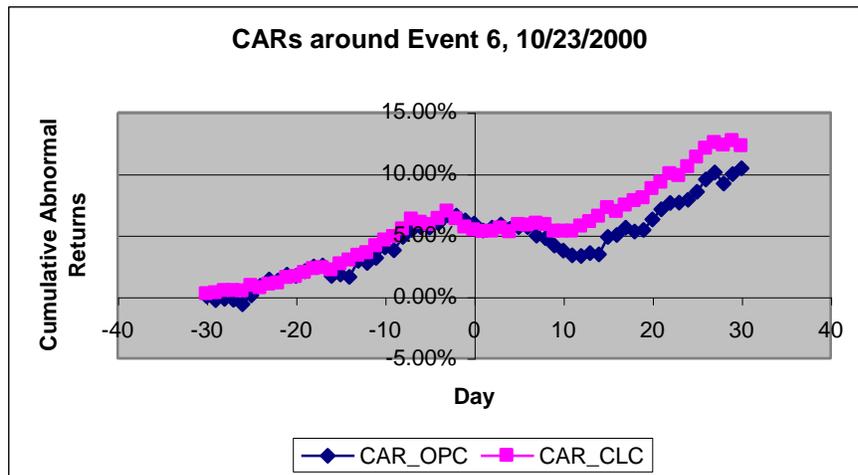


Table 1: Cumulative Abnormal Returns of OPC and CLC firms around the 1st, 2nd and 3rd Reg. FD Events

<i>DAY</i>	<i>Event 1^a</i>		<i>Event 2^b</i>		<i>Event 3^c</i>	
	<i>CAR_OPC</i>	<i>CAR_CLC</i>	<i>CAR_OPC</i>	<i>CAR_CLC</i>	<i>CAR_OPC</i>	<i>CAR_CLC</i>
-30	0.51%	0.00%	0.12%	-0.01%	-0.32%	-0.29%
-29	0.42%	-0.09%	0.63%	0.14%	-0.13%	-0.46%
-28	0.15%	-0.20%	0.29%	-0.03%	-0.23%	-0.51%
-27	-0.65%	-0.89%	0.03%	-0.11%	-0.14%	-0.59%
-26	-1.40%	-1.20%	0.40%	-0.04%	-0.13%	-0.87%
-25	-1.53%	-1.35%	0.17%	-0.30%	-0.33%	-0.84%
-24	-1.55%	-1.39%	0.01%	-0.42%	-0.21%	-0.91%
-23	-1.34%	-1.50%	0.41%	-0.47%	-0.40%	-1.22%
-22	-0.73%	-1.47%	0.65%	-0.31%	-0.53%	-1.35%
-21	-1.04%	-1.76%	0.80%	-0.18%	-0.67%	-1.51%
-20	-0.87%	-1.57%	0.56%	-0.08%	-0.58%	-1.99%
-19	-0.63%	-1.51%	0.86%	-0.28%	-0.84%	-2.09%
-18	-0.51%	-1.26%	1.32%	-0.16%	-0.84%	-2.50%
-17	-0.24%	-1.39%	1.23%	-0.05%	-1.01%	-2.87%
-16	0.47%	-1.14%	1.70%	-0.09%	-1.43%	-3.27%
-15	1.09%	-1.04%	1.50%	-0.25%	-1.40%	-3.40%
-14	0.89%	-1.24%	1.51%	-0.14%	-1.72%	-3.65%
-13	0.69%	-1.34%	1.88%	-0.02%	-2.55%	-4.40%
-12	-0.05%	-1.39%	2.10%	-0.09%	-2.78%	-4.85%
-11	0.18%	-1.20%	2.15%	-0.10%	-3.21%	-4.78%
-10	0.36%	-1.10%	1.81%	-0.40%	-3.28%	-4.89%
-9	0.58%	-0.91%	1.99%	-0.57%	-3.11%	-5.00%
-8	0.83%	-0.77%	1.88%	-0.64%	-2.81%	-5.00%
-7	1.26%	-0.70%	1.96%	-0.72%	-2.55%	-5.28%
-6	1.63%	-0.79%	1.93%	-0.95%	-2.71%	-5.68%
-5	1.64%	-0.78%	1.71%	-0.93%	-3.18%	-5.95%
-4	1.33%	-0.82%	1.81%	-1.01%	-3.43%	-6.11%
-3	1.38%	-0.91%	1.60%	-1.32%	-3.67%	-6.61%
-2	1.19%	-1.09%	1.45%	-1.44%	-3.92%	-6.86%
-1	1.56%	-1.27%	1.24%	-1.60%	-4.30%	-6.70%
0	1.71%	-1.32%	1.30%	-2.09%	-3.91%	-6.54%

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1	1.78%	-1.29%	1.00%	-2.22%	-3.61%	-6.72%
2	1.90%	-1.23%	0.98%	-2.60%	-3.67%	-7.11%
3	1.66%	-1.50%	0.79%	-2.95%	-3.63%	-7.08%
4	1.56%	-1.66%	0.35%	-3.34%	-3.38%	-6.78%
5	1.40%	-2.03%	0.38%	-3.48%	-3.07%	-6.67%
6	1.59%	-1.76%	0.04%	-3.72%	-3.31%	-6.72%
7	2.07%	-1.62%	-0.81%	-4.47%	-2.88%	-6.33%
8	1.83%	-1.64%	-1.04%	-4.92%	-2.94%	-6.14%
9	2.37%	-1.28%	-1.47%	-4.86%	-3.18%	-6.46%
10	2.66%	-1.37%	-1.54%	-4.98%	-3.57%	-6.83%
11	2.63%	-1.23%	-1.40%	-5.10%	-4.28%	-7.36%
12	2.80%	-1.19%	-1.13%	-5.10%	-5.46%	-8.52%
13	3.36%	-1.13%	-0.88%	-5.39%	-6.53%	-8.79%
14	3.43%	-1.30%	-1.05%	-5.79%	-7.22%	-9.03%
15	3.02%	-1.75%	-1.55%	-6.05%	-7.79%	-9.07%
16	2.94%	-1.91%	-1.81%	-6.22%	-7.45%	-9.36%
17	2.80%	-1.97%	-2.08%	-6.71%	-7.56%	-9.75%
18	2.67%	-1.94%	-2.35%	-6.95%	-8.01%	-9.69%
19	1.93%	-2.22%	-2.75%	-6.80%	-8.03%	-9.65%
20	2.13%	-1.97%	-2.37%	-6.64%	-7.65%	-9.49%
21	1.88%	-1.84%	-2.06%	-6.82%	-7.59%	-9.78%
22	1.63%	-1.89%	-2.12%	-7.21%	-8.22%	-10.06%
23	1.27%	-1.59%	-2.09%	-7.18%	-8.45%	-10.42%
24	1.61%	-1.54%	-1.86%	-6.95%	-8.63%	-10.88%
25	1.84%	-1.63%	-1.57%	-6.82%	-9.47%	-11.36%
26	1.87%	-1.88%	-1.82%	-6.85%	-10.68%	-11.95%
27	1.34%	-2.20%	-1.39%	-6.48%	-10.79%	-12.52%
28	1.44%	-2.45%	-1.46%	-6.28%	-11.36%	-12.86%
29	1.12%	-2.40%	-1.72%	-6.59%	-11.73%	-13.00%
30	0.52%	-2.43%	-2.12%	-6.96%	-12.14%	-12.91%

^a Event 1 – the initial article in Wall Street Journal reflecting the SEC’s first intention of limiting selective disclosure on March 16, 1999. ^b Event 2 - another *WSJ* article, which clearly identified the SEC proposal of Reg. FD on November 16, 1999. ^c Event 3 – the date of the SEC’s seeking public comments on the proposed rule on December 15, 1999. *CARs* = mean cumulative abnormal returns around the first three Reg. FD events based on size.

Table 2: Cumulative Abnormal Returns of OPC and CLC firms around the 4th, 5th and 6th Reg. FD Events

<i>DAY</i>	<i>Event 4^a</i>		<i>Event 5^b</i>		<i>Event 6^c</i>	
	<i>CAR_OPC</i>	<i>CAR_CLC</i>	<i>CAR_OPC</i>	<i>CAR_CLC</i>	<i>CAR_OPC</i>	<i>CAR_CLC</i>
-30	-0.19%	-0.15%	-0.01%	0.07%	0.05%	0.21%
-29	-0.46%	-0.08%	-0.34%	-0.01%	-0.26%	0.29%
-28	0.06%	0.20%	-0.87%	-0.11%	-0.16%	0.49%
-27	0.14%	0.38%	-1.00%	-0.04%	-0.25%	0.49%
-26	0.10%	0.40%	-1.70%	0.23%	-0.62%	0.45%
-25	-0.11%	0.31%	-1.40%	0.20%	0.11%	0.88%
-24	-0.56%	0.20%	-1.19%	0.17%	0.89%	0.72%
-23	-0.69%	0.22%	-1.37%	0.33%	1.41%	1.00%
-22	-1.22%	0.50%	-1.54%	0.51%	1.33%	1.09%
-21	-0.88%	0.44%	-1.43%	0.17%	1.79%	1.55%
-20	-0.65%	0.38%	-1.07%	-0.16%	1.70%	1.61%
-19	-0.75%	0.52%	-1.44%	-0.49%	2.08%	1.95%
-18	-0.82%	0.69%	-1.74%	-0.60%	2.46%	2.27%
-17	-0.74%	0.30%	-2.47%	-0.47%	2.54%	2.34%
-16	-0.34%	-0.06%	-3.16%	-0.36%	1.69%	2.15%
-15	-0.71%	-0.43%	-2.65%	-0.41%	1.83%	2.65%
-14	-1.00%	-0.57%	-3.24%	-0.48%	1.61%	2.95%
-13	-1.59%	-0.43%	-3.34%	-0.10%	2.93%	3.35%
-12	-2.10%	-0.30%	-3.10%	0.05%	2.74%	3.56%
-11	-1.55%	-0.39%	-3.06%	0.43%	3.17%	4.13%
-10	-1.94%	-0.43%	-3.27%	1.04%	4.03%	4.59%
-9	-1.85%	-0.01%	-3.07%	1.65%	3.79%	4.87%
-8	-1.49%	0.14%	-2.54%	1.64%	4.86%	5.49%
-7	-1.31%	0.53%	-2.58%	2.15%	5.44%	6.29%
-6	-1.25%	1.19%	-2.63%	2.60%	5.68%	6.03%
-5	-0.78%	1.87%	-2.49%	2.86%	5.63%	5.84%
-4	-0.25%	1.81%	-2.77%	2.67%	5.98%	6.35%
-3	-0.15%	2.33%	-2.33%	2.84%	6.63%	6.93%
-2	-0.11%	2.78%	-2.41%	2.92%	6.60%	6.32%
-1	0.15%	3.05%	-2.69%	2.93%	6.22%	5.65%
0	-0.13%	2.82%	-3.03%	3.05%	5.96%	5.42%

Journal of Accounting, Ethics & Public Policy
Volume 6, No. 3 (2006)

1	0.33%	2.96%	-2.76%	3.27%	5.40%	5.28%
2	0.35%	3.03%	-2.52%	3.26%	5.63%	5.30%
3	0.16%	3.04%	-2.76%	3.08%	5.87%	5.58%
4	-0.04%	3.17%	-2.60%	3.08%	5.51%	5.27%
5	0.25%	3.35%	-2.58%	3.05%	5.67%	5.84%
6	0.51%	3.32%	-2.75%	2.90%	5.68%	5.81%
7	0.36%	3.16%	-2.96%	2.83%	4.97%	5.96%
8	0.59%	3.12%	-3.14%	2.88%	4.76%	5.84%
9	0.66%	3.07%	-3.34%	2.78%	4.17%	5.32%
10	0.57%	2.90%	-3.15%	2.68%	3.75%	5.32%
11	0.44%	2.81%	-3.86%	2.43%	3.38%	5.32%
12	0.34%	2.85%	-4.42%	2.18%	3.33%	5.72%
13	0.21%	2.72%	-4.77%	1.98%	3.55%	6.09%
14	0.44%	2.59%	-5.22%	1.65%	3.45%	6.53%
15	-0.24%	2.31%	-5.77%	1.18%	4.86%	7.21%
16	-0.76%	2.04%	-6.33%	0.86%	5.02%	6.92%
17	-1.08%	1.80%	-6.67%	0.81%	5.63%	7.42%
18	-1.50%	1.44%	-7.16%	1.11%	5.32%	7.79%
19	-2.07%	0.92%	-6.87%	1.07%	5.45%	8.03%
20	-2.62%	0.57%	-7.39%	1.29%	6.28%	8.78%
21	-2.87%	0.52%	-7.44%	1.52%	7.12%	9.29%
22	-3.24%	0.82%	-7.81%	1.64%	7.63%	9.98%
23	-2.92%	0.73%	-7.75%	1.84%	7.65%	9.84%
24	-3.29%	0.96%	-7.81%	1.78%	7.90%	10.56%
25	-3.21%	1.19%	-8.31%	1.82%	8.54%	11.32%
26	-3.47%	1.31%	-7.94%	2.40%	9.56%	12.05%
27	-3.32%	1.50%	-7.18%	2.21%	10.11%	12.51%
28	-3.34%	1.41%	-6.79%	2.55%	9.22%	12.30%
29	-3.67%	1.46%	-7.05%	2.71%	9.98%	12.67%
30	-3.00%	2.11%	-6.72%	3.20%	10.44%	12.26%

^a Event 4 - an article in *The New York Times* which identifying some changes in the final rule as compared to the initial proposal on August 4, 2000. ^b Event 5 - the final rule was adopted on August 10, 2000. ^c Event 6 - the date that the SEC starts to implement Reg. FD on October 23, 2000.

CARs = mean cumulative abnormal returns around the last three Reg. FD events based on size.

Table 3 T-tests for Daily Cumulative Abnormal Returns between CLC and OPC firms around Six Reg. FD Events in Four Windows

Six Reg. FD Events		Window (-1, +1)		Window (-2, +4)		Window (-5, +10)		Window (-5, +15)	
<i>CARs^a / t-stat.</i>		<i>CLC¹</i>	<i>OPC²</i>	<i>CLC¹</i>	<i>OPC²</i>	<i>CLC¹</i>	<i>OPC²</i>	<i>CLC¹</i>	<i>OPC²</i>
<i>Event 1</i>	<i>Mean</i>	-0.002	0.006	-0.008	0.002	-0.006	0.0103	-0.01	0.014
	<i>T value</i>	2.9**		2.16*		2.46*		2.77**	
<i>Event 2</i>	<i>Mean</i>	-0.008	-0.004	-0.02	-0.012	-0.04	-0.035	-0.051	-0.035
	<i>T value</i>	0.98		1.56		0.7		1.58	
<i>Event 3</i>	<i>Mean</i>	0.0015	0.003	-0.002	0.003	-0.011	-0.009	-0.034	-0.051
	<i>T value</i>	0.5		0.86		0.37		-1.92	
<i>Event 4</i>	<i>Mean</i>	0.002	0.004	0.008	0.001	0.017	0.0183	0.0113	0.0102
	<i>T value</i>	0.47		-1.59		0.17		-0.11	
<i>Event 5</i>	<i>Mean</i>	0.004	-0.004	0.002	-0.003	0.001	-0.005	-0.014	-0.031
	<i>T value</i>	-2.16*		-0.86		-0.55		-1.29	
<i>Event 6</i>	<i>Mean</i>	-0.01	-0.012	-0.017	-0.011	-0.012	-0.007	0.012	-0.008
	<i>T value</i>	-0.28		0.52		-0.76		-1.64	

^a*CARs* =cumulative abnormal returns around six Reg. FD event dates in four windows (-1, +1), (-2, +4), (-5, +10), and (-5, +15).

¹ CLC – closed-call firms; ² OPC – open-call firms.

* = Statistically significant at a probability of less than 0.05;

** = Statistically significant at a probability of less than 0.01;

*** = Statistically significant at a probability of less than 0.001.

Table 4 T-tests for Daily Cumulative Abnormal Returns for the Samples with the Same CLC and OPC Classification in Both Pre- and Post-Reg. FD Periods around Six Reg. FD Events in Four Windows

Six Reg. FD Events		Window (-1, +1)	Window (-2, +4)	Window (-5, +10)	Window (-5, +15)
<i>CARs^a / t-stat.</i>		<i>OPC² CLC¹</i>	<i>OPC² CLC¹</i>	<i>OPC² CLC¹</i>	<i>OPC² CLC¹</i>
<i>Event 1</i>	<i>Mean</i>	0.005 -0.002	0.002 -0.01	0.009 -0.01	0.015 -0.012
	<i>T value</i>	2.1*	2.1*	2.33*	2.55*
<i>Event 2</i>	<i>Mean</i>	-0.007 -0.005	-0.013 -0.018	-0.038 -0.035	-0.034 -0.041
	<i>T value</i>	-0.49	0.73	-0.32	0.49
<i>Event 3</i>	<i>Mean</i>	0.003 0.001	0.005 0.001	-0.005 -0.008	-0.054 -0.04
	<i>T value</i>	0.59	0.55	0.34	-1.19
<i>Event 4</i>	<i>Mean</i>	0.003 0.002	-0.004 0.009	0.012 0.024	0.004 0.022
	<i>T value</i>	0.36	-2.24*	-1.45	-1.78
<i>Event 5</i>	<i>Mean</i>	-0.006 0.005	-0.005 0.006	-0.013 0.008	-0.037 -0.01
	<i>T value</i>	-2.58*	-1.33	-1.42	-1.47
<i>Event 6</i>	<i>Mean</i>	-0.018 -0.01	-0.012 -0.016	-0.028 0.001	-0.014 0.014
	<i>T value</i>	-1.02	0.27	-1.23	-1.74

^a*CARs* = cumulative abnormal returns around six Reg. FD events in four windows (-1, +1), (-2, +4), (-5, +10), and (-5, +15).

¹ CLC – closed-call firms; ² OPC – open-call firms.

* = Statistically significant at a probability of less than 0.05;

** = Statistically significant at a probability of less than 0.01;

*** = Statistically significant at a probability of less than 0.001.