

Strategic News Releases in Equity Vesting Months

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Idea

- This paper investigates the conjecture that:
CEOs have incentive to release good news about their company just prior to selling shares.
- Hypothesis: Sale **cause** news
- In data, good news and resulting high stock price could **cause** the CEO to sell shares

Identification

- The authors want to explain news releases using **equity sales**
- Need instrument for **equity sales**
 - ▶ Correlated with equity sales
 - ▶ Uncorrelated with news releases (other than through equity sales)
- Using **equity vesting month** as an instrument
 - ▶ Show that CEOs do sell shares in the same month they vest
 - ▶ Vesting month decided 3+ years prior to the vesting date, therefore, unlikely to be correlated with news around vesting date

Main results

	Dependent variable: News Events	
	Discretionary	Non-discretionary
Vesting Month	0.0355 (4.87)	0.01 (−0.70)
Month before	−0.0329 (−4.39)	−0.0906 (−4.97)
Month after	−0.0137 (−1.89)	−0.1153 (−6.31)
Controls	yes	yes

Comments

- Economic significance
- Alternative story
- Things I probably would have asked for—was I the referee

Economic significance

- Key finding, 5% more news in vesting months than in prior months (say, prior month on average has 1 discretionary news release)
 - ▶ Every 20th vesting month, there is one more discretionary news release (delayed or accelerated)
- Key finding, 2% more news in vesting months than non-vesting months (on average 1.48 discretionary news releases)
 - ▶ Every 35th vesting month, there is one more discretionary news release (delayed or accelerated)
- Not too concerned with news that are released early, so if half of these are delayed news
 - ▶ Every 70th vesting month, there is one more **delayed** discretionary news release

... Economic significance

- Tone of media coverage after discretionary news releases
 - ▶ More positive words, less neutral words, same number of negative words
 - ▶ Proportion of positive words 1.3 percentage points higher in event months than in non-vesting months
- Under the strategic news release story, I would have expected much larger differences in the tone of the news

Alternative story

- Not clear how the proposed behavior could be part of an equilibrium
 - ▶ Wouldn't investors expect CEOs to release good news in the month when their shares vest?
- Alternative story
 - (a) CEOs are uncertain about the price effect of news
 - (b) CEOs are concerned with insider trading allegations
 - => CEOs release all news early.

Todo

Things I probably would have asked for—was I the referee:

- Not concerned with news released early. Need more convincing evidence that good news are delayed.
- Under the strategic news release story, shouldn't bad news be released late? Or if concerned with insider trading allegations, released before vesting?
- IV regression Table 5: Month Before, Month After, firm fixed effects are dropped. Why?
- Why measure "News Tone" using media at large. Why not measure the tone of the news released by the CEOs?

Conclusion

- Fun paper to read
 - ▶ Interesting question
 - ▶ Clever instrument
 - ▶ Convincing key results
- ... the rest are just adjustments
 - ▶ Economically important?
 - ▶ What equilibrium supports strategic news releases?
 - ▶ Distinguishing between delayed and accelerated news.