

Strategic News Releases in Equity Vesting Months

Alex Edmans (LBS, Wharton, NBER, CEPR, ECGI)

Luis Goncalves-Pinto (NUS)

Yanbo Wang (INSEAD)

Moqi Xu (LSE)

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- How do CEO incentives affect news releases?
- Why is news important?
 - ▶ real decision makers base decisions on news (or stock prices affected by news): Bond, Edmans, and Goldstein (2012)
 - ▶ reduces information asymmetry among investors (cf. Regulation FD)
- News is not mechanically triggered by events, but a strategic decision by the CEO

- News disclosure leads to increases in the stock price and trading volume
 - ▶ CEO's benefit depends on \$ value of equity sales
- But actual equity sales are endogenous
- We study equity scheduled to vest in months of news releases
 - ▶ Relevance: highly correlated with actual sales
 - ▶ Exclusion: determined by equity grants made several years prior (3-7)
 - ▶ Predictable in advance by the CEO

Stock Vesting (SEC Form 4)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned										
1. Title of Security (Instr. 3)	2. Transaction Date (Month / Day / Year)	2A. Deemed Execution Date, if any (Month / Day / Year)	3. Transaction Code		4. Securities Acquired (A) or Disposed of (D)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			(Instr. 8)		Amount	(A) or (D)	Price			
			Code	V						
Common Stock	4/1/2004		A ⁽¹⁾		20,000	A	\$0	515,000	D	

Explanation of Responses:

1. Represents the award of Restricted Stock pursuant to the Toys "R" Us, Inc. 2001 Stock Option and Performance Incentive Plan. These shares vest 50% on the second anniversary of the award date and 100% on the third anniversary of the award date.

[John H. Eyler, Jr.](#)

[4/2/2004](#)

** Signature of Reporting Person

Date

Example:



- John H. Eyler Jr. filed on April 2, 2004
- Grant of 20,000 shares of common stock
- Footnote from the SEC Form 4: "These shares vest 50% on the second anniversary of the award date and 100% of the third anniversary of the award date."



- Louis Gerstner of IBM, 2001 proxy filing
- Footnote from proxy statement: “Mr. Gerstner’s grant becomes exercisable in two equal installments, on March 1, 2001 and March 1, 2002”
- Hand-collected for S&P 500 pre-2006
- From 2006 (post-FAS 123R), vesting schedules available in Equilar for Russell 3000

- **Capital IQ**: corporate news from 2002-11
- **Equilar**: vesting schedules from 2006-11 for Russell 3000 firms
- **Hand-collected data**: proxy statements and Form 4 from 1994-2005
- **Thomson Financial**: insider transactions
- **Thomson Reuters News Analytics**: media coverage
- **ExecuComp**: other components of CEO pay
- **Compustat**: firm characteristics
- **CRSP**: stock characteristics

■ **Corporate disclosure:**

Balakrishnan et al. (2013): exogenous broker closures

Ahern and Sosyura (2013): mergers

Penman (1982), Noe (1999), Nagar, Nanda, and Wysocki (2003) ... : correlated with CEO incentives

■ **Option grants:**

Aboody and Kasznik (2000), Daines, McQueen, and Schonlau (2014): V-shaped pattern around option grants

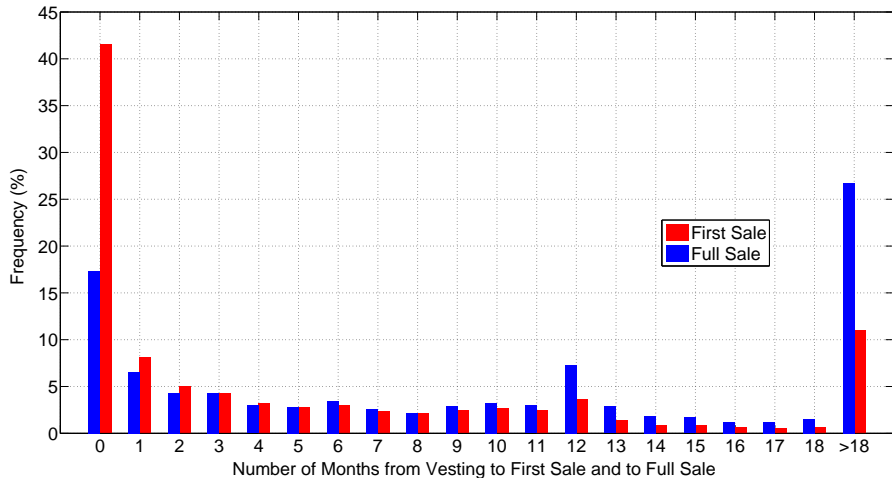
■ **Equity vesting:**

Edmans, Fang, and Lewellen (2013), Ladika and Sautner (2013): reduces investment

News is easier to influence by CEOs; natural place to look at for effects of incentives

■ **CEO horizons:**

Gopalan et al. (2013)



$$\begin{aligned} Sales_{s,t} &= \alpha + \beta * VestingMonth_{s,t} + \\ &+ \rho * MonthBefore_{s,t} + \nu * MonthAfter_{s,t} \\ &+ \gamma * Controls + \text{Fixed Effects} + \epsilon_{s,t} \end{aligned}$$

- $Sales_{s,t}$ is an indicator that equals one if the CEO sells any equity of firm s in month t , and zero otherwise
- $VestingMonth_{s,t}$ is an indicator for the vesting month, and $MonthBefore_{s,t}$ and $MonthAfter_{s,t}$, are indicators for the months before and after the vesting month, respectively
- $Controls$ are other variables that can affect CEO equity sales

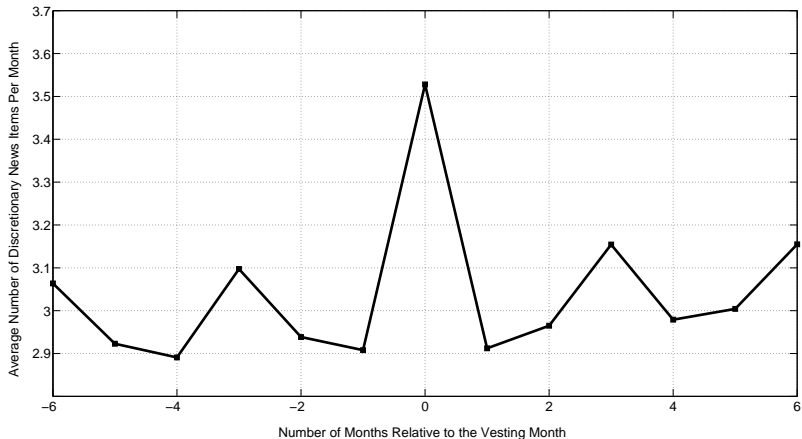
Dependent Variable:	<i>SalesMonth</i>		<i>SalesAll</i>	
	Stocks (1)	Options (2)	Stocks (3)	Options (4)
<i>MonthBefore</i>	0.0062 (1.14)	-0.0006 (-0.12)	-0.0092*** (-2.85)	-0.0071** (-2.50)
<i>VestingMonth</i>	0.2347*** (24.34)	0.1394*** (18.08)	0.1492*** (23.33)	0.0837*** (16.51)
<i>MonthAfter</i>	0.0086 (1.55)	-0.0022 (-0.47)	0.0177*** (4.70)	0.0044 (1.43)
Non-Compens. Controls	Yes	Yes	Yes	Yes
Compensation Controls	Yes	Yes	Yes	Yes
Fixed Effects	Yes	Yes	Yes	Yes
Observations	57,576	54,168	57,576	54,168

Non-Comp. Controls: *EAYearly*, *EAQuarterly*, *AGM*, *Board*, *EarningsSurprise*, *Analyst*

Compensation Controls: $\text{Log}(1 + \text{VestedSensitivity})$, $\text{Log}(1 + \text{UnvestedSensitivity})$

Fixed Effects: Firm, Year, and Month

Column 1: CEOs are 23% more likely to sell stock in months with stock vesting



Discretionary:

- Client Announcements
- Product-Related Announcements
- Corporate Guidance
- Company Conference Presentations
- Buyback Update
- Follow-On Equity Offerings
- Shareholder/Analyst Calls
- Others

Non-Discretionary:

- Announcements of Earnings
- Annual General Meeting
- Delistings
- Regulatory Agency Inquiries
- Board Meeting
- Auditor Changes
- Others

$$\begin{aligned} \text{NewsEvents}_{s,t} &= \alpha + \beta * \text{VestingMeasure}_{s,t} + \\ &+ \rho * \text{MonthBefore}_{s,t} + \rho * \text{MonthAfter}_{s,t} \\ &+ \gamma * \text{Controls} + \text{Fixed Effects} + \epsilon_{s,t} \end{aligned}$$

- $\text{NewsEvents}_{s,t}$ is the count of corporate news events for firm s and month t in Capital IQ
- $\text{VestingMonth}_{s,t}$, $\text{MonthBefore}_{s,t}$, and $\text{MonthAfter}_{s,t}$, are like in previous specifications
- Controls are other variables that can affect news releases

Dependent Variable: <i>NewsEvents</i>	Discret. (1)	Non-Discret. (2)	Discret. (3)	Non-Discret. (4)
<i>MonthBefore</i>	-0.033***	-0.091***	-0.033***	-0.090***
<i>VestingMonth</i>	0.036***	-0.010	0.035***	-0.010
<i>MonthAfter</i>	-0.014*	-0.115***	-0.014*	-0.116***
Non-Compens. Controls	Yes	Yes	Yes	Yes
Compensation Controls	No	No	Yes	Yes
Fixed Effects	Yes	Yes	Yes	Yes
Observations	57,576	54,168	57,576	54,168

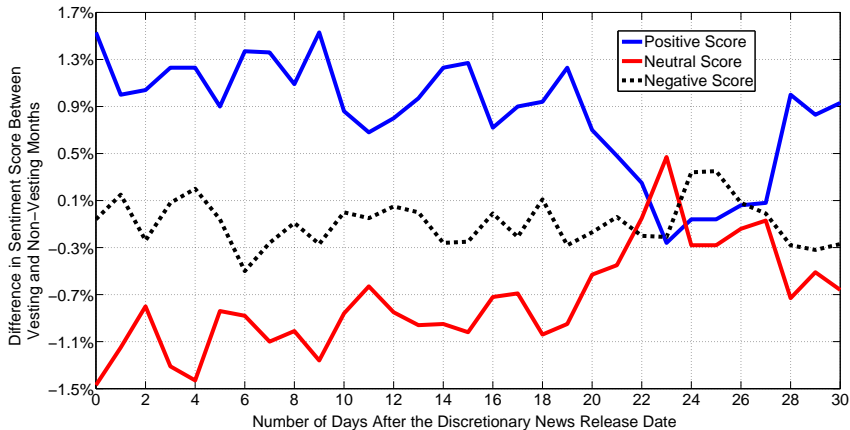
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Compensation Controls: $\text{Log}(1+\textit{VestedSensitivity})$, $\text{Log}(1+\textit{UnvestedSensitivity})$

Fixed Effects: Firm, Year, and Month

Column 3: firms release 5% more discret. news in vesting months

- Using *VestingSensitivity* instead of *VestingMonth*
- Controlling for *GrantMonth*
- Analyzing stocks only or options only
- Excluding grants with performance-based vesting (Bettis et al. (2010))
- IVPoisson on sales months (instrumented using vesting months)



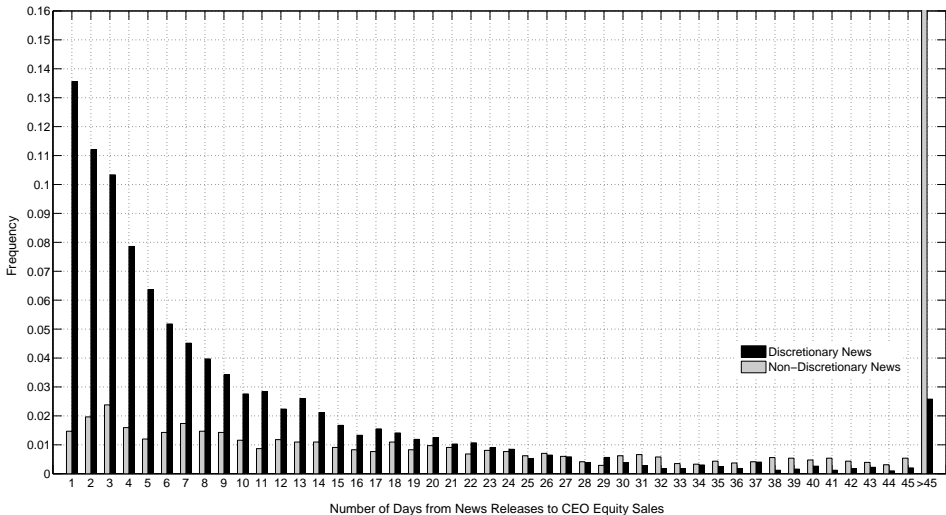
	[0,1]	[0,15]	[0,30]
<u>Vesting Months:</u>			
Discretionary	0.0096***	0.0131***	0.0034***
Non-Discretionary	-0.0131***	0.0003	0.0039**
<u>Non-Vesting Months:</u>			
Discretionary	-0.0026**	0.0015*	0.0002
Non-Discretionary	-0.0098***	0.0036**	0.0048***

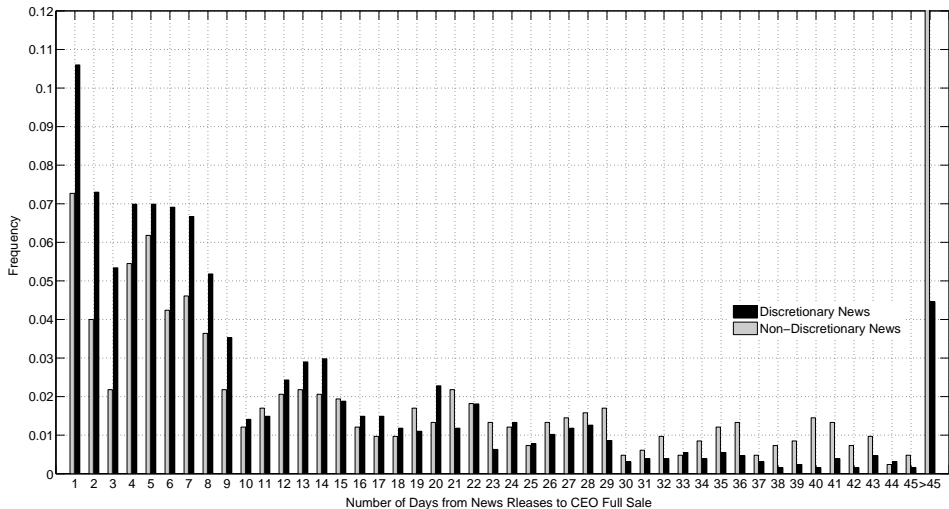
	[0,1]	[0,15]	[0,30]
<u>Vesting Months:</u>			
Discretionary	25.00***	27.78***	14.26*
Non-Discretionary	28.01***	32.91***	18.54
<u>Non-Vesting Months:</u>			
Discretionary	17.27***	30.62***	22.26***
Non-Discretionary	21.79***	54.26***	52.81***

- 16-day CAR of 28 bps to discretionary news in vesting months
\$14,504 applied to average CEO equity vesting of \$5.18m
- Meulbroek (1992): median gain to illegal insider trading of \$17,628 (\$33,968 in 2007 dollars)
- Martha Stewart avoided losses of \$45,673 when she sold ImClone shares in 2001

	[0,1]	[0,15]	[0,30]
<u>Vesting Months:</u>			
Discretionary	0.319***	0.034***	-0.002
Non-Discretionary	0.635***	0.098***	0.032***
<u>Non-Vesting Months:</u>			
Discretionary	0.273***	0.023***	-0.007***
Non-Discretionary	0.645***	0.104***	0.034***

- CEO's equity sale (on a sale day) is
 - 6.2% of the average daily volume
 - 0.165% of shares outstanding
- A discretionary news item generates abnormal trading volume of 0.32% of shares outstanding





- Median time to first equity sale is 5-6 trading days for discretionary news released in vesting months
- Median time to full sale is 7 trading days
- Consistent with short-lived return and volume increases

- CEOs strategically time news for personal gain
 - ▶ Bebchuck and Fried (2004): manipulation of compensation at grant dates
 - ▶ Scheduled grants aim to address backdating
- Affects stock prices and trading volume, with potential efficiency and redistributive consequences

- CEOs incentives affect firm behavior
 - ▶ Frydman and Jenter (2010): “providing convincing evidence on the effects of executive pay is extraordinarily difficult. The main problem with measuring the effects of compensation is one of identification. Compensation arrangements are the endogenous outcome of a complex process”
 - ▶ Affect information environment, not just corporate decisions