Internet Appendix A127: Accounting Disclosure
Illustrative Reverse Engineered Pitch Template Example

Pitcher's Name	Stacey Beaumont	FoR category	Accounting disclosure	**Date Completed**	11 August 2016
(A) Working Title	Hogan, B. and Jonas, G., (2016), "The Association between Executive Pay Structure and the Transparency of Restatement Disclosures", *Accounting Horizons* 30(3), 307-323. [reverse engineered]				
(B) Basic Research Question	To determine whether and to what extent executive pay structure (CEO/CFO) is associated with disclosure choice and therefore disclosure transparency.				
(C) Key paper(s)	Harris, J., and P. Bromiley. 2007. Incentives to cheat: The influence of executive compensation and firm performance on financial misrepresentation. Organization Science 18 (3): 350–367. Burns, N., and S. Kedia. 2006. The impact of performance-based compensation on misreporting. Journal of Financial Economics 79: 35–67. Plumlee, M., and T. L. Yohn. 2008. Restatements: Investor Response and Firm Reporting Choices. Working paper, The University of Utah and Indiana University.				
(D) Motivation/Puzzle	Companies disclose restatements in different ways, with various degrees of transparency. Negative reactions to a restatement vary depending on the disclosure method, thereby creating incentives to choose an alternate disclosure method. Since the requirement for disclosure is based on judgment regarding materiality, companies have the ability to manage the disclosure method choice. Driven by self-interest, management pay structure might be linked to this disclosure choice.				
THREE	**Three** core aspects of any empirical research project i.e. the "**ID**io**T**s" guide				
(E) Idea?	SEC requires disclosure restatements (8-K filing) if they identify material errors. This requires an assessment of the materiality of the error. Prior research finds evidence of some firms with severe restatements not filing an 8-K form, but using other forms of disclosure which are considered to be 'less serious' by the market. Given previous research finds that negative reactions to restatements are greater when disclosed by an 8-K filing as opposed to alternate filing options, there is an incentive for companies to choose a less transparent form of disclosure than 8-K filing. In particular, CEO/CFO's who stand to gain/lose compensation based on the value of the firm's equity have a personal incentive to disclose via a less transparent means. Therefore, **H1**: CEO equity pay proportion is negatively associated with the likelihood of a high-transparency disclosure (8-K). Prior research suggests that there is joint involvement between CEO's and CFO's in important financial reporting decisions. Deterrence theory suggests that CFO's incentives to avoid punishment are different to the CEO's. In spite of the risk of job loss and legal ramifications, this study posits that CFO's with high equity pay proportions will also act in their own self-interest and will be less likely to issue high transparency disclosures. This may create tension in the disclosure selection decision. Therefore, **H2**: examines the effect of the alignment between the CEO pay structure and the CFO pay structure on the type of disclosure chosen.				
(F) Data?	Sample: 1178 Form 8-K restatements resulting from accounting errors only from August 2004 - December 2013 (Form 8-K filing not required prior to August 2004) Database: Filings from Audit Analytics; control variable data from Compustat, CRSP, Execucomp. Original sample = 5804 Restatements. Eliminated observations included companies with market capitalization or revenue less than $1 million, restatements with no financial information, missing control variable data, restatements that spanned more than one financial year.				
(G) Tools?	H1 and H2 tested using logistic regressions. Dependant variable = Disclosure choice, measured by 8-K filings. Key independent (test) variable = Pay structure. Control variables = Restatement variables, firm characteristics, industry fixed effects and year fixed effects. Separate regressions are run for CEO pay and CFO pay to avoid potential multicollinearity complications.				

Template taken from Faff, Robert W., Pitching Research (January 11, 2015). Available at SSRN: http://ssrn.com/abstract=2462059 or http://dx.doi.org/10.2139/ssrn.2462059

TWO	**Two** key questions
(H) What's New?	Prior research has found evidence that the level and structure of executive compensation is linked to financial reporting issues, and that managers have been shown to disclose 'bad news' in a less timely/transparent manner. Research also suggests that the proportion of equity pay in executive compensation contracts is increasing. Other research has demonstrated that 8-K filings result in greater negative reactions from the market. Therefore there is an incentive for CEO/CFO's with higher equity compensation to minimise the impact on their personal compensation by choosing a less transparent disclosure method to avoid market ramifications. This study examines this potential link between equity pay and disclosure choice, thereby being novel in linking several areas of prior research.
(I) So What?	The findings from this research has implications for regulators and shareholders as it suggests the in the presence of high equity payments, the current penalties for not disclosing material misstatements are insufficient. The use of 'stealth' restatements may have financial repercussions for shareholders in particular.
ONE	**One** bottom line
(J) Contribution?	**At a general level:** contributes to a growing body of research suggesting potential unintended and undesirable consequences of executive pay structures that favor more equity. **More specifically:** extends prior literature that indicates that the level and structure of executive pay is linked to the release of good/bad news, restatements, and financial reporting issues. The manipulation of disclosure choice is an issue for regulators, as it suggests that current regulation may be an inadequate deterrent to less transparent financial reporting. The absence of timely, transparent disclosure of a pending restatement of past financial results can be problematic for investors to assimilate the impact of the underlying errors into the value of securities, therefore an understanding of these results may encourage shareholders not to rely solely on 8-K filings for disclosure of material financial errors.
(K) Key Findings	1. This research shows a negative association between the proportion of executive equity pay and a high transparency (8-K) restatement disclosure. 2. As the disparity between the equity based pay proportions between CEO and CFO increases, the likelihood of a high transparency disclosure of a restatement increases. Moreover, if the compensation contract of the CEO favours equity, but the CFO compensation contract does not, then financial errors are more likely to be disclosed via an 8-K filing.