

# Investor Reaction to the Stock Gifts of Controlling Shareholders

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## Abstract

The controlling shareholders of Korean firms usually attempt to pass on the firm to the next generation and stock gifts are the most evident form of the ownership transfer. I examine how equity market investors react to the announcement of stock gifts given by controlling shareholders. Prior literature documents evidence that controlling shareholders use their private information and discretionary power to time stock gifts at lower stock prices in order to reduce gift taxes. I observe significant positive excess returns when controlling shareholders transfer stocks to their related parties as gifts, suggesting that investors interpret stock gifts as a signal that stock prices are relatively low at the time of the transfer. The evidence implies that the disclosure of stock gifts reveals the private information of controlling shareholders. In addition, in order to explain the positive market reaction to the gift announcement, I show the economic significance of tax planning strategies conducted by controlling shareholders to reduce gift taxes.

**Keywords:** Stock gifts, gift taxes, market reaction, controlling shareholders

## 1. Introduction

For most Korean firms, controlling shareholders control the management decisions of the firm (Classens, Djankov, and Lang 2000). Considering the dictatorial status of controlling shareholders, the ownership change between controlling shareholders and related parties has received great attention from the media and investors. Among the various strategies implemented for successful ownership change, the gifts of stocks to related individuals, typically family members, are the most evident form of ownership transfers

Under the Korean tax law, the highest applicable inheritance and gift tax rate is 50 percent and the tax base is additionally increased by 20-30% if the party bestowing the gift is the largest shareholder.<sup>1</sup> Therefore, controlling shareholders have a strong incentive to engage in tax avoidance strategies for cross-generational wealth transfers. This paper explores whether equity investors understand this incentive to avoid tax by examining the stock market reaction to the stock gifts of controlling shareholders.

Announcing stock gifts reveals the private information of controlling shareholders that can affect stock prices. I expect investors to regard stock gifts as good news for two reasons. First, investors can infer that the firm's stock prices are relatively low at the time of the stock gifts of controlling shareholders. Why else would controlling shareholders choose to pay gift tax now rather than later? Controlling shareholders are likely to project the current stock price to be the lowest over the next few years. Tax planning recommends paying taxes later unless the tax payment is substantially larger in the future (Scholes et. al 2009). Second, controlling shareholders also have the discretionary power to influence stock prices towards being as low as possible (Jung and Park 2009, Lee et al. 2018). If investors can see that controlling shareholders have the incentive and means for reducing gift tax, investors will interpret the news of stock gifts as a signal to buy. These reasons collectively support the positive reaction of equity investors to the stock gifts of controlling shareholders.

I hand-collected 149 stock gifts from 17,921 'report on change in ownership of the largest shareholder' disclosures on Korea Investor's Network for Disclosure System<sup>2</sup> (KIND) for the recent period of 2009-2014. However, I use only 94 stock gifts to avoid the issue of confounding disclosure. Additionally, I use a hand-collected sample of 60 bequests as a control group because the same tax rule is applied to both bequests and stock gifts. However, they are different in that effective tax planning before ownership transfer is difficult for stock bequests. The 154 stock transfers in my sample are conducted by the controlling shareholders of 119

different firms.<sup>3</sup>

It is noteworthy that using the bequest sample as a control sample effectively addresses the effect of other confounding factors and isolates whether investors understand the tax implications of stock gifts. Pinpointing an optimal (ex-ante) transfer time for tax saving purpose is not plausible in the case of a bequest. If investors understand the difference in the tax planning capacity between stock gifts and stock bequests, they would respond positively to the announcement of stock gifts but not to bequests. I find a significant positive market reaction to stock gifts but an insignificant reaction to stock bequests. The results suggest that investors react to stock gifts because they understand the tax consideration of controlling shareholders.

In addition, I show the economic significance of the tax planning strategies to reduce gift tax conducted by controlling shareholders, in order to explain the positive market reaction to the gift announcement. It is difficult to estimate the tax benefits from the efforts of controlling shareholders to depress stock prices during the valuation period, because the stock price without the influence of such effort is counterfactual. Therefore, I estimate the tax benefits using the data of size and industry matched firms and the expected returns of gift firms estimated by FF3, the three-factor model of Fama and French (1993). The mean difference in the four-month average closing price between the gift firms and the matched firms is KRW 1,380. On average, the tax benefit per transaction amounts to KRW 435,976,500, assuming the gift rate to be at 50%. Using estimated prices from the FF3 model, the mean difference between actual and predicted prices is KRW 745 and tax benefits per transaction are KRW 235,364,125, on average.

The contribution of this paper is threefold. First, this paper contributes primarily to the empirical research on stock gifts. The stock gifts of controlling shareholders receive great attention from investors, regulators and the media, but there is a remarkable dearth of empirical studies on the topic. Second, this study examines not only whether investors respond to the stock gifts but also why they respond by showing the economic significance of the gift tax incentive of controlling shareholders. I document evidence that equity investors understand the tax saving incentives of controlling shareholders and use it for their investment decisions by comparing the difference between the responses to gifts and bequests. Finally, this paper contributes to the line of corporate governance research. Similar to the studies on U.S. data (Shleifer and Vishny 1997), studies on corporate governance with Korean data are mainly concentrated on the mechanisms for monitoring managers and not controlling shareholders. This is perplexing after one considers who ultimately controls the top managers of Korean firms.<sup>4</sup> This paper helps to place more attention on theories and empirical studies regarding the monitoring of controlling shareholders rather than managers.

The remainder of the paper is as follows. Section 2 delineates the institutional and legal background of stock gifts in Korea. In Section 3, I develop the hypotheses based on the review of the related literature on stock gifts and corporate governance. Section 4 outlines the sample and empirical research design, while Section 5 reports the main results. Finally, Section 6 concludes the paper.

## **II. Institutional Background of Stock Gifts Disclosure**

Currently, a disclosure form solely for the stock gifts of controlling shareholders is not available. Instead, Securities and Exchange Act 60 requires firms to disclose any change in the ownership of their controlling shareholders.<sup>5</sup> Companies submit a ‘report on change in ownership of the largest shareholder’ to the Financial Supervisory Service (FSS), reporting a reason for the change and the details of ownership status. In the event of a stock gift from the firm’s controlling shareholders, the firm submits the report, citing the reason of change as “Gifts”. This information is publicly available on DART (FSS website) and KIND (KRX) websites on the day of submission.

## **III. Related Research and Hypothesis Development**

The existence of any significant investor reaction to a certain piece of news implies that investors find the news useful in their investment decisions. In that case, what information can investors extract from the stock gift of the controlling shareholders? To answer this question, it is critical to understand the situation that controlling shareholders face when they transfer their ownership to related parties, usually their children. When a controlling shareholder provides stock gifts to his or her related parties, the donee of the gift is subject to heavy gift tax, often close to 50 percent of the value of gifted stocks. Therefore to reduce this tax burden, controlling shareholders have strong incentives to use their discretionary power to influence management decisions.

Controlling shareholders who plan to gift stocks tend to devise more aggressive tax-saving strategies beyond

timing strategies to mitigate the tax bites. Jung and Park (2009) and Lee et al. (2018) are studies that address the active strategy of controlling shareholders who plan for stock gifts: They examine whether controlling shareholders attempt to influence stock prices when they give stock gifts. Jung and Park (2009) shows that controlling shareholders tend to disclose more bad news on the firm and less good news during the valuation period.<sup>6</sup> Additionally, Lee et al. (2018) finds income-decreasing discretionary accruals during the valuation period to depress the stock prices on which gift tax is based.

The empirical results listed above suggest that controlling shareholders seem to use their informational advantage and discretionary power for the purpose of tax reduction. If investors understand the tax-motivated incentives related to stock gifts of controlling shareholders, investors would infer from the disclosure of the stock gifts that stock prices are relatively low at the moment, which is good news to investors. Put differently, the private information of controlling shareholders (e.g., undisclosed good news to increase the stock price) is revealed to the investors in the market by the announcement of stock gifts. In addition, investors may interpret the controlling shareholder's stock gifts to family members, opposed to selling to a third party, as a signal of a positive long term prospect of the firm. Therefore, I expect that investors will perceive the stock gift of controlling shareholder as good news. My first hypothesis, in its alternative form, is as follows.

***H1:*** *Investors react positively to the announcement of the stock gifts of controlling shareholders because they understand the tax incentive of controlling shareholders.*

#### **IV. SAMPLE AND RESEARCH DESIGN**

##### ***Sample selection***

The sample for this study consists of the KRX listed firms that disclose stock gifts and bequests of controlling shareholders given to their related parties in the period of 2009 to 2014. I collect stock bequests as well as stock gifts to compare the market response to stock gifts and stock bequests. I identify the firms for my sample by inspecting the original copies of all 'reports on change in ownership of the largest shareholder' disclosed in the KIND system (Korea Investor's Network for Disclosure System) for the sample period.<sup>7</sup> KIND provides more disclosures than DART because KIND includes the reports submitted by delisted firms as well. Most of the disclosures report the gift date and the number of shares given, but there is no information on the stock's market price at the time of gift announcements. Therefore, to obtain the value of gifts and stock returns, I obtain stock prices and financial data from the FnGuide database. To avoid the survivorship bias, I include the firms whose controlling shareholders gifted or bequeathed their stocks during the period but are currently delisted. To address confounding disclosure issue, I exclude stock gift disclosures with any confounding disclosures that can affect the stock price during the window of five trading days before and five trading days after the stock gift disclosure.<sup>8</sup> The final sample consists of 154 transactions (94 stock gifts, 60 stock bequests) that involve 119 different firms.

##### ***Market reaction to stock gift disclosure***

To conduct a more robust examination on the market reaction to stock gifts, I execute all tests with a stock bequest sample as a control sample. This method controls the possibility of compounding effects because the same tax law applies to stock gifts and stock bequests. The two types of transactions are only different in the level of discretion that controlling shareholders can exercise. Unlike stock gifts, stock bequests leave controlling shareholders little room for discretion to reduce gift tax because controlling shareholders cannot choose when to die.

I use the date on which the firm filed a 'report on change in ownership of the largest shareholder' to the FSS as the event date to examine whether there was a market response to the stock gift announcement. For univariate tests, I refer to Menon and Williams (2010). To test H1, I calculate daily market-adjusted excess returns for the event date and for the five days preceding and succeeding the event date ( $t=0$ ).<sup>9</sup> I also measure raw cumulative returns (*RAW*) and cumulative excess returns (*CAR*) as well.<sup>10</sup>

##### ***Multivariate Analyses***

To test H1, I estimate the ordinary least squares regressions of eq. (1) with the cumulative raw stock return and cumulative net-of-market stock return as dependent variables, both measured over the three days (one days

preceding and one day succeeding) around each stock gift announcement. The explanatory variable of interest is the coefficient of  $GIFT\_D$ . Consistent with the hypotheses, I expect a positive coefficient for  $GIFT\_D$ , which would indicate that the market reacts positively to the stock gifts (compared to stock bequests) of controlling shareholders even after controlling for other firm characteristics which may influence the level of market reaction (H1).

$$CAR = \alpha + \beta_1 GIFT\_D + \beta_2 LNTV + \beta_3 LNSIZE + \beta_4 LAG + \varepsilon \quad (1)$$

where,

#### **Dependent Variable**

$CAR$  = The cumulative market-adjusted excess returns in the event window (t-1, t+1) around the event date (t = 0), which is the date a stock gift or a stock bequest is announced.

#### **Test Variables**

$GIFT\_D$  = A dummy variable that equals 1 if the firm's controlling shareholder provided stock gifts, and 0 if stocks are bequeathed.

#### **Control Variables**

$LNTV$  = The natural log of the market value of gifted or bequeathed stocks.

$LNSIZE$  = The natural log of the market value of equity.

$LAG$  = The number of calendar days between the reported gift (or bequest) date and the FSS filing date.

The control variables included in Eq. (1) may affect the level of market reaction to stock gifts or bequests.  $LNTV$  is the natural log of the market value of each stock transfer (gift or bequest). Larger values for the stock gifts (bequests) of controlling shareholders imply larger incentives to use their discretion for tax-saving. If investors perceive that controlling shareholders would execute larger stock gifts (bequests) with more precaution, the investor reaction is expected to be more significant.  $LNSIZE$ , the natural log of the market value of equity, is a proxy for firm size, included to control for size effects. For example, larger firms tend to have richer information environments, resulting in a smaller market response on the event date.  $LAG$ , the difference between the reported gift date and the FSS filing date, is included because a reporting delay may influence the magnitude of market reaction. The direction of the coefficient of  $LAG$  is not clear. A longer delay may imply a more opportunistic tax-saving strategy of controlling shareholders, resulting in a bigger reaction. On the other hand, a longer reporting delay may imply a higher likelihood of information leakage, reducing the reaction to the official disclosure.

## **V. Results**

### **Descriptive Statistics**

I examine the market reaction to stock gifts by comparing the reaction to stock bequests. If stock gifts and stock bequests have drastically different values in terms of control variables, it would be more challenging to analyze the two types of samples in one regression. Therefore, I present the descriptive statistics of stock gifts in comparison with stock bequests. Panel A and Panel B in Table 1 show the descriptive statistics for the variables in Eq. (1) for the stock gift sample and stock bequest sample, respectively.

The mean  $CAR$  (-1,1) is 0.78 for the gift sample and -0.76 for the bequest sample.  $RAW$  (-1,1) also shows a similar pattern. The investor's reaction to gifts is clearly more positive than the reaction to bequests, although the same tax rule applies to both gifts and bequests. This is consistent with our prediction that investors perceive the stock gifts of controlling shareholders as good news. The median gift size is KRW 1.67 billion, with a mean of KRW 6.8 billion. Compared to gifts, the size of bequests are larger with a median (mean) of KRW 1.77 (8.89) billion, indicating the inability to adjust the size of ownership transfer at each transaction. On average, firms report the gift two to three days after the stock gifts are actually given, but the delay is not material considering the distribution of  $LAG$  (median is one day).

It is also noted in Table 1 that the stock gift and stock bequest samples are similar in terms of the firm's market value ( $LNSIZE$ ), supporting the use of bequests as a control sample.

## Empirical Results

### *Market reaction to stock gifts*

In Panel A of Table 2, I compare the stock gift sample and the stock bequest sample by examining the daily market-adjusted excess returns for the event date and the five days that precede and follow the event. I find that for the gift sample, the mean excess returns for Day +1 is significantly positive (p-value is 0.002). The positive return of Day +1 (0.87 percent) is well explained by the observation that gift disclosures usually occur after the market closes. In contrast to the strong reaction to stock gift sample, investors do not seem to show any strong response to the news of the stock bequest of controlling shareholders.

This observation confirms that investors find the news of stock gifts to be more useful in trading than that of stock bequests, although the two types of transactions are both ownership transfers that are subject to the same tax rule. The cumulative three-day excess return (-1, 1) for stock gifts in Panel B is approximately 0.78 percent and statistically significant (p-value is 0.024). The results shown in Table 2 suggest a positive investor reaction to the stock gift announcement, consistent with H1.

Table 3 presents regressions on the market reaction to the report dates of stock gifts and bequests. I regress  $RAW(-1,1)$  and  $CAR(-1,1)$  on  $GIFT\_D$  and other control variables. Column (1) uses the raw stock return and column (2) uses the market-adjusted return as the dependent variable. The market-adjusted return is defined as the difference between the raw stock return and the KOSPI index. As in Table 3, the positive coefficient of  $GIFT\_D$  is significant after controlling the value of transfer ( $LNTV$ ), size of firms ( $LNSIZE$ ), and the reporting lag ( $LAG$ ), supporting the univariate results in Table 2. I find that other independent variables ( $LNSIZE$ ,  $LNTV$ ,  $LAG$ ) are not statistically important in explaining the market reaction to stock transfers.

In Table 4, I run the same regression in Table 3, but only for the sample of gift firms. The positive coefficient (p-value is 0.066) of  $LNTV$  implies that larger amounts of stock gifts by controlling shareholders lead to greater market reaction, suggesting that investors infer the tax incentive of controlling shareholders to be greater when the amount of gifted stock is larger.

## Robustness Tests

### *The effect of earnings announcements*

The observed positive reaction to stock gifts may be due to the compounding effects by other disclosures or news announced concurrently with stock gifts. Figure 1, Panel A and Panel B show the seasonal pattern of controlling shareholders' gift or bequest announcements, displayed by month and year respectively. I show the pattern, especially in Panel B to address the concern on whether the reaction to announcement is likely to be compounded by earnings announcements. The disclosures occur regularly, not concentrated in a specific year or month, except the peak in December. The large concentration of December gifts or bequests does not imply a possibility of compounding effects because earnings for the third quarter and the fourth quarter tend to be announced in October and January respectively. To my knowledge, no major periodic event of a firm is disclosed in December.

### *Timing of Gifts by controlling shareholders*

Although Kim and Lee (2003) find evidence of timing stock gifts, the evidence may not hold for my sample period because their sample period (1993-2002) is different from mine. Therefore, I examine whether controlling shareholders use timing strategies for my sample period (2009-2014) to reduce their gift taxes. Figure 2 illustrates the movement of company stock prices during the one year period ((-120, 120) in trading days) around the dates their controlling shareholders transferred stocks to their related parties. Cumulative returns are presented on a net-of-market basis with the KOSPI market index return subtracted from the raw stock return.

The figure presents two lines: a solid series for the firms whose controlling shareholders make gifts of stocks, and a dashed series for the firms whose controlling shareholders make bequests of stocks. A comparison of the two series in Figure 2 supports my argument that controlling shareholders use timing strategies to minimize taxes levied on their family members. The dashed series (bequests) do not seem to show a clear pattern. In contrast, the solid series show that stock gifts occur when stock price tends to recover after a continuation of decline. After the stock gifts at  $t = 0$ , stock prices tend to increase and the slope becomes far steeper at the moment the valuation period ends at  $t = 40$ . On average, it seems that controlling shareholders avoid the run-ups of close to 8% over the three month after the valuation period. The clear evidence of timing shown in Figure 2 supports my argument that investors react positively to the news of stock gifts of controlling shareholders

expecting a sharp increase of stock prices after the stock gifts.

### ***Economic significance of the tax incentive of controlling shareholders***

To explain the positive market reaction shown in Table 2, I examine the economic significance of the tax incentives of the controlling shareholders during the valuation period. Panels A, B, and C of Figure 3 show the price movement around the date of stock gift compared to the market, size and industry matched firms, and the predicted prices of gift firms estimated using the three-factor model described in Fama and French (1993), respectively. For each comparison, I use the standardized price of each firm. The standardized price is set 100 at the trading day  $t-120$ . The standardized price after  $t-119$  and before  $t+120$  is obtained by multiplying daily return to the price of the previous day. Panel A illustrates the behavior of company stock prices around the dates of gifts against the market. On average, gift transactions occur ( $t=0$ ) when gift returns surpass market returns. During the two-month valuation period after the stock gift, the increasing pattern of the stock price seems to be attenuated by the opportunistic tax-avoiding behavior of controlling shareholders (Jung and Park 2009, Lee et al. 2018). After the end of valuation period, the price of the gift firm soars, deviating from the market return, consistent with the suspicion that the stock price following the gift had been suppressed by the opportunistic behavior of controlling shareholders.

How much tax benefit would those controlling shareholders get from their efforts to depress the price of the gifted stock? It is difficult to estimate the tax benefit from the efforts of controlling shareholders to depress stock prices during the valuation period because the stock price without the influence of such efforts is counterfactual. Therefore, I use the prices of size industry matched firms and model predicted prices of gift firms to approximate the tax benefits. Panel B presents the price pattern of gift stocks in comparison to that of the firms matched by size and industry. The comparison of the two series clearly shows that prices of gift firms are lower than those of the size industry matched firms during the valuation period. However, outside of the valuation period, the price level and pattern are similar. I estimate the tax benefit using the price difference during the valuation period. The mean difference in the four-month average closing prices between the gift firms and the matched firms is KRW 1,380. On average, the tax benefit by transaction amounts to KRW 435,976,500, assuming a gift tax rate of 50%.

Panel C compares the movement of the actual prices of the gift firms to that of the model predicted prices. The model predicted prices are obtained using the estimation of the three-factor model described in Fama and French (1993). Following Heron and Lie (2007), my estimation period is the one-year period ending 50 days before the first day of the valuation period. The trading day relative to the gift date ends in  $t+40$  due to the data availability of the portfolio returns used for the calculation of the three risk factors. In Panel C, on average, the actual price is lower than the predicted price during the valuation period. Based on the price difference, the approximation of tax benefit is KRW 745 (KRW 235,364,125) per share (transaction), assuming the 50% gift tax rate. Overall, the size of tax benefits estimated using the prices in Panel B and Panel C supports the economic significance of the controlling shareholders' incentive to reduce gift tax.

## **VI. Conclusion**

In this paper, I examine how equity investors respond to the disclosure of the stock gifts of controlling shareholders and why they find the disclosure useful. Using hand-collected data for the recent period of 2009 to 2014, I find that investors react positively to the announcement of the stock gifts. These results suggest that investors understand the tax incentives of controlling shareholders and infer the private information on the stock price movements revealed by the announcement of stock gifts.

I admit that the early disclosures of stock gifts through press releases are probable but not considered in this study. However, my results remain significant despite the possibility of early disclosure, providing more conservative and robust results. The positive market reaction indicates that investors understand the prevalent features of the corporate governance of Korean firms: the informational advantage and discretionary power of controlling shareholders. The reaction to stock gifts manifests that the attempts by controlling shareholders to reduce stock gift taxes have been successful. Thus, my findings should be of interest to tax policy makers in Korea. The study provides empirical evidence that the most recent change in the tax law enacted to discourage controlling shareholders from avoiding gift taxes have not curtailed the practice.

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#### **Notes**

Note 1. The premium is 30% if the majority shareholder has more than 50% of issued stock. For example, if the value of gifted stocks from a shareholder with over 50% is KRW 50 billion, the gift tax amounts to approximately KRW 24.1 billion.

Note 2. <http://kind.krx.co.kr>, website operated by the Korea Exchange (KRX)

Note 3. 154 stock transfers include 94 stock gifts and 60 bequests.

Note 4. Ownership tends to be concentrated in code law countries, such as Korea (La Porta et al. 1998; La Porta et al. 1999; Denis and McConnell 2003; Gillan and Starks 2003). The concentration of ownership allows controlling shareholders to have significant influence on management’s decisions.

Note 5. The scope of related parties, Enforcement Decree for Inheritance and Gift Tax 12(2)

Note 6. Valuation period is defined as the four-month (two month before and two month after) period around the gift date.

Note 7. There are 17,921 reports in total. The most common reason for ownership change is the change by trading (purchase and sales).

Note 8. Example of confounding disclosure includes audit reports, quarterly reports and dividend announcement, etc.

Note 9. Daily excess return = raw return – market (KOSPI composite index) return

Note 10. The cumulative excess returns for the announcement period is computed by adding the daily excess returns.

**Table 1. Descriptive Statistics for Variables**

Variable	Mean	Std. Dev.	Q1	Median	Q3
Panel A : Stock Gifts (N=94)					
<i>CAR</i>	0.7781	3.2886	-1.3400	0.4650	2.4900
<i>RAW</i>	0.7109	3.3581	-1.8400	0.0150	2.6800
<i>TV(100 mil won)</i>	68.7286	170.8453	4.9760	16.7441	47.2500
<i>LNTV</i>	21.0775	1.8069	20.0253	21.2385	22.2761
<i>GIFTSHS</i>	631,850	1,313,617	47,285	196,126	600,000
<i>SIZE(100 mil won)</i>	4,558.5654	13071.8540	629.5860	1219.2400	2,711.3865
<i>LNSIZE</i>	25.4770	1.0705	24.7059	25.3434	26.0918
<i>LAG</i>	2.5638	4.0813	0.0000	1.0000	3.0000
Panel B : Stock Bequests (N=60)					
<i>CAR</i>	-0.7603	4.2914	-3.0250	-0.7500	0.9900
<i>RAW</i>	-0.2135	4.7127	-2.4100	-0.3750	1.9600
<i>TV(100 mil won)</i>	88.9014	170.1632	4.5551	17.7259	68.9166
<i>LNTV</i>	21.1712	2.2258	19.9345	21.2957	22.6444
<i>GIFTSHS</i>	681,755	1,213,477	27,073	162,249	626,213
<i>SIZE(100 mil won)</i>	5,440.0405	16,808.0200	442.3158	1,151.1383	3,078.1014
<i>LNSIZE</i>	25.6744	1.4108	24.5126	25.4682	26.4522
<i>LAG</i>	5.6333	12.2516	1.0000	3.0000	6.0000

Panel A and Panel B of this table report the descriptive statistics for the stock gift sample and stock bequest sample, respectively.



**TABLE 2. Daily Excess Returns of the Report Dates of Stock Gifts and Bequests**

Panel A: Daily Excess Returns (Market-Adjusted)

Day	Gifts				Bequests			
	Mean	Std.Dev	Median	Pr >  t	Mean	Std.Dev	Median	Pr >  t
-5	0.0092	2.0615	0.1600	0.644	-0.1089	2.1711	-0.3800	0.694
-4	-0.0683	2.4562	-0.0950	0.788	-0.4384	2.1295	-0.0650	0.110
-3	0.4077	2.3828	0.1550	0.101	-0.4028 *	1.7898	0.0200	0.084
-2	-0.1563	1.7148	-0.1700	0.379	0.0179	2.0511	-0.3250	0.945
-1	0.0201	2.3128	-0.2950	0.933	-0.4067	2.3588	-0.2700	0.183
0	-0.1059	2.2306	-0.0250	0.647	-0.4198	2.0404	-0.3150	0.116
1	0.8664 ***	2.6265	0.4100	0.002	0.6131	3.1884	0.1300	0.135
2	-0.0866	1.9100	0.1550	0.661	-0.1482	2.4947	-0.2500	0.644
3	0.0104	2.1440	-0.2200	0.963	0.1895	2.0422	0.2000	0.471
4	-0.0546	2.3121	-0.2700	0.820	-0.1255	2.2541	0.0950	0.663
5	-0.0923	2.3714	-0.0200	0.707	-0.0995	1.8577	0.2700	0.677

Panel B: Cumulative Returns (-1, 1)

	RAW			CAR		
	Mean	Std. Dev.	Pr >  t	Mean	Std. Dev.	Pr >  t
Gifts	0.7109 **	3.3713	0.044	0.7781 **	3.2812	0.024
Bequests	0.3113	5.5106	0.658	-0.2797	5.0073	0.662

Panel A and Panel B of this table present statistics for daily excess returns and cumulative returns around the report dates of stock gifts and bequests, respectively. The event date ( $t=0$ ) is the date when a stock gift or a stock bequest is announced. Significance levels are for t-tests for the mean daily and cumulative excess returns. \*, \*\*, and \*\*\* indicate statistical significance at the 10 percent, 5 percent, and 1 percent level, respectively.

**TABLE 3. Regressions on the Market Reaction to the Report Dates of Stock Gifts and Bequests**

Y: Cumulative returns (-1,1)	(1) RAW	(2) CAR (raw-market)
<i>GIFT_D</i>	0.9713*	1.3227**
	(0.080)	(0.016)
<i>LNTV</i>	0.0580	0.1588
	(0.707)	(0.298)
<i>LNSIZE</i>	0.2222	0.1037
	(0.352)	(0.660)
<i>LAG</i>	0.0928	0.0962
	(0.170)	(0.150)
<i>Intercept</i>	-7.4286	-6.8337
	(0.225)	(0.259)
Adjusted R2	0.0092	0.0231

This table presents the results of the regression where the dependent variable is the cumulative returns of market reaction around the report dates of stock gifts and bequests. I regress RAW (-1,1) and CAR(-1,1) on *GIFT\_D* and other control variables. Column (1) uses the raw stock return as a dependent variable. Column (2) uses the market-adjusted return as a dependent variable. The market-adjusted return is defined as the difference between the raw stock return and the KOSPI index. P-values are in the parentheses. \*, \*\*, and \*\*\* indicate statistical significance at the 10 percent, 5 percent, and 1 percent level, respectively.

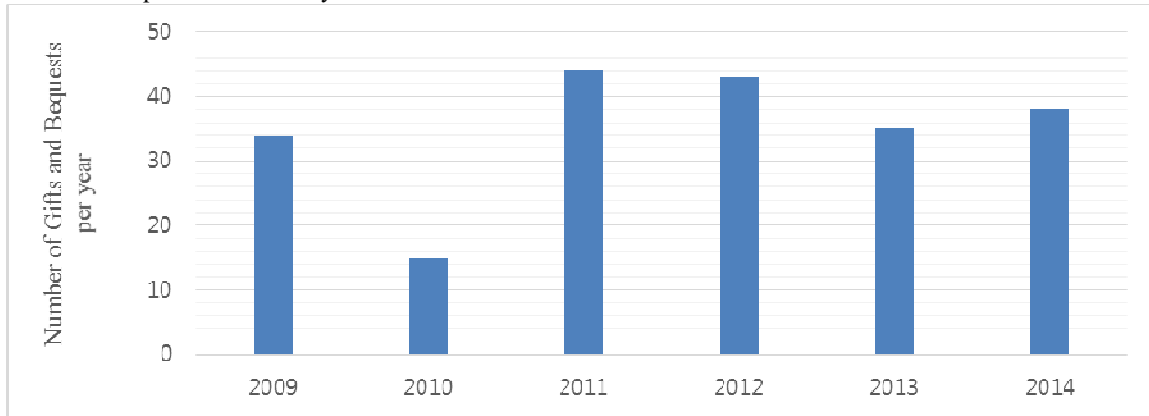
**TABLE 4. Excess Returns of the Report Dates of Stock Gifts (Gift Firms Only)**

	(1)	(2)
Y: Cumulative returns (-1,1)	Raw	CAR (raw-market)
<i>LNTV</i>	0.3867*	0.3955*
	(0.080)	(0.066)
<i>LNSIZE</i>	-0.3902	-0.2687
	(0.260)	(0.424)
<i>LAG</i>	0.1342	0.1492*
	(0.146)	(0.097)
<i>Intercept</i>	2.15754	-1.0957
	(0.800)	(0.894)
Adjusted R2	0.0134	0.0176

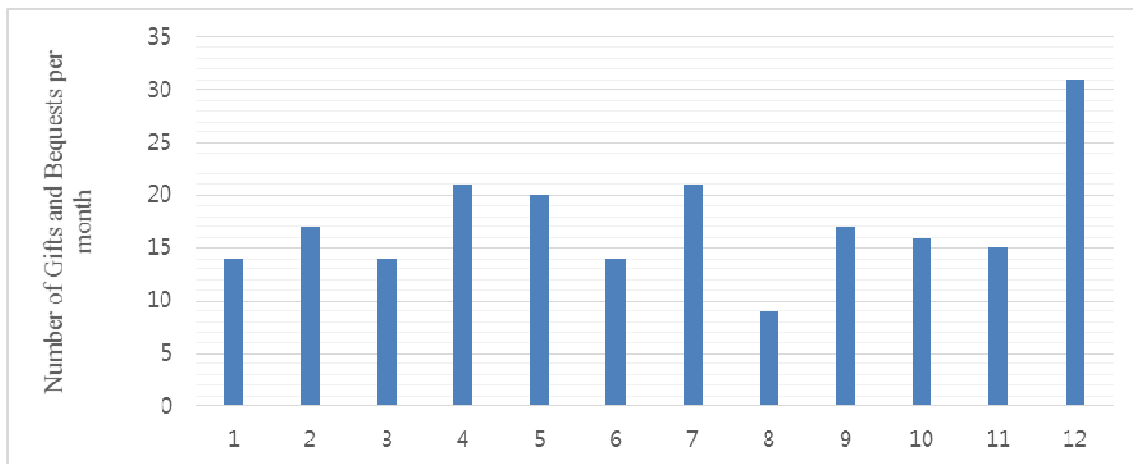
This table presents regressions on the market reaction to the report dates of stock gifts only. I regress RAW (-1,1) and CAR(-1,1) on *GIFT\_D* and other control variables. Column (1) uses the raw stock return as a dependent variable. Column (2) uses the market-adjusted return as a dependent variable. The market-adjusted returns are defined as the difference between the raw stock returns and returns on the KOSPI index. P-values are in the parentheses. \*, \*\*, \*\*\* indicate statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

**FIGURE 1: Distribution of Disclosure on Controlling Shareholders' Gift or Bequest Announcements by Year and Month**

Panel A: Sample Distribution by Disclosure Year

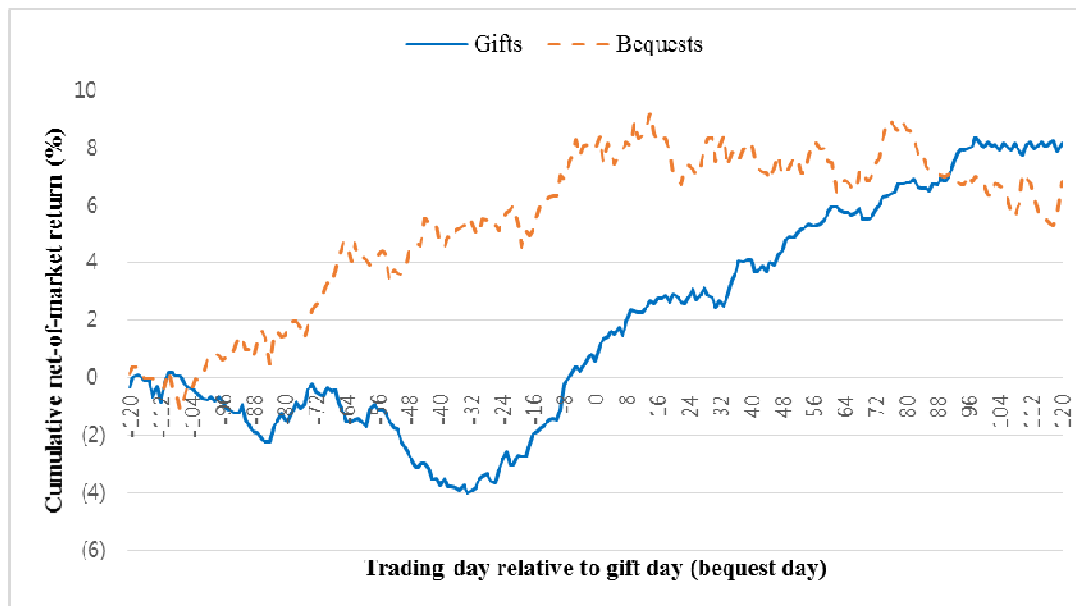


Panel B: Sample Distribution by Disclosure Month



Panel A and Panel B of this figure illustrate distribution of disclosure on controlling shareholders' gift or bequest announcements by year and month, respectively

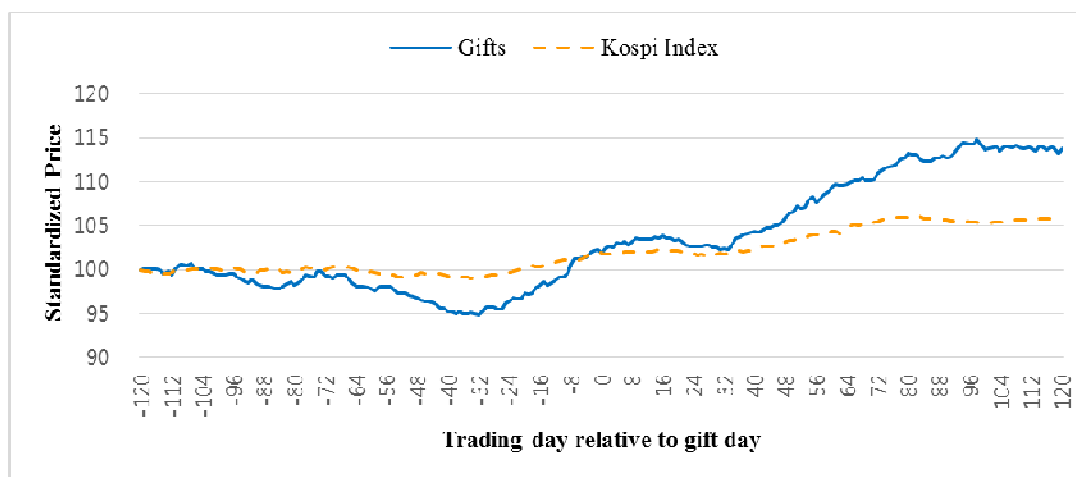
**FIGURE 2. Cumulative Abnormal Stock Returns during the One-year Period around Gift (Bequest) Date**



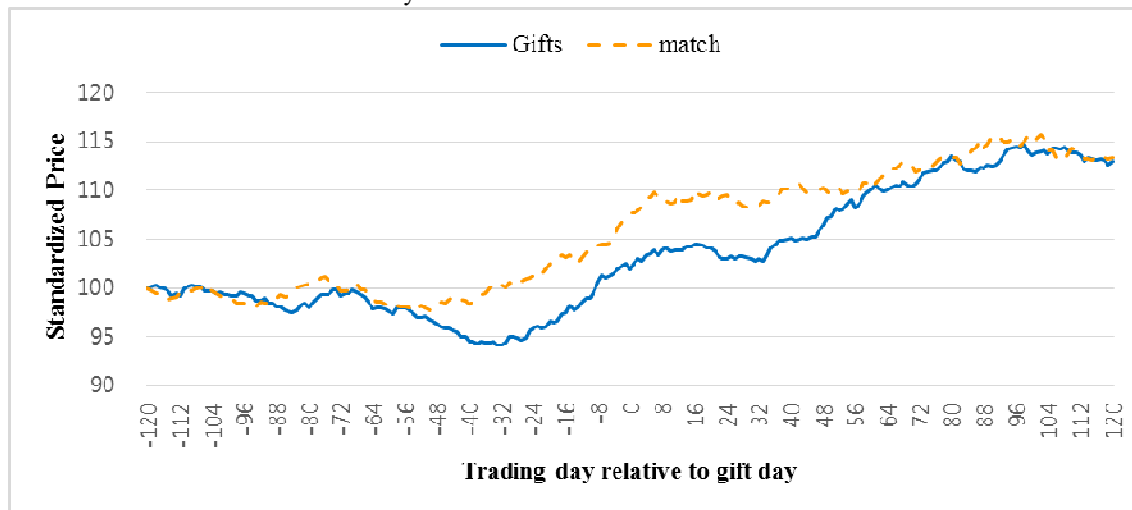
This figure shows cumulative net-of-market stock returns during the one year period (-120, 120) in trading days) for two samples of companies whose controlling shareholders transfer stocks to their related parties. The solid (dashed) line shows mean returns for the firms whose controlling shareholders make gifts (bequests) of stocks. Abnormal returns are defined as the difference between each stock’s raw return and the market (KOSPI) index. Event date t indicates a gift date or a bequest date.

**FIGURE 3 Price Movement around Gift Date**

Panel A: Gift firms vs. Market



Panel B: Gift firms vs. Size and Industry matched firms



Panel C: Gift firms (Actual price vs. FF3 predicted price)

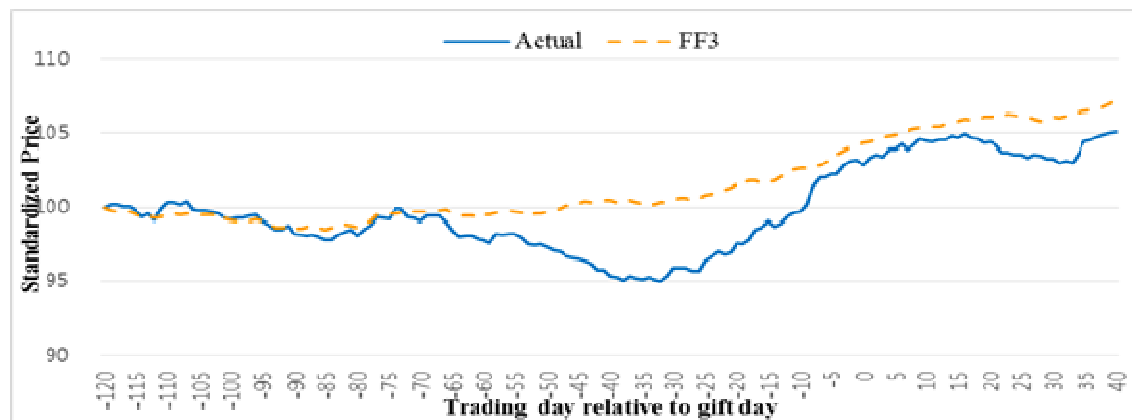


Figure 3 shows the price movement around the date of stock gift. Panel A compares the price of gift firms with market index (KOSPI index). Panel B compares the price of gift firms with price of size and industry matched firms. Panel C compares actual price of gift firms with the predicted price of gift firms estimated from the Fama French three factor model.