"À la Carte" versus "Prix Fixe" Regulation: Evidence from Investors' and Managers' Reactions to Post-IPO Provisions in the JOBS Act

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Abstract

Employing a unique retroactive application in regulation, we examine investors' and managers' reactions to a shock that introduces "à la carte" elements to the post-IPO mandatory framework. Relative to "prix fixe" mandates, à la carte elements shift the tradeoff between compliance costs and investor protection from regulators to the regulated firm, which enables local optimization. Upon the enactment of the JOBS Act, retro-activated emerging growth companies (EGCs) report higher short-window returns than the control group. Retro-activated EGCs' return is lower when sales and sales growth rate are higher, both of which indicate a shorter expected duration of EGC status. Furthermore, managers act in investors' interests and for their own benefit while using the à la carte elements in post-IPO years. The evidence suggests that investors perceive the benefits from local optimization associated with à la carte elements exceed potential costs from managerial opportunism and the loss of information and commitment.

I. Introduction

This study examines the cross-sectional variation in both investors' and managers' responses to a structural change in regulation that provides voluntary choices within the mandatory framework for the secondary market. Answers to the research question shed light on the long-standing debate between voluntary disclosure and the need for mandatory disclosure (e.g., Jensen and Meckling [1976], Ross [1977], Coffee [1984], Easterbrook and Fischel [1984]). We choose to analyze regulation pertaining to the *secondary* market because Coffee [1984] suggests that the theory of voluntary disclosure (which renders mandatory disclosure superfluous) seems to have some validity as applied to initial public offerings (IPOs), but has far less persuasive force when applied to secondary market.

The Jumpstart Our Business Startups (JOBS) Act (the Act) exhibits a *structural* departure from the existing securities regulatory framework by providing nearly 90% of IPOs with the status of emerging growth companies (EGCs) and an "à la carte" menu in various aspects of filings and disclosure. In theory, the structural change from a regime with "prix fixe" mandates to a regime with some à la carte elements shifts the tradeoff between regulatory burdens and investor protection from the regulator to the regulated firm, which allows for *local* optimization on a firm-by-firm basis rather than *global* optimization at the market level. In the absence of managerial opportunism, compared with the global optimization associated with prix fixe mandates, local optimization allowed by à la carte elements in the regulation is value enhancing or at least not value decreasing. However, one major uncertainty for the shift to a regime with some à la carte elements is whether managers respond opportunistically to promote the private benefits of control rather than act in the best interests of investors.

Because the à la carte elements of the Act are applicable to both the pre-IPO phase and the post-IPO phase, one important objective of the study is to isolate investors' perception of the benefits and costs of the *post-IPO* provisions stipulated in the Act and the corresponding managerial responses. Prior studies find that the Act has changed the IPO landscape, including the volume and type of IPOs (e.g., Dambra et al. [2015]), the information environment for IPO firms (e.g., Barth et al. [2017]), and the cost of *going* public (e.g., Chaplinsky et al. [2017]). Therefore, in order to isolate the economic effects of post-IPO provisions, it is necessary to hold constant the IPO process and the information environment surrounding IPOs.

The basic identification strategy is to utilize the uncommon practice of retroactive application of the Act. The Act was primarily applicable to firms conducting IPOs after the enactment date of April 5, 2012. However, the Act's definition of an EGC retroactively applies to the IPOs priced between December 8, 2011, and April 5, 2012 (retro-activated EGCs). Conditional on a firm conducting an IPO prior to the enactment of the Act, whether it did so before or after December 8, 2011, is largely random with respect to the factors that generate cross-sectional variation in market responses to the enactment of the Act. This assumption appears reasonable given the significant lead-time involved in preparing and implementing an IPO.[1] We choose firms that completed IPOs after January 1, 2011, but before December 8, 2011, that would have qualified as EGCs had the retroactive application been extended further back as the control group. Relative to the control group, the Act provides retro-activated EGCs with the à la carte menu in accounting, auditing, and executive compensation disclosure and voting in the post-IPO phase. A comparison between retro-activated EGCs' and control firms' market

[1] According to Dambra et al. [2015], the average time between the filing date of a registration statement and the actual issue date for all IPOs is 7 months. Prior to the filing of the registration statement, financial audits typically take about 2 to 3 months and drafting the registration statement typically takes about 1 to 2 months. Accordingly, we use a window that spans about 11 months prior to December 8, 2011, to construct control firms.

responses to the enactment of the Act captures investors' perception of the structural shift in post-IPO regulation while holding constant the IPO process and the information environment surrounding IPOs.

In addition to managerial opportunism, other potential costs of the shift from the prix fixe regime to the regime with à la carte elements include the loss of information available to investors and the loss of commitment to more stringent standards. The lack of commitment to more stringent standards could lead to increased market illiquidity (e.g., Baiman and Verrecchia [1996], Verrecchia [1999], Cheng et al. [2013]). Accordingly, investors' perception of the à la carte elements in the Act is positive if expected benefits from local optimization exceed the potential costs from managerial opportunism and the loss of information and commitment, and vice versa.

Empirically, we find that the average size and book-to-market adjusted stock return during the three-day enactment window of the Act for all retro-activated EGCs is 3.0% higher than that for control firms.[2] Given that the average market capitalization of the retro-activated EGCs at the enactment of the Act is $852 million, the 3.0% difference in returns translates to a value premium of approximately $26 million for an average retro-activated EGC firm relative to an average control firm. The value premium greatly exceeds the estimated five-year savings in auditing fees of $1.14 million for an average retro-activated EGC firm. The economic magnitude suggests that investors attribute a large proportion of the net benefits of local optimization granted by the post-IPO provisions of the Act to aspects other than direct savings in compliance

[2] The overall effect is consistent with the average positive stock market response to a key legislative event on March 15, 2012, that substantially increased the likelihood of the Senate's passage of the bill documented in Dharmapala and Khanna [2016]. In robustness tests, we use March 15, 2012, as the event day and find consistent results. In addition, as Dharmapala and Khanna [2016] point out, the December 8th cutoff was first revealed to the public as a part of the draft legislation produced by the House Committee on Financial Services on March 1, 2012. We also compare market reaction around March 1, 2012, between retro-activated EGCs and control firms and find that the return difference between the two groups is statistically insignificant. The evidence suggests that investors started to assess the benefits provided to retro-activated EGCs under the Act when the passage of the bill became possible.

costs. Furthermore, following Cheng et al. [2013], we examine the change in illiquidity measures at the expiration of EGC status and when retro-activated EGCs opt out of the exemptions provided by the Act. We find no consistent evidence for a significant increase of information or an enhancement in commitment to more stringent standards as retro-activated EGCs return to the prix fixe mandates.[3]

Among all retro-activated EGCs, smaller reporting companies (SRCs) have been eligible for the à la carte elements in disclosure of nonfinancial items in post-IPO periods since February 2008. Under the Act, non-SRCs (firms with a public float greater than $75 million) are *newly* eligible for the à la carte elements in accounting, auditing, and executive compensation disclosure and voting in the post-IPO phase. Empirically, we find that the average size and book-to-market adjusted stock return during the three-day enactment window of the Act for non-SRCs is 4.7% higher than that for SRCs, suggesting that investors' perception of the net benefits of the post-IPO provisions is greater for non-SRCs.

Rather than the *average* market response, this study's primary interest is in the cross-sectional variation in market responses to the change in the post-IPO regulatory framework. If investors attribute the net benefits of the à la carte elements largely to local optimization between compliance costs and investor protection on a firm-by-firm basis, we expect that the magnitude of market reaction to the enactment of the Act varies with a firm's expected *duration* of EGC eligibility in the post-IPO period in the cross section. The Act stipulates that a firm is no longer eligible to be an EGC once its sales exceed $1 billion. Consistent with the cross-sectional prediction, we find that the stock return during the three-day enactment window for retro-activated EGCs *decreases* with firm-level sales at the time of IPO and with sales growth rate in

[3] The increase in information and the enhancement in commitment to more stringent standards can potentially coexist as retro-activated EGCs return to the prix fixe mandates at the expiration of EGC status or when they stop electing the exemptions provided by the Act. Both effects can lead to a reduction in market illiquidity.

the pre-IPO period. The negative association between stock return and firm sales at IPO suggests that investors expect firms with lower sales to remain EGCs and reap the benefits from local optimization for a relatively longer duration. The negative association between stock return and growth rate suggests that investors expect fast-growing firms to grow out of EGC eligibility more quickly, which implies that those firms can reap the benefits from local optimization for a relatively shorter duration.

Next, we examine whether managers in retro-activated EGCs indeed trade off the costs and benefits to investors in utilizing the à la carte elements or simply utilize these elements to promote and maintain the private benefits of control. We hand collect actual elections of the exemptions in accounting, auditing, and executive compensation disclosure and voting for each retro-activated EGC over the next five fiscal years (the maximum eligibility duration of the EGC status) from Form 10-Ks and proxy statements. Empirically, we use shareholder rights and executive compensation to proxy for managers' private benefits of control and use firm size and research and development (R&D) intensity to proxy for firms' marginal compliance costs and proprietary costs. We find that managers elect the exemptions in accounting, auditing, and executive compensation disclosure and voting that trade off benefits and costs to investors. In particular, dual-class firms are *more* likely to waive exemptions in all dimensions because timely and stringent monitoring of managers is especially needed to ensure investor protection when shareholder rights are relatively weak. Furthermore, managers in firms with greater R&D intensity are more likely to elect the option to delay the adoption of new accounting standards, potentially to delay disclosure of proprietary information, as investors in those firms bear greater proprietary costs. Managers in smaller firms are more likely to elect the exemption from auditor attestation under the section 404 of the Sarbanes-Oxley Act of 2002 (SOX) and the exemption to

comply with new requirements adopted by Public Company Accounting Oversight Board (PCAOB) because investors in smaller firms bear greater marginal compliance costs.

However, we also find evidence that managers utilize the à la carte elements in order to promote or maintain private benefits of control. For instance, retro-activated EGCs with relatively higher incentive compensation for CEOs and CFOs are more likely to choose the reduced disclosure for executive compensation and to choose the exemption from a shareholder "say-on-pay" vote on executive compensation, potentially to avoid investor scrutiny.

This study contributes to the existing literature in several aspects. First, we find that investors respond positively to the à la carte elements in regulation and that the market response varies with the expected duration of a firm's eligibility for the à la carte elements in the cross-section. These findings contribute to the literature on the optimal design of securities regulation. The evidence indicates that a regulatory framework with à la carte elements compares favorably to a prix fixe framework by shifting the tradeoff between compliance costs and investor protection from the regulator to the regulated firm, which enables local optimization on a firm-by-firm basis. Furthermore, the benefits from local optimization exceed the potential costs from managerial opportunism and the loss of information or commitment. In light of the long-standing debate on voluntary disclosure and the need for a mandatory disclosure system, this study suggests that a feasible alternative is to provide voluntary choices within the mandatory framework.

Second, this study contributes to the literature on the economic consequences of the Act. While prior studies examine the effects of the Act on the IPO process and the cost of *going* public (e.g., Dambra et al. [2015], Barth et al. [2017], Chaplinsky et al. [2017]), little is known about how the Act changes the benefits and costs of *being* public in the post-IPO phase.

However, it is important to understand investors' perception of and managers' response to the post-IPO provisions in the Act because the post-IPO provisions have *ongoing* economic effects for a given firm in contrast to the *one-time* effect of the pre-IPO provisions.

Third, while prior studies mostly examine the economic consequences of the *voluntary-to-mandatory* regime shift (e.g., Lo [2003], Iliev [2000], Zhang [2007]), this study examines the economic consequences of the *mandatory-to-voluntary* regime shift embedded in the post-IPO provisions of the Act. A closely related study is Cheng et al. [2013], which finds that SRCs that have the option to disclose a "reduced" set of nonfinancial items but decide to maintain their disclosure level experience an increase in market illiquidity. They interpret the results as meaning that mandatory disclosure serves as a credible commitment mechanism and that losing such commitment is costly even in the absence of a loss of information. Although the SRC rules pertain only to the disclosure of nonfinancial information, the Act addresses a comprehensive set of mandatory-to-voluntary shifts in accounting, auditing, and executive compensation disclosure and voting. In contrast, we find no significant decrease in market illiquidity as retro-activated EGCs return to the prix fixe mandates at the expiration of their EGC status or when they no longer elect exemptions under the Act. One possible explanation for the differential results is the different information environments that SRCs and retro-activated EGCs face. Compared with retro-activated EGCs, SRCs are rather small firms that have limited analyst and media coverage, and, therefore, mandatory reports are the main, if not the only, source of information for SRC investors. The different results from the two studies suggest that we need to assess the economic effects of regulatory changes in the context of the information environment.[4]

[4] Another possible reason is articulated in the caveat discussion in the introduction of Cheng et al. [2013]. They point out that the testing period for SRC Regulatory Relief and Simplification coincides with the onset of the financial crisis in 2007, which is likely to manifest an increase in market illiquidity in the post period.

Fourth, the findings from this study also shed light on the emerging "regulatory sandbox" practice. The regulatory sandbox is the general framework that regulators in many countries outside the United States, such as the United Kingdom and Singapore, have adopted in regulating the fintech sector. This framework provides a more favorable regulatory environment to encourage innovation and facilitate growth. In essence, the Act is a special form of regulatory sandbox because it eases regulatory burdens for EGCs in the IPO process and in subsequent public reporting. However, a major concern for the regulatory sandbox is managerial opportunism in minimizing regulation and compliance that could stifle growth or harm investors and consumers. For instance, Gao et al. [2009] document that managers in non-accelerated filers that are exempted from section 404 of SOX took growth-inhibiting actions to keep those firms below the bright-line threshold of eligibility for the exemption. However, our finding that managers trade off benefits and costs to investors in electing some exemptions provided by the Act mitigates the general concern of a "race to the bottom" in implementing the regulatory sandbox.

II. Related literature, institutional background and hypothesis development

The Act reduces the required disclosure and compliance obligations during the IPO process and the first five years of being a public company. In the pre-IPO phase, the Act provides EGCs the option to solicit prefiling interest from investors about an offer, the option to file its registration statement with the U.S. Securities and Exchange Commission (SEC) confidentially, and the option to scale down financial and executive compensation disclosure in the IPO filing. In the post-IPO phase, the Act provides EGCs the option to scale down requirements in accounting, auditing, and executive compensation disclosure and voting. An EGC is defined as an issuer that has less than $1 billion in annual gross revenues during its most

recent fiscal year, had not sold common equity securities under a registration statement as of December 8, 2011, has not issued more than $1 billion in non-convertible debt securities over the past three years and is not a "large accelerated filer."[5]

Existing studies find that the Act has changed the IPO landscape. For instance, Dambra et al. [2015] find that the Act has increased the volume of IPOs and changed the type of firms that choose to go public. Notably, biotechnology and pharmaceutical firms experienced the highest growth in IPOs after the Act. Barth et al. [2017] find that the reduction in mandatory disclosure in the pre-IPO phase increases information uncertainty in the IPO market after the Act. Chaplinsky et al. [2017] find no reduction in the direct costs of going public, but an increase in the indirect costs of going public (as measured by underpricing) for EGCs compared with other IPOs.

While prior studies have examined the economic consequences of the pre-IPO provisions in the Act, there is virtually no empirical evidence on how the Act affects the benefits and costs of *being* public in the post-IPO phase. One major empirical difficulty in examining the net benefits of the *post-IPO* provisions is that the Act includes both pre-IPO provisions and post-IPO provisions. Accordingly, an important objective of the study is to isolate investors' perception of the net benefits of the *post-IPO* provisions stipulated in the Act.

The Act's provisions are primarily applicable to firms conducting IPOs after the enactment date of April 5, 2012. However, the Act's definition of an EGC retroactively applies to the IPOs priced between December 8, 2011, and April 5, 2012. This unique retroactive application enables us to examine the cross-sectional variation in both investors' perceptions of and managers' responses to the post-IPO provisions in the Act among retro-activated EGCs

[5] See U.S. Securities and Exchange Commission, *Emerging Growth Companies*, https://www.sec.gov/smallbusiness/goingpublic/EGC. In April 2017, the EGC revenue cap under the Act was raised to $1.07 billion to adjust for inflation.

while holding constant the IPO process and the information environment surrounding IPOs. Specifically, we choose as control firms those that completed IPOs after January 1, 2011, but before December 8, 2011, that would have qualified as EGCs had the retroactive application been extended further back. As the IPO process for both retro-activated EGCs and control firms occurred prior to the enactment of the Act, the pre-IPO provisions of the Act are not applicable to both groups. Accordingly, relative to the control group, the Act provides retro-activated EGCs with the à la carte elements stipulated in the post-IPO provisions. Furthermore, as both the retro-activated EGCs and the control firms went public before the enactment of the Act, it mitigates the endogeneity concern that the Act itself changes the type of firms that go public.

The Act itself exhibits a significant departure from the existing framework of securities regulation to the extent that EGCs are provided with *à la carte elections* rather than *prix fixe mandates* on a number of dimensions within the mandatory framework. There are five à la carte options in the post-IPO provisions. The first is the option to delay the adoption of new or revised accounting standards. The second is to exempt EGCs from an auditor's attestation of internal control. The third is to exempt EGCs from any future requirements by the PCAOB of mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements. The fourth is the option to elect "reduced" executive compensation disclosure.[6] The fifth option is to exempt EGCs from a shareholder advisory vote on executive compensation ("say-on-pay" or "say-on-golden parachute").

The post-IPO mandatory requirements have the central objective of ongoing investor protection. However, some public firms believe that the post-IPO mandates impose a substantial

[6] The executive compensation disclosures of EGCs may follow the reduced set of requirements applicable to SRCs, rather than the full-fledged requirements applicable to larger companies. Specifically, EGCs need not provide a compensation discussion and analysis, may present compensation data for fewer named executive officers, and may omit some of the tables required for other companies.

regulatory burden and damage their competitive advantage. For instance, the SEC IPO Task Force surveyed CEOs whose firms recently went public and identified the administrative burdens of public reporting and the reallocation of CEOs' time to reporting and compliance and away from company building as the top two challenges (SEC IPO Task Force, 2011). Similarly, in a PwC survey of newly public companies, 45% of firms indicated that the costs of *being* public exceeded their expectations.[7]

In theory, relative to prix fixe mandates, à la carte elements in regulation shift the tradeoff between compliance costs and investor protection from the regulator to the regulated firm, which enables *local* optimization on a firm-by-firm basis rather than global optimization at the market level. In the absence of managerial opportunism and compared with the global optimization associated with prix fixe mandates, local optimization allowed by à la carte elements in regulation is value enhancing or at least not value decreasing under all three possible scenarios. First, if the mandated disclosure level by regulators is above the endogenously determined optimal level for a given firm, local optimization enables the firm to reduce the disclosure level to its optimal amount, which is value enhancing. Second, if the mandated disclosure level by regulators is already optimal for a given firm, the à la carte elements in the regulation allow, but do not require, eligible firms to reduce the disclosure level, which suggests that the à la carte elements are not value decreasing. Third, if the mandated disclosure level by regulators is below the endogenously determined optimal level for a given firm, the firm has incentives to increase its disclosure level voluntarily regardless of whether the mandatory requirements are prix-fixe or with some à la carte elements.

[7] PwC, 'Considering an IPO to Fuel Your Company's Future?' November 2017. Available at https://www.pwc.com/us/en/deals/publications/assets/cost-of-an-ipo.pdf

However, one major uncertainty for the shift from prix fixe mandates to the regulatory framework with some à la carte elements is whether managers behave opportunistically by acting in their own interests rather than in the best interests of investors. A possible outcome is the so-called race to the bottom where all managers in eligible firms choose to disclose the minimum possible amount of information allowed under the à la carte elements in regulation in order to minimize their *own* compliance time and efforts. A race to the bottom is likely to result in a loss of information available to investors or to exacerbate agency problems between managers and investors, or both (e.g., Verrecchia [1983], Jensen and Meckling [1976]). Furthermore, another concern for the shift from prix fixe mandates to à la carte elements is the lack of *commitment* to more stringent standards, which could lead to increased market illiquidity (e.g., Baiman and Verrecchia [1996], Verrecchia [1999], Cheng et al. [2013]). All those concerns are potentially costly to investors.

Accordingly, on average, investors' perception of the à la carte elements in the post-IPO provisions in the Act is positive when expected benefits from local optimization exceed the potential costs from managerial opportunism and the loss of information and commitment. However, if the potential costs exceed expected benefits from local optimization, investors' perception of the à la carte elements is negative. This leads to our first hypothesis:

H1: Relative to control firms, the average market reaction to the enactment of the Act is higher (lower) for retro-activated EGCs if expected benefits associated with local optimization are higher (lower) than the potential costs from managerial opportunism and the loss of information and commitment.

In the cross-section, among all retro-activated EGCs, there is a subgroup of SRCs that have been eligible for the à la carte element in disclosure of nonfinancial items, such as risk disclosure and executive compensation disclosure under the Smaller Reporting Company Regulatory Relief and Simplification since February 2008. In particular, the option for reduced

executive compensation disclosure under the SRC rules is a subset of the à la carte elements stipulated in the post-IPO provisions of the Act. In contrast, non-SRCs with a public float greater than $75 million are the subgroup of retro-activated EGCs that are *newly* eligible for the à la carte elements in regulation. Furthermore, the à la carte elements in the post-IPO provisions of the Act span multiple dimensions in accounting, auditing, and executive compensation disclosure and voting, which significantly expands the option provided under the SRC rules. Therefore, the benefits associated with local optimization could be greater for retro-activated EGCs that are newly eligible for the à la carte elements in the post-IPO provisions under the Act.

According to the Act, the maximum on-ramp time for EGC status is five years after a firm's IPO. Once the EGC eligibility is lost, the issuer is no longer entitled to the à la carte elements. We expect the benefits of the à la carte elements vary positively with the expected duration for EGC eligibility in the cross-section. In particular, holding constant the sales growth rate, the lower the pre-IPO sales, the longer the firm is able to enjoy the à la carte elements of the Act, and the higher the expected benefits associated with local optimization in the post-IPO period. Similarly, holding constant the sales level at IPO, the lower the sales growth rate, the longer the firm is able to enjoy the à la carte elements of the regulation, and the higher the expected benefits associated with local optimization in the post-IPO period.

To summarize, in the absence of managerial opportunism, the short-window market return at the enactment of the Act is expected to be higher for non-SRCs and for retro-activated EGCs with a longer expected duration for EGC eligibility. On the other hand, more à la carte elements and a longer expected duration for EGC eligibility could potentially impose greater costs associated with managers' opportunism and the loss of information and commitment. If potential costs exceed the expected benefits, the stock return to the enactment of the Act is

expected to be lower for non-SRCs that are newly eligible for the à la carte elements and for retro-activated EGCs that have a longer expected duration for the EGC eligibility. This leads to the second hypothesis on the cross-sectional variation:

H2a: The short-window market return at the enactment of the Act is higher (lower) for non-SRCs than for SRCs if the expected benefits associated with local optimization are higher (lower) than the potential costs from managerial opportunism and the loss of information and commitment.

H2b: The short-window market return at the enactment of the Act increases (decreases) with the expected duration for EGC eligibility if the expected benefits associated with local optimization are higher (lower) than the potential costs from managerial opportunism and the loss of information and commitment.

The post-IPO provisions in the Act provide à la carte exemptions from existing post-IPO mandates in multiple dimensions. We broadly classify the post-IPO exemptions into three categories: accounting, auditing, and executive compensation disclosure and voting. For a given dimension, some firms could be at the optimal point based on the tradeoff between regulatory burdens and investor protection under the existing post-IPO regulatory requirements prior to the Act, while other firms could be at a suboptimal point. Firms also evolve over time. For a given firm, a specific mandate may be optimal at one time, but be suboptimal at another time. In the absence of agency problems, managers will trade off benefits and costs to investors in electing different exemptions from the à la carte menu.

More stringent standards in accounting, auditing, and executive compensation disclosure and voting impose greater compliance costs and reveal more competitively sensitive information (e.g., Verrecchia [1983], Darrough and Stoughton [1990], Feltham and Xie [1992], Darrough [1993], Gigler [1994]). Due to the fixed component in compliance costs, the marginal compliance cost is higher for smaller firms (e.g., Eldridge and Kealey [2005], A.R.C. Morgan [2005]). If managers in smaller firms act in the best interests of investors, they are more likely to elect the exemptions from more stringent requirements in accounting, auditing, and executive

compensation disclosure and voting to lower the compliance burden. Furthermore, firms with more R&D activities bear greater proprietary costs in adopting more stringent accounting standards and disclosure. The proposed new accounting standards during the five fiscal years (2012–17) after the enactment of the Act are largely related to R&D–intensive firms. For instance, Accounting Standards Update 2015-02 amends the consolidation analysis for R&D arrangements. As such, we expect that, if managers act in the best interests of investors, managers in firms with more R&D activities are more likely to elect the option to delay the adoption of new accounting standards to delay the revelation of competitively sensitive information.

More stringent standards in accounting, auditing, and executive compensation disclosure and voting promote more timely and effective monitoring of managers and, therefore, reduces managers' private benefits of control (e.g., Lo [2003], Huang and Zhang [2012]). In the presence of agency costs, the election of exemptions depends on the bargaining power of the investors and the managers. Generally speaking, managers have greater private benefits of control in firms with greater agency costs. If managers in firms with greater agency costs have more bargaining power than investors, they are more likely to choose the exemptions to maintain or increase their private control benefits. However, in firms with greater agency costs, timely and effective monitoring of managers is especially needed to ensure investor protection. Realizing the agency problems, investors, if equipped with strong bargaining power, can demand that managers waive exemptions under the Act and maintain the prix fixe mandates to protect their interests.

In summary, it is uncertain whether managers in retro-activated EGCs act in their own interests or in shareholders' interests in response to the à la carte elements in the Act. Therefore,

we develop two non–mutually exclusive hypotheses on how managers elect exemptions allowed by the post-IPO provisions of the Act. This leads to the third hypothesis:

H3a: Managers in retro-activated EGCs trade off costs and benefits in favor of **investors** in utilizing the à la carte elements over the eligible period under the Act.

H3b: Managers in retro-activated EGCs act in their **private** interests in utilizing the à la carte elements over the eligible period under the Act.

III. Sample selection and summary statistics

To construct the retro-activated EGC sample, we select U.S. IPOs that satisfied the qualifying conditions of EGCs (see section II for details) and that priced between December 8, 2011, and April 5, 2012, from Thomson Reuters SDC New Issue database. To construct the control sample, we select firms that completed IPOs between January 1, 2011, and December 8, 2011, but that would have qualified as EGCs had the retroactive application been extended further back.

We define five indicator variables corresponding to the *stop* of the election of the five exemptions.[8] For the retro-activated EGC sample, we collect the EGC status and the elections of the five exemptions until the fifth fiscal year after IPO, which is the maximum on-ramp time for EGC status allowed by the Act. We manually collect EGCs' elections of the five exemptions from various parts of their SEC filings. Specifically, we collect a firm's election of delaying adoption of new accounting standards by reading "Recent Accounting Pronouncements" in the notes to the consolidated financial statements. The indicator variable DELAY is coded as one if a firm *stops* this election and zero otherwise. We collect a firm's election of the exemption to comply with auditor attestation requirements of section 404 of SOX by examining whether the "Management's Report on Internal Control over Financial Reporting" includes an auditor

[8] We set the indicator variable to one when a firm *stops* electing a particular exemption and zero otherwise. This is to mimic the single target event in typical survival analyses (e.g., death happens only once for a particular patient).

attestation report. The indicator variable AUDATT is coded as one if a firm *stops* this election and zero otherwise. We collect a firm's election of the exemption to comply with any future requirements that the PCAOB may adopt by reading materials regarding "Public Company Accounting Oversight Board" or "PCAOB" in 10-Ks. The indicator variable PCAOB is coded as one if a firm *stops* this election and zero otherwise. We collect a firm's election of the reduced executive compensation disclosure and the exemption from a non-binding advisory vote on executive compensation and the stockholder approval of any golden parachute payments by reading Item 11 Executive Compensation in the 10-K or the corresponding Proxy Statement (DEF 14A). The indicator variable REDDIS is coded as one if a firm *stops* the election of the reduced disclosure of executive compensation and zero otherwise. The indicator variable VOTE is coded as one if a firm *stops* the election of the exemption from shareholders' "say-on-pay" and "say-on-golden parachute" and zero otherwise. We also complement the data on elections of exemptions by reading Item 1A Risk Factors in the 10-K, where firms frequently discuss the elections of the five exemptions and the potential risks.

We use dual-class share structure (DUALCLASS) to proxy for greater ex ante agency costs because the differential voting power associated with the two classes of shares allows managers to have superior voting rights relative to outside shareholders (e.g., Masulis et al. [2009], McGuire et al. [2014]). In firms with greater agency problems and weaker governance structures, top executives receive higher compensation (e.g., Core et al. [1999]). If managers receive higher compensation as a result of weak governance structures, overpaid CEOs and CFOs are more likely to elect the option for reduced executive compensation disclosure and elect the exemption from shareholders' "say-on-pay" vote in order to maintain or increase private control benefits. However, if managers receive higher compensation because of their greater

capability and skills (e.g., Falato et al. [2015]), they may be less likely to elect the two exemptions. More able managers improve a firm's performance (e.g., Demerjian et al. [2012]). Hence, they may be more likely to choose existing prix-fixe mandates on executive compensation disclosure and shareholders' "say-on-pay" vote, which mitigate contract friction and increase firm value (e.g., Lo [2003], Cai and Walkling [2011]).

We hand collect data on firms' dual-class status, CEO and CFO compensation, and filing status (a large accelerated filer, an accelerated filer, a non-accelerated filer or an SRC) from 10-Ks and proxy statements. We obtain financial data from COMPUSTAT, stock price and return data from CRSP, and audit and non-audit fees from Audit Analytics. The final sample includes 48 retro-activated EGCs and 97 control firms.

Table 1 reports descriptive statistics for the retro-activated EGCs and the control sample. Panel A shows that 6% (9%) of the EGC (control) sample are SRCs. The average sales (SALES) at IPO are \$0.17 billion and \$0.16 billion, while the average sales growth rates (SALEG) are 1.07 and 1.35 for the EGC and control samples, respectively. The average book-to-market ratio (BTM) is 0.24 for the EGC sample and 0.75 for the control sample. The difference is significant at the 1% level, which validates the necessity to adjust raw returns for BTM. The average market capitalization measured in millions (MCAP) is \$851.56 and \$802.63, while the average natural log of market cap (SIZE) is 6.17 and 5.87 for the EGC and control samples, respectively. We follow Dharan and Ikenberry [1995] in adjusting returns for BTM and SIZE. $ARET_{APR5}$ for each firm is measured as the buy-hold return over the three-day period starting April 5, 2012, in excess of the buy-hold return on its SIZE and BTM matched portfolio over the same period. The average $ARET_{APR5}$ is 3% for the EGC sample and 0% for the control sample. Given the average market capitalization of \$851.56 million for the EGC sample, the 3% return difference between

the EGC and the control sample translates to an approximately $26 million value premium for an average EGC firm, which is both statistically and economically significant.

Panel B of table 1 reports the Pearson (above diagonal) and Spearman (below diagonal) correlations of the variables presented in panel A. On a univariate base, retro-activated EGCs (RETRO) have higher abnormal returns at the enactment of the Act ($ARET_{APR5}$) and lower BTM. As expected, SRCs have lower SALES, SIZE, and $ARET_{APR5}$.

IV. Main empirical results

4.1 Investors' perception of the enactment of the Act

To examine the average and cross-sectional variations in EGCs' market response to the enactment of the Act, we run the following regression:

$$ARET_{APR5} = \alpha + \beta_1 RETRO + \beta_2 SRC + \beta_3 BTM + \beta_4 SIZE + \beta_5 SALES + \beta_6 RETRO * SALES + \beta_7 SALEG + \beta_8 RETRO * SALEG + Industry\ Fixed\ Effect + \varepsilon \quad (1)$$

Among the variables of interest, β_1 captures the average return difference between retro-activated EGCs and the control sample. A positive (negative) β_1 indicates that, for an average retro-activated EGC firm, investors believe the expected benefits associated with local optimization afforded by the Act are higher (lower) than the potential costs from loss of information and lack of commitment to more stringent reporting standards (H1). β_2 captures the average return difference between SRCs and non-SRCs (H2a). Finally, β_6 and β_8 capture how $ARET_{APR5}$ for retro-activated EGCs varies with the expected duration of the EGC eligibility (H2b).

Table 2 reports the results from equation (1). We control for industry fixed effects in all regressions, where industries are defined by Fama-French 12 industry classifications. In column 1, explanatory variables include RETRO, SRC, BTM, and SIZE. The coefficient on RETRO is 0.034 (t = 3.78), which suggests that retro-activated EGCs, on average, reported 3.4% higher

abnormal returns over the three-day period at the enactment of the Act than control firms, *ceteris paribus*. This magnitude is in line with the 3% return difference reported in table 1 panel A.[9] These positive abnormal returns for retro-activated EGCs indicate that investors view the benefits associated with the Act as higher than the potential costs from managerial opportunism and the loss of information and commitment. Furthermore, the coefficient on SRC is -0.047 (*t* = -2.61), which suggests that on average non-SRCs reported 4.7% higher returns over the enactment window of the Act than SRCs, *ceteris paribus*. This is consistent with SRCs receiving lower net benefits from the Act as they had been eligible for some scaled-down mandatory requirements in the post-IPO phase since February 2008. Finally, the significantly positive coefficient on BTM indicates the book-to-market ratio still predicts abnormal returns even though the abnormal return is book-to-market adjusted.

In column 2, we include SALES and the interaction term between SALES and RETRO (RETRO*SALES) as additional explanatory variables. We still observe results on RETRO, SRC, and BTM consistent with those reported in column 1. Interestingly, the coefficient on RETRO*SALES is -0.100 (*t* = -2.18), indicating that investors expect retro-activated EGCs with higher sales at IPO to maintain their EGC status for a shorter duration and hence receive lower net benefits from the regulatory change.

In column 3, we add SALEG and its interaction term with RETRO (RETRO*SALEG) as additional explanatory variables. Although the coefficient on the interaction term is insignificant,

[9] A potential concern is that IPO underpricing (see Ljungqvist [2007]) could account for the higher returns of these retro-activated EGCs listed close to April 5. To address this concern, we perform two robustness checks. First, we use March 15, 2012, as the event day and find results consistent with those in Dharmapala and Khanna [2016]. The return difference between the EGC sample (reduced to 34 IPOs) and the control sample is 2% with *t*-statistic of 2.15 (untabulated). Second, we exclude the 14 EGCs priced during the three weeks between March 15 and April 5, 2012, and examine the remaining EGCs' market reaction to the enactment of the Act. We continue to find a significant return difference of 2% with *t*-statistic of 2.35 (untabulated) between the EGCs and the control firms. Results from the robustness tests suggest that IPO underpricing cannot explain away the return difference between the EGCs and control firms.

the coefficient on SALEG is -0.003 and statistically significant (t = -1.76), suggesting that the market return decreases with sales growth rate in the pre-IPO period for both EGCs and control firms. The negative coefficient on sales growth indicates that fast-growing firms are likely to grow out of either the SRC status or the EGC status more quickly, therefore benefiting less from the à la carte elements embedded in both the SRC rules and the Act. In column 4, we report the full specification of equation (1) and find results similar to those reported in the previous columns.

In summary, we find that stock returns over the enactment window of the Act are higher for retro-activated EGCs than for control firms, suggesting investors expect retro-activated EGCs to receive net benefits from the Act. The market reaction to the Act is lower for SRCs. Moreover, stock returns of the retro-activated EGCs over the enactment window of the Act decrease with retro-activated EGCs' sales at IPO. Furthermore, both retro-activated EGCs and control firms' stock returns over the enactment window decrease with sales growth rate.

As discussed previously, we estimate that the exemptions provide an approximately $26 million value premium to the average EGC firm. We attempt to quantify the benefits from the exemptions in the Act in terms of direct savings on selling, general, and administrative (SG&A) expenses, especially audit fees. Table 3 reports annual average SG&A expenses, audit fees (AUDITFEE), non-audit fees (NAUDITFEE) and total fees (TOTALFEE) as a percentage of total assets for retro-activated EGCs and control firms over the five years after IPO, which is the maximum on-ramp time allowed by the Act. On a univariate base, there is no significant difference in annual SG&A expenses between the retro-activated EGCs and control firms over the five years after IPO. However, when we examine audit fees in particular, we notice a significant difference between retro-activated EGCs and control firms. Specifically, the average

audit fee is 0.32% of total assets for retro-activated EGCs and 0.42% for control firms, with the difference significant at the 10% level (t = -1.69). Although on average retro-activated EGCs also report lower non-audit fees, the difference is not statistically significant (t = -1.35). Finally, there is a significant difference in total audit fees (TOTALFEE, sum of AUDITFEE and NAUDITFEE) between the two samples with a t-statistic of -1.81.

Because several exemptions are directly or indirectly related to auditors (such as DELAY, AUDATT, and PCAOB), the evidence in table 3 suggests that these exemptions provide direct cost savings for an average retro-activated EGC firm. Combining the average total assets (TA) of $1,379 million and the average audit fee (AUDITFEE) of 0.32% for the retro-activated EGCs, we estimate the annual audit fee at $4.38 million for an average retro-activated EGC. Similarly, we estimate the annual audit fee at $4.61 million for an average control firm. This suggests that an average EGC firm can save $0.23 million in audit fees annually or $1.15 million over five years after IPO. The direct savings in audit fees is relatively small compared to the value premium of $26 million for the average retro-activated EGC. The evidence suggests that investors attribute a large proportion of the net benefits of the post-IPO provisions to aspects other than savings in direct compliance costs.

4.2 Managers' responses to the exemptions in retro-activated EGCs

In this section, we examine the transition of the retro-activated EGCs and their elections of the exemptions over the five years after IPO. Panel A of table 4 reports the transition matrix of the 48 retro-activated EGCs. Specifically, 92% of retro-activated EGCs still qualified for EGC status at the first fiscal year-end after IPO. As these firms grew over time, some had sales bigger than the EGC threshold of $1 billion and lost EGC status. The percentage of firms that were

eligible for EGC status gradually reduces to 29% at the fifth fiscal year-end after IPO. In addition, nine retro-activated EGCs (19% of the sample) were either acquired or delisted at the fifth fiscal year-end after IPO.

Because some retro-activated EGCs lost EGC eligibility over time, we construct two distinct samples to analyze managers' elections of the à la carte elements. The first sample (labelled as "all firm-year sample") includes all firm-year observations for the 48 retro-activated EGCs over the five-year period after IPO. As 19 firm-year observations are excluded due to delisting or acquisition, the all firm-year sample includes 221 firm-year observations. The second sample (labelled as "EGC-eligible sample") is limited to firm-year observations where retro-activated EGCs are still eligible for EGC status. The EGC-eligible sample includes 129 firm-year observations. Panel B of table 4 reports the summary statistics of the two samples. DELAY, AUDATT, PCAOB, REDDIS, and VOTE correspond to the *stop* of the election of the five exemptions. For example, the average of DELAY in the first sample is 0.91, which suggests that 91% of the 221 firm-year observations opted out of the option to delay adopting new and revised accounting standards. Some retro-activated EGCs opted out of the exemptions simply because they were no longer eligible. In the EGC-eligible sample, the average DELAY is 0.84, which suggests that 84% of the 129 firm-year observations *chose* to opt out of the option to delay adopting new accounting standards even though they were eligible for the exemption. Among the five exemptions, the least opted out (most elected) exemption is the exemption from SOX section 404 auditor attestation of internal control, which is evident from the mean AUDATT of 0.53 in the all firm-year sample and 0.20 in the EGC-eligible sample. In contrast, the most opted out (least elected) exemption is the exemption to comply with any future standards adopted by

the PCAOB, which is evident from the mean PCAOB of 0.97 in the all firm-year sample and 0.95 in the EGC-eligible sample. [10]

As shown in panel B of table 4, over the five years after IPO, the average firm has $0.52 billion in sales revenue (SALES) and invests 33% of revenue in R&D (RDINT) for the all firm-year sample. However, firms in the EGC-eligible sample were considerably smaller with an average of $0.18 billion in revenue, but with 42% of sales invested in R&D on average. The average firm reports a negative return on assets (ROA) of -0.11 (-0.15) and has 1.41 (1.29) business segments (SEGMENT) in the all firm-year (EGC-eligible) sample. Dual-class share structure (DUALCLASS) is found in 14% (6%) of firms in the all firm-year (EGC-eligible) sample. The average firm has an annual sales growth rate (SALEG) of 0.36 and 0.34 in the two samples, which fits well with the image of EGCs. Finally, the average firm pays a comparable amount of total compensation (including salary, bonus, and other compensation) to its CEO and CFO, with average CEOPAY of 13.91 (13.69) and CFOPAY of 13.09 (12.58) in the all firm-year (EGC-eligible) sample, respectively. The average incentive pay for CEOs and CFOs combined (such as bonuses, stock awards, option awards, and non-equity incentive plans) is 13.85 (13.54) for the all firm-year (EGC-eligible) sample, which is the largest component of executive compensation.[11]

Panel C of table 4 reports the Pearson (above diagonal) and Spearman (below diagonal) correlations of the EGC-eligible sample. On a univariate base, DELAY is positively correlated with AUDATT, but is negatively correlated with REDDIS and VOTE. The correlation between

[10] The PCAOB encountered fierce resistance to the proposal of mandatory auditor rotation. In 2013, the House of Representatives passed a bill that would have amended the SOX to prohibit the PCAOB from requiring companies to "use specific auditors or require the use of different auditors on a rotating basis". This may explain why the least elected exemption under the Act is the exemption to comply with future requirements adopted by the PCAOB.

[11] The average salary for CEOs and CFOs combined is 12.81 and 12.74, and the average other compensation is 9.17 and 8.32 for the two samples, respectively. Other compensation includes a great variety of items, such as corporate housing, transportation, and legal services.

the elections of the two exemptions on executive compensation (REDDIS and VOTE) is as high as 0.64. Furthermore, the election variables are correlated with proxies for compliance costs and investor protection. For instance, both DELAY and AUDATT have positive correlations with SALES, indicating that larger firms are more likely to opt out of these two exemptions. This is consistent with small firms being disproportionately affected by compliance costs (e.g., Eldridge and Kealey [2005], A.R.C. Morgan [2005]). RDINT is negatively correlated with DELAY, AUDATT, and PCAOB, suggesting that firms with high proprietary costs are more likely to elect these three exemptions. AUDATT is positively correlated with DUALCLASS, suggesting that more stringent disclosure of internal controls is especially needed to protect shareholder rights in dual-class firms where managers have superior voting rights (e.g., Masulis et al. [2009], McGuire et al. [2014]).

We use the COX proportional hazard model to examine the cross-sectional determinants of the elections of the exemptions under the Act. We track each firm's election of every exemption under the Act until the firm no longer elects that particular exemption or is no longer eligible for EGC status. Opting out of delaying adoption of new and revised accounting standards is irrevocable under the Act. We manually check the other four exemptions to confirm that once a firm stopped the election of a particular exemption, it did not re-elect it in future years. We estimate the hazard model as follows:

$$\lambda(t) = \lambda_0(t)exp(\beta_1 SALES + \beta_2 RD2SALE + \beta_3 SEGMENT + \beta_4 ROA + \beta_5 DUALCLASS + \beta_6 SALEG + \beta_7 CEOPAY + \beta_8 CFOPAY + Industry\ Fixed\ Effect) \quad (2)$$

Table 5 reports the hazard model results. For each election, we report a specification without compensation variables, the specification in equation (2), and a slightly modified specification from equation (2) where we replace CEOPAY and CFOPAY with the three

components of the combined compensation of CEOs and CFOs. First, the coefficient on DUALCLASS is consistently positive for all five exemptions with *chi*-square statistics ranging from 2.74 to 26.29, indicating that firms with dual-class share structures are more likely to opt out of (less likely to elect) all exemptions. This is consistent with the interpretation that timely and stringent monitoring of managers is especially needed to ensure investor protection when shareholder rights are relatively weak. Second, the coefficient on CEOPAY is consistently negative for all five exemptions with *chi*-square statistics ranging from 2.82 to 5.88, suggesting that firms with higher CEO total compensation are less likely to opt out of (more likely to elect) all exemptions. However, the interpretation could be contextual depending on the underlying reasons for higher CEO pay and the specific exemption. According to SEC IPO Task Force [2011], CEOs of public firms identify the administrative burdens of public reporting and the reallocation of their time to reporting and compliance and away from company building as their top two challenges. If higher pay reflects the CEO's competence (Falato et al. [2015]), the negative coefficient on CEOPAY in the elections of DELAY, AUDATT, and PCAOB is consistent with the interpretation that managers act in the best interests of investors. In particular, competent CEOs are more likely to elect the accounting and auditing exemptions to reduce the firm's burden of public reporting and compliance, which allows them to focus their efforts and time on improving firm performance, which is beneficial to investors. On the other hand, if higher CEO pay reflects poor governance (Core et al. [1999]), the negative coefficient on CEOPAY in the election of REDDIS and VOTE is consistent with the interpretation that managers act in their private interests. In particular, overpaid CEOs use the exemptions on executive compensation disclosure and voting to avoid investor scrutiny of their undeserved compensation.

With respect to the exemptions in accounting and auditing, the evidence from other proxies for compliance costs and investor protection also suggests that managers act in the best interests of investors. For example, the coefficient on RDINT is consistently negative in the DELAY election, with *chi*-square statistics ranging from 2.78 to 2.91. The evidence indicates that firms with more R&D, and thus, greater proprietary costs are less likely to opt out of (more likely to elect) the option to delay adopting new accounting standards. The proposed new accounting standards during the five years after the enactment of the Act (2012–17) relate mostly to R&D–intensive firms (such as the amended consolidation analysis for R&D arrangements in Accounting Standards Update 2015-02). The evidence suggests that managers act in the best interests of investors by delaying the adoption of these new accounting standards and hence delaying the revelation of the firms' proprietary information. Furthermore, the positive coefficient on SALES in the AUDATT and PCAOB elections indicates that smaller firms are less likely to opt out of (more likely to elect) these two exemptions. This is consistent with managers in smaller firms acting in the best interests of investors to lower the compliance burden of SOX section 404 and PCAOB requirements, which disproportionately affect smaller firms (e.g., A.R.C. Morgan [2005]). In addition, the coefficient on ROA is consistently positive in the AUDATT election with *chi*-square ranging from 2.73 to 2.95, indicating that less profitable firms are less likely to opt out of (more likely to elect) the exemption from the auditor attestation requirement of section 404 of SOX. Less profitable firms have limited resources and managers in those firms may be more willing to use their limited resources for company building instead of for satisfying reporting and compliance requirements.

With respect to the exemptions in executive compensation disclosure and voting, the evidence is largely consistent with highly paid managers using the two exemptions in REDDIS

and VOTE to avoid investor scrutiny and to enhance their private benefit. For instance, firms with higher CEOPAY and firms with higher incentive pay for CEOs and CFOs combined are less likely to opt out of (more likely to elect) the two exemptions. Furthermore, the coefficient on sales growth (SALEG) is consistently positive with *chi*-square ranging from 2.76 to 3.17, which suggests that fast-growing firms are more likely to outgrow EGC eligibility and opt out of these two elections.

In summary, the results in table 5 show that managers in retro-activated EGCs utilize the à la carte elements in the Act in a contextual manner. We find evidence consistent with managers electing some exemptions (e.g., DELAY, AUDATT, and PCAOB) in the best interests of the investors. On the other hand, we also observe evidence suggesting that managers elect other exemptions (e.g., REDDIS and VOTE) to enhance their private benefit.

4.3 The enactment window return and subsequent elections of exemptions

Section 4.1 discusses investors' overall perception of the whole package of à la carte elements in the post-IPO provisions under the Act. We next analyze investors' perception of each of the à la carte elements *separately* under the premise that investors rationally anticipate the firm-level election of each exemption at the enactment of the Act based on their assessment of the costs and benefits associated with the particular exemption for a given firm (i.e., local optimization on a firm-by-firm basis). Accordingly, we use the actual election of each exemption as the proxy for investors' expected election of each exemption for a given firm. Table 6 reports the regression of $ARET_{APR5}$ on actual exemption elections and control variables. The sample is restricted to the EGC-eligible sample. We adjust the *t*-statistics for cluster-robust standard errors (two-way cluster by both firm and year).

As shown in the first column of table 6, none of the control variables can explain the cross-sectional variation in retro-activated EGCs' stock returns at the enactment of the Act. In the second column, we include both the control variables and actual election variables. The coefficients on DELAY and AUDATT are -0.043 (t = -2.17) and -0.020 (t = -2.04) respectively, indicating that retro-activated EGCs' enactment window returns are lower when they opt out of DELAY and AUDATT exemptions in future years. The two negative coefficients suggest that investors perceive the elections of the two exemptions positively. The coefficient on PCAOB is 0.054 (t = 2.50), indicating that retro-activated EGCs' enactment window returns are higher when the firms opt out of the PCAOB exemption. This suggests that, at the enactment of the Act, investors anticipate that the potential costs of electing the PCAOB exemption exceed the associated benefits. The coefficients on both REDDIS and VOTE are not significant statistically. The two insignificant coefficients suggest that investors anticipate that electing the two exemptions does not result in significant net benefits, or the actual elections of REDDIS and VOTE are noisy proxies for expected elections of the two exemptions, or both. Furthermore, the coefficient on SALEG is -0.016 (t = -4.89), confirming the finding in table 2 that investors anticipate that fast-growing EGCs benefit less from the exemptions because these firms will soon outgrow the EGC eligibility threshold.

4.4 Costs and benefits of individual exemptions

In section 4.1, we analyze investors' overall perception of the net benefits of the Act's post-IPO provisions and the direct savings in audit fees from the whole package. In this section, we examine the costs and benefits of each individual exemption. Table 7 reports regressions of annual SG&A expenses and audit fees on the exemption elections and control variables for the EGC-eligible sample. We adjust the t-statistics for cluster-robust standard errors (two-way

cluster by firm and year). In the first column, the dependent variable is SG&A. The coefficients are 0.259 (t = 3.80) on DELAY, 0.127 (t = 2.47) on AUDATT, and 0.388 (t = 3.16) on PCAOB. These positive coefficients suggest that SG&A expenses are higher when EGCs opt out of these exemptions. In the second column, when the dependent variable is audit fees, the coefficients on DELAY and AUDATT continue to be positive. However, the coefficient on PCAOB is not statistically significant, suggesting the cost savings of the PCAOB exemption come from costs other than audit fees (e.g., search costs for new audit firms).[12] Overall, the results in table 7 show that certain exemptions, especially DELAY and AUDATT, provide cost savings in direct compliance costs to retro-activated EGCs, which corroborates the findings in table 3.

The shift from prix fixe mandates to the regulatory framework with à la carte elements can potentially lead to a loss of information or a loss of commitment to more stringent standards, or both. It is empirically challenging to separate these two effects in our setting. If we are to mimic the research design in Cheng et al. [2013], we need to measure the change in market illiquidity for those retro-activated EGCs that choose to maintain the disclosure level before and after the enactment of the Act. However, because the retro-activated EGCs are all new IPO firms, the period before the enactment of the Act is not long enough to have their first post-IPO 10-Ks and proxy statements reported under prix fixe mandates. Consequently, we attempt to assess those potential costs by examining if there is any noticeable decrease in market illiquidity as EGCs *exit* the exemptions. The increase in information and the enhancement in commitment to more stringent standards can potentially coexist as EGCs return to the prix fixe mandates.

[12] The cost savings of the PCAOB exemption evidenced by the positive coefficient in the SG&A regression in table 7 seem to be inconsistent with the negative net benefit assessed by investors on this exemption at the enactment of the Act (as shown by the positive coefficient on PCAOB in table 6). However, the analysis in Table 7 is limited to SG&A expenses, which may not capture the full scope of the net benefit of the exemption. Furthermore, all coefficients on the election of the PCAOB exemption need to be interpreted with the caveat that only a very small number of retro-activated EGCs elected this exemption, and therefore, the coefficients could be driven by idiosyncratic characteristics of the few firms that did so.

Both effects reduce market illiquidity. Following Cheng et al. [2013], we use effective bid-ask spreads (SPRD) and the Amihud [2002] illiquidity ratio (AMILL) as the proxies for illiquidity and control for trading volume (VOL), price (PRC), market cap (MCAP), and return volatility (RETVOL).

Panel A of table 8 reports the summary statistics in the year when EGC status expires and the year before EGC status expires. There is no significant change in SPRD when EGC status expires. In contrast, AMILL decreases significantly when EGC status expires, from 0.497 to 0.432, with the difference significant at the 1% level (t = -3.93). However, the expiration of EGC status also coincides with the overall increase in market capitalization of retro-activated EGCs over time, which may lead to improvements in liquidity in the capital market. Supporting this argument, we observe a significant increase in VOL (t = 2.03), PRC (t = 4.72), and MCAP (t = 4.21). To formally test whether the expiration of EGC status and the return to prix fixe regulation reduces illiquidity, we regress SPRD and AMILL on the control variables and the indicator variable EGCEXP, which is set to one for the year in which EGC status expires and zero otherwise.[13] As shown in panel B of table 8, the coefficient on EGCEXP is not statistically significant for both specifications. The evidence indicates that after controlling for the overall improvement in market liquidity of retro-activated EGCs, the expiration of EGC status does not reduce illiquidity.

As shown in panel B of table 4, many EGCs opt out of the exemptions while they are still eligible for EGC status. This means that the change in disclosure practices and the return to prix fixe mandates happen when retro-activated EGCs opt out of a particular exemption rather than when EGC status expires. Accordingly, we examine the change in illiquidity around the opt-out of each exemption. For brevity, we report only the coefficients on the election variables in panel

[13] Following Cheng et al. [2013], we use log transformation of the variables in regression analyses.

C of table 8. Only the coefficient on DELAY is statistically significant in the LogSPRD regression. The slope coefficient is -0.421 (t = -2.16), indicating that when EGCs opt out of the option to delay adopting new accounting standards, there is a decrease in effective bid-ask spreads. The evidence lends some support to the argument that when EGCs delay adopting new and revised accounting standards, their financial statements may not be comparable to those of other firms and hence may create some information friction in the capital market. However, when AMILL is the illiquidity measure, none of the coefficients on the election variables are statistically significant. In summary, the results in table 8 show no significant change in illiquidity around the expiration of EGC status or at the opt-out of an individual exemption.

V. Conclusion

This study examines the cross-sectional variation in investors' perception of and managers' response to a structural change in the regulatory framework that provides voluntary choices within the mandatory framework. We find that, relative to the control group, retro-activated EGCs report higher short-window market returns upon the enactment of the Act. Retro-activated EGCs' enactment window return is lower when sales and sales growth rate are higher, both of which indicate a shorter expected duration for EGC status. The empirical findings are consistent with the theory that relative to prix fixe mandates, the à la carte elements in regulation shift the tradeoff between compliance costs and investor protection from the regulator to the regulated firm, which enables local optimization on a firm-by-firm basis. Furthermore, we find empirical evidence that managers react in both investors' interests and for their private benefit when utilizing the à la carte elements in post-IPO years. In summary, the evidence suggests that investors perceive that the benefits from local optimization associated with à la carte elements in

regulation exceed the potential costs from managerial opportunism and the loss of information or commitment.

The different information environments that SRCs and retro-activated EGCs face could partially explain the different results on illiquidity in response to "mandatory-to-voluntary" regime shifts for retro-activated EGCs versus SRCs in Cheng et al. [2013]. Future studies could investigate this issue further and systematically examine the economic effects of regulatory changes in the context of information environment.

Appendix I Variable definitions

Variable	Definition
JOBS Act exemption election variables	
AUDATT	An indicator variable that equals one when a firm ***stops*** the election of the exemption to comply with auditor attestation requirements of section 404 of SOX, and zero if the firm continues to elect it
DELAY	An indicator variable that equals one when a firm ***stops*** the election of delaying adoption of certain accounting standards, and zero if the firm continues to elect it
PCAOB	An indicator variable that equals one when a firm ***stops*** the election of the exemption to comply with any requirement that may be adopted by the PCAOB, and zero if the firm continues to elect it
REDDIS	An indicator variable that equals one when a firm ***stops*** the election of reduced disclosure obligations regarding executive compensation, and zero if the firm continues to elect it
VOTE	An indicator variable that equals one when a firm ***stops*** the election of the exemption from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments, and zero if the firm continues to elect it
Variables used in the tests of JOBS Act enactment announcement returns	
$ARET_{APR5}$	The three-day cumulative size and book-to-market adjusted stock returns starting on April 5, 2012. We follow Dharan and Ikenberry [1995] in adjusting returns for book-to-market and size. $ARET_{APR5}$ for each firm is measured as the buy-hold return over the three-day period starting April 5, 2012, in excess of the buy-hold return on its size and book-to-market matched portfolio over the same period.
BTM	Book-to-market ratio
MCAP	Market capitalization
RETRO	An indicator variable that equals one for the 48 retro-activated EGCs and zero for the 97 control IPOs
SALES	Sales measured in $ billion
SALEG	Sales growth rate from year *t*-1 to year *t*, $SALE_t/SALE_{t-1}$ - 1
SIZE	Natural log of market capitalization
SRC	An indicator variable that equals one for SRCs and zero otherwise
Variables used in the tests over the five years after IPO	
DUALCLASS	An indicator variable that equals one for firms with dual-class shares and zero otherwise
RDINT	R&D intensity, measured as R&D expenses divided by sales
ROA	Income before extraordinary items divided by total assets
SEGMENT	Number of segments
CEOPAY	The natural log of one plus CEO's total compensation, including salary, incentive compensation (e.g., bonus, stock awards, option awards, and non-equity incentive plan compensation), and other compensation
CFOPAY	The natural log of one plus CFO's total compensation, including salary,

	incentive compensation (e.g., bonus, stock awards, option awards, and non-equity incentive plan compensation), and other compensation
SALARY	The natural log of one plus CEO and CFO's combined salary
INCENTIVE	The natural log of one plus CEO and CFO's combined incentive compensation (e.g., bonus, stock awards, option awards, and non-equity incentive plan compensation)
OTHERCOMP	The natural log of one plus CEO and CFO's combined other compensation
EGCEXP	An indicator variable that equals one if a firm's EGC status expires and zero otherwise
SG&A	Selling, general, and administrative expenses divided by total assets
AUDITFEE	Audit fees divided by total assets
NAUDITFEE	Non-audit fees divided by total assets
TOTALFEE	The sum of audit and non-audit fees divided by total assets
TA	Total assets in $ million
SPRD (LogSPRD)	Annual average of daily effective bid-ask spreads, where daily effective bid-ask spreads are calculated as (ask - bid) / [(ask + bid)/2]. LogSPRD is the natural log of SPRD
AMILL (LogAMILL)	Annual average of the Amihud [2002] illiquidity ratio, calculated as the daily absolute return to the (dollar) trading volume. We standardize AMILL separately for stocks traded on the NYSE or AMEX versus those traded on NASDAQ to account for the different market microstructures (Atkins and Dyl [1997]). We sort on AMILL within each year (separately for NYSE/AMEX and NASDAQ stocks) and assign percentile ranks to each observation, ranging from 0 (low AMILL) to 99 (high AMILL). We then standardize the percentiles by dividing them by 99. LogAMILL is the natural log of AMILL
VOL (LogVOL)	Annual average of daily trading volume, calculated as total trading volume scaled by shares outstanding. We standardize VOL in the same way as AMILL. LogVOL is the natural log of VOL
PRC (LogPRC)	Annual average of daily closing price. LogPRC is the natural log of PRC
MCAP (LogMCAP)	Annual average of daily market capitalization. LogMCAP is the natural log of MCAP
RETVOL (LogRETVOL)	Annualized standard deviation of daily return. LogRETVOL is the natural log of RETVOL

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Table 1 Descriptive statistics at IPO of the retro-activated EGCs and the control firms

Panel A Summary statistics of the retro-activated EGCs and the control firms

Variable	EGCs (*n*=48)		Controls (*n*=97)		Difference	
	Mean	Median	Mean	Median	Mean	Median
SRC	0.06	0.00	0.09	0.00	-0.03	0.00
					(-0.66)	(0.62)
SALES	0.17	0.09	0.16	0.08	0.01	0.01
					(0.30)	(0.49)
SALEG	1.07	0.39	1.35	0.32	-0.28	0.07
					(-0.46)	(0.46)
BTM	0.24	0.10	0.75	0.37	-0.51***	-0.27***
					(-3.22)	(-4.35)
SIZE	6.17	6.24	5.87	5.99	0.30	0.25
					(1.44)	(1.05)
MCAP	851.56	515.30	802.63	399.91	48.93	115.39
					(0.21)	(1.05)
$ARET_{APR5}$	0.03	0.02	0.00	0.01	0.03***	0.01***
					(3.25)	(2.67)

Panel B Pearson (above diagonal) and Spearman (below diagonal) correlations

	RETRO	SRC	SALES	SALEG	BTM	SIZE	$ARET_{APR5}$
RETRO		-0.06	0.02	-0.04	**-0.22**	0.11	**0.27**
SRC	-0.06		**-0.18**	-0.09	0.11	**-0.55**	**-0.25**
SALES	0.05	**-0.29**		-0.09	-0.05	**0.38**	0.04
SALEG	0.03	**-0.29**	-0.13		-0.05	0.07	-0.14
BTM	**-0.36**	0.08	-0.05	-0.12		**-0.43**	0.06
SIZE	0.09	**-0.44**	**0.50**	0.10	**-0.39**		0.11
$ARET_{APR5}$	**0.24**	**-0.18**	**0.17**	**-0.19**	-0.06	0.04	

The sample includes 48 IPOs completed between December 8, 2011, and April 5, 2012, that are eligible for EGC status under the Act, and 97 IPOs completed between January 1 and December 8, 2011, as control firms. See appendix I for variable definitions. ***, **, and * in panel A denote statistical significance at 0.01, 0.05, and 0.10 levels, respectively, using a two-tailed test. The bold numbers in panel B indicate statistical significance of at least 10%.

Table 2 Regressions of three-day enactment window return on characteristics at IPO

	Dependent variable: $ARET_{APR5}$			
	(1)	(2)	(3)	(4)
INTERCEPT	-0.062	-0.066	-0.056	-0.060
	(-1.50)	(-1.61)	(-1.29)	(-1.41)
RETRO	0.034***	0.052***	0.032***	0.050***
	(3.78)	(4.31)	(3.16)	(3.73)
SRC	-0.047***	-0.046**	-0.057***	-0.057***
	(-2.61)	(-2.57)	(-2.76)	(-2.78)
BTM	0.012**	0.014***	0.011**	0.013***
	(2.44)	(2.88)	(2.33)	(2.77)
SIZE	0.003	0.005	0.003	0.005
	(0.74)	(1.06)	(0.56)	(0.97)
SALES		0.009		0.000
		(0.30)		(-0.02)
RETRO*SALES		-0.100**		-0.099**
		(-2.18)		(-2.09)
SALEG			-0.003*	-0.003*
			(-1.76)	(-1.93)
RETRO*SALEG			0.001	0.001
			(0.32)	(0.48)
Industry fixed effect	YES	YES	YES	YES
Adjusted *R*-square	15.3%	17.8%	16.3%	19.4%
No. of Observations	145	145	132	132

This table reports the OLS regression results of equation (1). The sample includes 48 IPOs completed between December 8, 2011, and April 5, 2012, that are eligible for EGC status under the Act, and 97 IPOs completed between January 1 and December 8, 2011, as control firms. See appendix I for variable definitions. Industries are defined using Fama-French 12 industry classifications. The numbers in the parentheses are *t*-statistic. ***, **, and * denote statistical significance at 0.01, 0.05, and 0.10 levels, respectively, using a two-tailed test.

Table 3 Comparison of SG&A and audit fees between retro-activated EGCs and control firms

	Retro-activated	Control	Difference
SG&A	25.43%	24.82%	0.61%
			(0.23)
AUDITFEE	0.32%	0.42%	-0.11%*
			(-1.69)
NAUDITFEE	0.05%	0.07%	-0.02%
			(-1.35)
TOTALFEE	0.37%	0.49%	-0.13%*
			(-1.81)
TA	1,379	1,088	291
			(1.50)

The table reports average annual selling, general, and administrative expenses (SG&A), audit fees (AUDITFEE), non-audit fees (NAUDITFEE), total fees (TOTALFEE), and total assets (TA) of all firm-year observations over the five years after IPO for the 48 retro-activated EGCs and the 97 control IPOs. See appendix I for variable definitions. ***, **, and * denote statistical significance at 0.01, 0.05, and 0.10 levels, respectively, using a two-tailed test.

Table 4 Descriptive statistics of the 48 retro-activated EGCs over the five years after IPO

Panel A Transition matrix of 48 retro-activated EGCs

	1st year		**2nd year**		**3rd year**		**4th year**		**5th year**	
EGC	44	92%	34	71%	22	46%	15	31%	14	29%
Non-EGC	4	8%	13	27%	23	48%	27	56%	25	52%
Delisted/Acquired	0	0%	1	2%	3	6%	6	13%	9	19%
Total	**48**	**100%**	**48**	**100%**	**48**	**100%**	**48**	**100%**	**48**	**100%**

Panel B Summary statistics of the retro-activated EGCs over the five years after IPO

Variable	All firm-year sample			EGC-eligible sample		
	N	**Mean**	**Median**	***N***	**Mean**	**Median**
DELAY	221	0.91	1.00	129	0.84	1.00
AUDATT	221	0.53	1.00	129	0.20	0.00
PCAOB	221	0.97	1.00	129	0.95	1.00
REDDIS	221	0.87	1.00	129	0.78	1.00
VOTE	221	0.92	1.00	129	0.86	1.00
SALES	221	0.52	0.23	129	0.18	0.12
RDINT	221	0.33	0.00	129	0.42	0.01
SEGMENT	221	1.41	1.00	129	1.29	1.00
ROA	221	-0.11	0.00	129	-0.15	-0.04
DUALCLASS	221	0.14	0.00	129	0.06	0.00
SALEG	219	0.36	0.20	127	0.34	0.16
CEOPAY	221	13.91	14.35	129	13.69	14.16
CFOPAY	221	13.09	13.70	129	12.58	13.41
SALARY	221	12.81	13.47	129	12.74	13.36
INCENTIVE	221	13.85	14.51	129	13.54	14.31
OTHERCOMP	221	9.17	10.49	129	8.32	9.89

Table 4 (continued)

Panel C Pearson (above diagonal) and Spearman (below diagonal) correlations of the EGC eligible sample

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
DELAY	(1)		**0.22**	-0.07	**-0.23**	**-0.17**	**0.21**	**-0.51**	**0.17**	**0.34**	0.11	-0.07	-0.12	0.03	-0.11	-0.11	-0.09
AUDATT	(2)	**0.22**		0.08	0.09	-0.02	**0.15**	**-0.16**	0.06	0.11	**0.35**	0.08	0.01	0.02	0.03	0.05	0.14
PCAOB	(3)	-0.07	0.08		-0.08	-0.06	0.14	**-0.34**	0.06	0.14	0.04	-0.02	-0.03	-0.03	-0.04	-0.03	-0.11
REDDIS	(4)	**-0.23**	0.09	-0.08		**0.64**	**-0.26**	**0.15**	**-0.18**	**-0.20**	0.14	0.01	**0.29**	0.10	**0.32**	**0.21**	0.03
VOTE	(5)	**-0.17**	-0.02	-0.06	**0.64**		**-0.40**	0.12	**-0.29**	-0.13	0.10	-0.01	-0.05	-0.09	0.12	-0.07	-0.04
SALES	(6)	**0.31**	**0.18**	**0.20**	**-0.35**	**-0.43**		**-0.26**	**0.34**	**0.36**	**0.36**	**0.21**	0.14	**0.17**	0.08	**0.16**	**0.22**
RDINT	(7)	**-0.23**	**-0.18**	-0.13	0.08	0.12	-0.08		-0.13	**-0.45**	-0.08	**-0.18**	0.10	0.11	0.11	0.08	0.05
SEGMENT	(8)	**0.20**	**0.15**	0.07	**-0.22**	**-0.33**	**0.28**	**-0.19**		**0.15**	-0.06	-0.03	0.09	0.08	0.10	0.08	**0.18**
ROA	(9)	**0.28**	0.09	**0.20**	**-0.24**	**-0.16**	**0.53**	**-0.44**	**0.17**		0.14	**0.22**	-0.12	0.10	**-0.15**	-0.07	-0.09
DUALCLASS	(10)	0.11	**0.35**	0.04	0.14	0.10	**0.24**	**-0.16**	-0.04	**0.22**		0.14	-0.11	0.00	-0.11	**-0.17**	0.03
SALEG	(11)	**0.21**	**0.18**	-0.02	-0.05	-0.12	**0.36**	**-0.21**	0.04	**0.52**	**0.27**		-0.02	0.09	-0.06	-0.03	0.07
CEOPAY	(12)	**-0.16**	-0.07	-0.02	**0.18**	-0.02	**0.15**	**0.23**	0.05	**-0.23**	-0.12	-0.10		**0.56**	**0.82**	**0.86**	**0.32**
CFOPAY	(13)	-0.13	-0.07	0.02	0.12	-0.01	**0.20**	**0.29**	0.01	-0.02	-0.11	0.12	**0.59**		**0.52**	**0.50**	0.14
SALARY	(14)	**-0.24**	-0.04	-0.10	-0.03	-0.09	0.08	**0.27**	0.14	**-0.27**	**-0.29**	**-0.31**	**0.46**	**0.49**		**0.65**	**0.28**
INCENTIVE	(15)	**-0.15**	-0.07	0.00	**0.21**	0.02	**0.17**	**0.25**	0.01	**-0.17**	-0.08	0.01	**0.94**	**0.74**	**0.37**		**0.24**
OTHERCOMP	(16)	0.08	0.12	**-0.15**	-0.01	-0.01	**0.20**	**-0.30**	**0.22**	**0.17**	0.02	0.07	0.04	-0.03	**0.22**	-0.04	

The all firm-year sample includes 221 firm-year observations over the five years after IPO of the 48 IPOs completed between December 8, 2011, and April 5, 2012, that are eligible for EGC status under the Act. The EGC-eligible sample includes 129 firm-year observations when these 48 firms were eligible for EGC status. Panel A reports the transition of 48 retro-activated EGCs during the five years after IPO. Panel B and panel C report the summary statistics and correlations of the exemption elections and control variables, respectively. See appendix I for variable definitions. The bold-face numbers in panel C indicate statistical significance of at least 10%.

Table 5 Hazard model of the exemption elections

	DELAY			AUDATT			PCAOB			REDDIS			VOTE		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
SALES	-0.244	0.307	0.236	1.610***	1.661***	1.708***	0.744	1.255*	1.368*	-0.215	-0.344	-0.328	-0.300	0.105	0.039
	(0.12)	(0.17)	(0.09)	(13.22)	(12.97)	(12.61)	(0.90)	(2.80)	(2.87)	(0.10)	(0.25)	(0.22)	(0.21)	(0.02)	(0.00)
RDINT	-0.822*	-0.915*	-0.823*	0.030	-0.091	0.036	-0.029	0.072	-0.003	0.171	0.187	0.171	0.144	0.367*	0.155
	(2.82)	(2.78)	(2.91)	(0.01)	(0.07)	(0.01)	(0.02)	(0.10)	(0.00)	(0.99)	(0.84)	(0.97)	(0.74)	(3.09)	(0.85)
SEGMENT	0.001	0.027	0.088	0.116	0.141	0.164	-0.225	-0.208	-0.211	-0.147	-0.182	-0.162	-0.398	-0.359	-0.373
	(0.00)	(0.02)	(0.17)	(0.22)	(0.32)	(0.41)	(1.07)	(0.90)	(0.86)	(0.32)	(0.46)	(0.36)	(2.01)	(1.75)	(1.75)
ROA	-0.047	-0.250	-0.125	2.804*	2.614*	2.616*	-0.959	-1.379	-1.306	0.101	0.400	0.166	0.341	0.001	-0.230
	(0.00)	(0.05)	(0.01)	(2.95)	(2.94)	(2.73)	(0.50)	(1.10)	(0.94)	(0.01)	(0.08)	(0.01)	(0.06)	(0.00)	(0.03)
DUALCLASS	1.640***	1.453***	1.480*	3.780***	3.620***	3.703***	0.977*	0.725*	0.805*	2.185***	2.371***	2.419***	1.791***	1.348**	1.103*
	(9.12)	(7.09)	(3.32)	(26.29)	(21.98)	(23.25)	(3.34)	(2.74)	(3.23)	(14.01)	(14.69)	(10.14)	(10.13)	(5.10)	(3.30)
SALEG	-0.086	-0.058	-0.070	0.207	0.223	0.179	-0.164	-0.114	-0.166	0.816*	0.858*	0.858*	0.618*	0.774*	0.567*
	(0.17)	(0.07)	(0.11)	(1.27)	(1.41)	(0.85)	(0.14)	(0.06)	(0.14)	(2.87)	(3.17)	(3.00)	(2.79)	(2.77)	(2.76)
CEOPAY		-0.179**			-0.225*			-0.136*			-0.126*			-0.140*	
		(5.88)			(3.01)			(3.81)			(2.82)			(2.89)	
CFOPAY		0.015			-0.201			-0.040			-0.021			-0.097	
		(0.06)			(0.77)			(0.40)			(0.08)			(2.05)	
SALARY			-0.067			-0.096*			-0.088*			0.001			-0.026
			(1.07)			(2.84)			(2.74)			(0.00)			(0.19)
INCENTIVE			-0.024			-0.001			-0.023			-0.073*			-0.082*
			(0.18)			(0.00)			(0.20)			(2.99)			(2.88)
OTHERCOMP			-0.079*			0.032			-0.060			0.005			-0.043
			(3.05)			(0.35)			(1.64)			(0.01)			(0.76)
Industry fixed effect	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
N		63			136			51			70			60	

Table 5 (continued)

The sample starts with the 221 firm-year observations over the five years after IPO of the 48 IPOs completed between December 8, 2011, and April 5, 2012, that are eligible for EGC status under the Act. We track the election status for each exemption for each firm until the firm no longer elects that particular exemption or is no longer eligible for EGC status. Hence, the number of observations varies across each election. The table reports the Cox proportional hazard model of stopping an exemption as shown in equation 2. See appendix I for variable definitions. Industries are defined using Fama-French 12 industry classifications. The numbers in the parentheses are *chi*-square statistics. ***, **, and * denote statistical significance at 0.01, 0.05, and 0.10 levels, respectively, using a two-tailed test.

Table 6 Enactment window return and future exemption elections

	Dependent variable: $ARET_{APR5}$	
INTERCEPT	-0.007	0.005
	(-0.59)	(0.22)
SRC	-0.007	-0.006
	(-0.32)	(-0.32)
BTM	0.004	0.007
	(0.56)	(0.99)
SIZE	0.011	0.011*
	(1.46)	(2.02)
SALES	0.027	0.031
	(1.23)	(1.25)
SALEG	-0.015	-0.016***
	(-1.74)	(-4.89)
DELAY		-0.043*
		(-2.17)
AUDATT		-0.020*
		(-2.04)
PCAOB		0.054*
		(2.50)
REDDIS		-0.016
		(-1.00)
VOTE		-0.006
		(-0.57)
Industry fixed effect	YES	YES
Adjusted *R*-square	30.1%	48.8%
No. of Observations	126	126

The sample starts with the 221 firm-year observations over the five years after IPO of the 48 IPOs completed between December 8, 2011, and April 5, 2012, that are eligible for EGC status under the Act. We exclude firm-year observations where the retro-activated EGCs no longer qualify for EGC status. The table reports regression of three-day enactment window return starting on April 5, 2012, on the elections of the exemptions over the five years after IPO. See appendix I for variable definitions. Industries are defined using Fama-French 12 industry classifications. The numbers in the parentheses are *t*-statistic adjusted for two-way cluster-robust standard errors (clustered by firm and year). ***, **, and * denote statistical significance at 0.01, 0.05, and 0.10 levels, respectively, using a two-tailed test.

Table 7 Effects of individual exemptions on SG&A and audit fees

	SG&A	AUDITFEE
INTERCEPT	0.167	0.031**
	(1.80)	(3.22)
SRC	0.166	0.006
	(1.19)	(1.29)
BTM	-0.076	-0.004**
	(-1.48)	(-3.07)
SIZE	-0.065**	-0.003**
	(-3.46)	(-2.89)
SEGMENT	-0.036	0.001
	(-0.77)	(0.76)
SALES	-0.077	0.000
	(-0.88)	(0.06)
SALEG	0.044**	0.001*
	(2.88)	(2.40)
DELAY	0.259**	0.007*
	(3.80)	(2.20)
AUDATT	0.127*	0.003*
	(2.47)	(2.15)
PCAOB	0.388**	0.001
	(3.16)	(0.36)
REDDIS	0.009	0.001
	(0.26)	(0.41)
VOTE	-0.054	-0.002
	(-0.94)	(-0.70)
Industry fixed effect	YES	YES
Adjusted *R*-square	71.9%	44.7%
No. of Observations	116	106

The sample starts with the 221 firm-year observations over the five years after IPO of the 48 IPOs completed between December 8, 2011, and April 5, 2012, that are eligible for EGC status under the Act. We exclude firm-year observations where the retro-activated EGCs no longer qualify for EGC status. The table reports regressions of selling, general, and administrative expenses (SG&A) and audit fees (AUDITFEE) on the elections of the exemptions over the five years after IPO. See appendix I for variable definitions. Industries are defined using Fama-French 12 industry classifications. The numbers in the parentheses are *t*-statistic adjusted for two-way cluster-robust standard errors (clustered by firm and year). ***, **, and * denote statistical significance at 0.01, 0.05, and 0.10 levels, respectively, using a two-tailed test.

Table 8 Change in illiquidity for EGCs at the expiration of EGC status and at the opt-out of an individual exemption

Panel A Summary statistics at the expiration of EGC status

	Year EGC expires	Year before EGC expires	Difference
SPRD	0.005	0.004	0.001
			(1.01)
AMILL	0.432	0.497	-0.065***
			(-3.93)
VOL	0.668	0.588	0.080**
			(2.03)
PRC	22.449	15.766	6.683***
			(4.72)
MCAP	1,131	698	433***
			(4.21)
RETVOL	0.554	0.532	0.022
			(0.70)
No. of Observations	44	44	

Panel B Change in illiquidity for EGCs at the expiration of EGC status

	LogSPRD	**LogAMILL**
Intercept	-0.785	1.443***
	(-1.48)	(19.82)
EGCEXP	0.021	-0.012
	(0.17)	(-0.75)
LogVOL	-1.947***	-0.462***
	(-5.67)	(-9.79)
LogPRC	-0.236**	0.027*
	(-2.14)	(1.76)
LogMCAP	-0.526***	-0.098***
	(-5.95)	(-8.04)
LogRETVOL	0.289	0.187***
	(1.22)	(5.75)
Industry fixed effect	Yes	Yes
Adjusted *R*-square	80.7%	86.0%
No. of Observations	88	88

Table 8 (continued)

Panel C Change in illiquidity for EGCs at the opt-out of individual exemptions

	DELAY	AUDATT	PCAOB	REDDIS	VOTE	Control variables	Industry fixed effects
LogSPRD	-0.421* (-2.16)					Included	Included
		-0.082 (-0.65)				Included	Included
			-0.352 (-0.85)			Included	Included
				-0.067 (-0.30)		Included	Included
					-0.185 (-0.96)	Included	Included
LogAMILL	-0.037 (-1.11)					Included	Included
		-0.004 (-0.25)				Included	Included
			0.083 (1.34)			Included	Included
				-0.033 (-1.09)		Included	Included
					0.001 (0.04)	Included	Included

We track the expiration of EGC status and the stop of elections of exemptions for the 48 IPOs completed between December 8, 2011, and April 5, 2012, that are eligible for EGC status under the Act. We then measure the annual average illiquidity measures in the year before EGC expires (election stops) and in the year when EGC expires (election stops). See appendix I for variable definitions. Industries are defined using Fama-French 12 industry classifications. The numbers in the parentheses are *t*-statistic. ***, **, and * denote statistical significance at 0.01, 0.05, and 0.10 levels, respectively, using a two-tailed test.