Advertisement

International Review of Finance / Volume 20, Issue 4 / pp. 983-992

Shorter Article

Are Incentive Contract Settlements Nonevents?*

Marie-Hélène Gagnon, Aurélien Philippot

First published: 20 November 2018

https://doi.org/10.1111/irfi.12247

* The authors gratefully acknowledge financial support from SSHRC, FRQSC, la Chaire de recherche Industrielle-Alliance, and les Salles des Marchés FSA Jean-Turmel et Carmand-Normand. Any errors are our own. We thank Mark Garmaise, Ivo Welch, Richard Roll, Andrea Eisfeldt, and Eduardo Schwartz for their comments.

PDF

Abstract

We examine the information conveyed in managers' incentive contracts such as prepaid variable forward (PVF) contracts. Using a large database, we perform event studies on cumulative abnormal returns (CARs) and volatility around the signature and the settlement of such contracts. The results show that PVF settlements, which involve no divulgation of new information, can be interpreted as nonevents. For firms with lower visibility, CARs are significantly negative immediately after settlement, whereas firms with higher visibility incur this effect upon signature. The signature and settlement dates have a small negative effect on the firms' volatility suggesting slow adjustment mechanisms.

REFERENCES

Acharya, V. V., and A. Bisin (2009), 'Managerial Hedging, Equity Ownership, and Firm Value', *The Rand Journal*

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Barnet, H. J. (2006), 'IRS National Offices Rules Adversely on Variable Prepaid Forward Contracts with Securities Loan', *Journal of Taxation and Regulation of Financial Institutions*, **19**, 6.

Google Scholar

Bebchuk, L., and J. Fried (2004), *Pay without Performance: The Unfulfilled Promise of Executive Compensation*. Cambridge, MA: Harvard University Press.

Google Scholar

Bettis, J. C., J. M. Bizjak, and M. L. Lemmon (2001), 'Managerial Ownership, Incentive Contracting, and the Use of Zero-Cost Collars and Equity Swaps by Corporate Insiders', *Journal of Financial and Quantitative Analysis*, **36**, 345–370.

Web of Science® Google Scholar

Bettis, J. C., J. M. Bizjak, and S. Kalpathy (2015), 'Why Do Insiders Hedge Their Ownership? An Empirical Examination', *Financial Management*, **Fall 2015**, 665–683.

Google Scholar

Bisin, A., P. Gottardi, and A. A. Rampini (2008), 'Managerial Hedging and Portfolio Monitoring', *Journal of the European Economic Association*, **6**, 158–209.

Web of Science® Google Scholar

Boczar, T., and D. Engmann (2010), *An Intelligent Response to the Challenges to Prepaid Variable Forwards*. Charlottesville, VA: Private Wealth Newsletter, CFA Institute.

Google Scholar

Bolster, P., D. Chance, and D. Rich (1996), 'Executive Equity Swaps and Corporate Insider Holdings', *Financial Management*, **25**, 14–24.

Web of Science® Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Google Scholar

Gao, H. (2010), 'Optimal Compensation Contracts When Managers Can Hedge', *Journal of Financial Economics*, **97**, 218–238.

Web of Science® | Google Scholar

Gilbert, T. et al. (2012), 'Investors Inattention and the Market Impact of Summary Statistics', *Management Science*, **58**, 336–350.

Web of Science® | Google Scholar

Hirshleifer, D. A., S. S. Lim, and S. H. Teoh (2009), 'Driven to Distraction: Extraneous Events and Underreaction to Earnings News', *Journal of Finance*, **64**, 2289–2325.

Web of Science® | Google Scholar

Hong, H., and J. C. Stein (1999), 'A Unified Theory of Underreaction, Momentum Trading, and Overreaction in Asset Markets', *Journal of Finance*, **54**, 2143–2184.

Web of Science® | Google Scholar

Huberman, G., and T. Regev (2001), 'Contagious Speculation and a Cure for Cancer: A Nonevent that Made Price Soar', *The Journal of Finance*, **56**, 387–396.

Web of Science® | Google Scholar

Jagolinzer, A. D., S. T. Matsunaga, and P. E. Yeung (2007), 'An Analysis of Insiders' Use of Prepaid Variable Forward Transactions', *Journal of Accounting Research*, **45**, 1055–1079.

Web of Science® | Google Scholar

Lambert, R. A., and D. F. Larcker (1985), 'Golden Parachutes, Executive Decision-Making, and Shareholder Wealth', *Journal of Accounting and Economics*, **7**, 179–203.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Martin, K. J., and R. S. Thomas (2005), 'When Is Enough, Enough? Market Reaction to Highly Dilutive Stock Option Plans and the Subsequent Impact on CEO Compensation', *Journal of Corporate Finance*, **11**, 61–83.

Web of Science® | Google Scholar

Pan, J., and A. M. Poteshman (2006), 'The Information in Option Volume for Future Stock Prices', *The Review of Financial Studies*, **19**, 871–908.

Web of Science® | Google Scholar

Schizer, D. (2000), 'Executives and Hedging: The Fragile Legal Foundation of Incentive Compatibility', *Columbia Law Review*, **100**, 440–504.

Web of Science® | Google Scholar

Tetlock, P. C. (2011), 'All the News That's Fit to Reprint: Do Investors React to Stale Information?', *Review of Financial Studies*, **24**, 1481–1512.

Web of Science® | Google Scholar

Yermack, D. (2005), 'Flights of Fancy: Corporate Jets, CEO Perquisites, and Inferior Shareholder Returns', *Journal of Financial Economics*, **80**, 211–242.

Web of Science® | Google Scholar

Download PDF

ABOUT WILEY ONLINE LIBRARY

Privacy Policy
Terms of Use
About Cookies
Manage Cookies
Accessibility

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences
Accept All
Reject Non-Essential

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences
Accept All
Reject Non-Essential