

Are Incentive Contract Settlements Nonevents?*

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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 divulgence 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.

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