



Market Reaction to Events Surrounding the Sarbanes-Oxley Act of 2002 and Earnings Management

Haidan Li, Morton Pincus, and Sonja Olhofs Rego

Santa Clara University University of California, Irvine University of Iowa



Abstract

Full Text



More

Abstract

The Sarbanes-Oxley Act (SOX) of 2002 is the most important legislation affecting corporate financial reporting enacted in the United States since the 1930s. Its purpose is to improve the accuracy and reliability of accounting information that is reported to investors. We examine stock price reactions to legislative events surrounding SOX and focus on whether such stock price effects are related cross-sectionally to the extent firms had managed their earnings. Our univariate results suggest that significantly positive abnormal stock returns are associated with SOX events, and our primary analyses reveal considerable evidence of a positive relationship between SOX event stock returns and the extent of earnings management. These results are consistent with investors anticipating that the more extensively firms had managed their earnings, the more SOX would constrain earnings management and enhance the quality of financial statement information.

[View full text](#) | [Download PDF](#)



[The University of Chicago](#)

[Accessibility](#)

[Open access at Chicago](#)

[Permissions](#)

[Statement of Publication Ethics](#)

[Diversity and Inclusion at the University of Chicago](#)

[Contact us](#)

[Terms and Conditions](#)

[Privacy Notice](#)

[Media and advertising requests](#)



© 2025 The University of Chicago and other publishing partners. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.