Political Uncertainty and Firm Disclosure

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Abstract

We analyze how managers adjust information flow in response to transitory uncertainty. Using U.S. gubernatorial elections as a plausibly exogenous source of short-term uncertainty, we find that firms in election states experience heightened volatility, greater information asymmetry, and lower liquidity. Election firms produce relatively fewer mandatory disclosures, but provide more frequent and informative voluntary disclosures during the pre-election period. Election firms with increased information flow have lower relative deterioration in market quality measures. Our findings yield new insights that managers respond to transitory uncertainty by adjusting disclosure strategies. We also shed light on the complementary relationship between mandatory and voluntary disclosure.

Keywords: Political uncertainty, liquidity, information environment, voluntary disclosure, mandatory disclosure

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1. Introduction

Information asymmetry between managers and investors creates an adverse selection problem that increases capital costs and reduces market liquidity (Easley and O'Hara, 2004; Beyer et al., 2010). Elevated uncertainty regarding firm prospects, of either a permanent or transitory nature, can exacerbate the costs borne by the firm and its investors, and in turn, affect the value of a firm's investment opportunities, its capital structure, and expected cash flows (Myers and Majluf, 1984; Cleary et al., 2007; Bharath et al., 2009). Firm-provided information via mandatory and voluntary disclosures can attenuate some of the uncertainty and reduce information risk borne by investors (Diamond and Verrecchia, 1991, Botosan, 1997).

Extant literature illustrates that managers alter disclosure patterns in response to permanent shifts in uncertainty or the degree of information asymmetry (e.g., Armstrong et al., 2014; Balakrishnan et al., 2014). Although managers might respond differently to transitory shocks, there is a paucity of evidence on whether and how managers adapt their information flow during such periods. If short-term uncertainty occurs regularly and substantively impacts firm decisions, then determining managerial response yields valuable insights for researchers, regulators, and market participants. Two factors make studying such issues empirically challenging. First, it is difficult to identify transitory increases in uncertainty surrounding firm prospects. Second, disclosure and uncertainty are endogenously related, making it difficult to establish causality.

To overcome such issues, we analyze changes in disclosure patterns around U.S. gubernatorial elections.[1] These events are readily identifiable, and recent literature contends that this setting generates a plausibly exogenous transitory escalation in uncertainty stemming from state-level governmental policies. Evidence that firms alter their capital structure and investment

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behavior (Chen et al., 2016; Colak et al., 2016; Jens, 2017) in response to elections corroborates the notion that these events are a source of escalated uncertainty.

We posit that short-run uncertainty creates two consequences for a firm's information environment. First, to the extent that managers delay or reduce investment or capital raising during this period, firms would produce fewer SEC-mandated disclosures. Such reductions in information flow could further exacerbate information asymmetries. Second, managers could elect to alter the frequency or informativeness of voluntary disclosures (Diamond and Verrecchia, 1991; Leuz and Verrecchia, 2000; Graham et al., 2005). The directional impact on voluntary disclosure properties depends on the trade-off between managers endeavoring to compensate for increased information asymmetry versus managers' diminished ability to deliver accurate forward-looking information during a period of increased uncertainty.

We first establish that securities of firms headquartered in gubernatorial election states experience deteriorations in market quality. Specifically, they exhibit elevated volatility, information asymmetry, and illiquidity in the months leading up to elections as compared to both non-election periods and firms in non-election states. Significant declines in market quality begin as early as July and typically peak during September or October before abating shortly after the resolution of the election outcome in November.

We next explore how these events induce changes in firm-provided information flow in the four months leading up to governor elections using a difference-in-differences (d-i-d) methodology that compares election firms to the same period during the prior year and to a set of control firms. Though there is an overall increase in mandatory filings over the sample period, election firms provide relatively fewer mandatory filings. These differences are most pronounced for reports related to acquisitions, raising capital through unregistered equity offerings, and officer and

director turnover, which is consistent with the observed reduction in real firm activities (Chen et al., 2016; Colak et al., 2016; Jens, 2017). Analysis of the number of reported items, word count, and types of words suggests that managers of firms exposed to elections and less like to adjust the content and tone of their mandatory disclosures relative to non-election firms.

Election firms provide significantly more voluntary 8-Ks than non-election firms. The preponderance of this difference stems from Regulation Fair Disclosure (Reg FD) filings, which typically correspond to dissemination of material information via conference calls or investor conferences. Moreover, conditioned on providing a voluntary 8-K disclosure, there is a significant increase in the number of items reported per 8-K and the total words per sentence. Additional analysis using management earnings forecasts further confirms that managers provide enhanced voluntary disclosure. We observe increases in the quality and timeliness of quarterly earnings forecasts ahead of elections, and a higher propensity for election firms to provide annual management earnings forecasts. Collectively, the results indicate that managers provide more frequent and informative voluntary disclosures during periods of elevated transitory uncertainty.

Separate examination of 8-K Item 2.02 "Results of Operations and Financial Condition" sheds light on how election uncertainty affects the release of earnings information. These disclosures contain earnings updates ahead of mandated quarterly reporting deadlines and can include voluntary management discussion of results or guidance. We find that managers provide significantly fewer 8-Ks with this type of earnings information during election periods, which suggests they are less willing to furnish discussions of earnings when uncertainty is higher.

Given the potential interaction of mandatory and voluntary disclosures (Li and Yang, 2016), we investigate changes in voluntary disclosure predicated on whether mandatory 8-K filings fall, rise, or remain unchanged year-over-year. Generally, voluntary 8-Ks are positively correlated

with mandatory filings for both election and non-election firms, suggesting that these forms of disclosure are complements rather than substitutes. Election firms, as compared to non-election firms, exhibit greater increases in voluntary disclosures when mandatory disclosures rise or are static, but exhibit no relative difference when mandatory disclosure frequency declines.

If disclosure, on average, mitigates uncertainty about the potential effects of elections, then firms with enhanced information flow during the election period might experience attenuated declines in the market quality measures. We explore this notion by testing for an interaction between increased 8-K filing frequency and the election period dummies in the market quality regressions. The evidence shows that firms with increases in disclosure generally have abated escalations in volatility, illiquidity, and information asymmetry. While these results are not necessarily indicative of a causal channel, they are consistent with information flow being associated with reduced uncertainty.

Our paper provides several contributions to the literature. Prior work shows that managers respond to permanent shocks to information asymmetry by adjusting information flow (e.g., Armstrong et al., 2014; Balakrishnan et al., 2014). To our knowledge, this study is the first to demonstrate that managers also take actions to ameliorate the effects of transitory shocks to uncertainty. Our identification strategy uses political uncertainty created by gubernatorial elections (Chen et al., 2016; Colak et al., 2016; Gulen and Ion, 2016; Jens, 2017). The analysis of market quality measures around gubernatorial elections confirms that firms domiciled in election states experience increased volatility, heightened information asymmetry, and reduced liquidity, which establishes a basis for why and how firms would alter information flow during this period.

Firms file relatively fewer mandatory 8-Ks during the election period, likely due to a decline in investment or financing activities. Managers respond by providing more frequent

voluntary disclosure with greater and more informative content. Moreover, there is an association between firms supplying increased disclosure during election periods and tempered reductions in market quality measures due to policy uncertainty. Thus, our work extends the literature on the association between disclosure and liquidity (Amihud and Mendelson, 1988; Diamond and Verrecchia, 1991; Leuz and Verrecchia, 2000; Balakrishnan et al., 2014). Finally, we contribute to work on the relationship between mandatory and voluntary disclosure (Beyer et al., 2010; Cooper et al., 2016). Our study provides evidence that information flow via mandatory and voluntary disclosure are positively correlated, suggesting that the market receives additional disclosure when firms do not curtail real activities prior to elections.

Our paper is organized as follows. Section 2 provides motivation for the analyses and outlines our hypotheses. Section 3 describes our empirical measures, research design, and data sources. Section 4 presents our empirical results. We conduct additional analyses in Section 5. We conclude in Section 6.

2. Hypothesis development

2.1. Political elections as sources of firm uncertainty

Political elections can create short-term shocks to uncertainty because ambiguity regarding future changes in government policies can significantly affect firms' market quality and economic outcomes (Bloom, 2009; Julio and Yook, 2012; Pasquariello and Zafeiridou, 2014; Baker et al., 2016). Pástor and Veronesi (2012, 2013) provide a theoretical framework of how political elections elevate short-run firm uncertainty on two dimensions. First, an election heightens the probability that governmental policies will change (i.e., outcome uncertainty). We posit that outcome uncertainty is symmetric between managers and investors because it is unlikely that managers have

superior skill at predicting the winning candidate.[2] Second, there is uncertainty about how new government policies would affect firm cash flows (i.e., impact uncertainty). We expect this dimension of uncertainty to differentially impact managers versus investors, thus exacerbating information asymmetries (Pasquariello and Zafeiridou, 2014).

Our study uses gubernatorial elections to analyze managerial response because this setting affords two empirical advantages. First, as noted by Colak et al. (2016), gubernatorial election timing is predetermined and, thus, largely exogenous to the firm-specific operations. This identification strategy helps empirically disentangle the endogenous nature of disclosure decisions and unobservable firm attributes. Second, the staggered nature of election cycles across states creates cross-sectional variation in political uncertainty, yielding a set of control firms to account for macroeconomic factors or other time trends that affect our dependent variables. Moreover, policies at the state level can significantly impact firm profit. Peltzman (1987) notes that governors hold significant executive powers, such as appointments and budgetary development. Governors also influence state policies that affect local firms such as taxes, incentives, and employment.

A nascent body of work explores the consequences of transitory uncertainty from gubernatorial elections on firm activities. Empirical evidence suggests that firms curtail capital expenditure investment (Jens, 2017) and acquisition activities (Chen et al., 2016) and delay capital raising (Colak et al., 2016; Jens, 2017) around governor elections.

While evidence of declines in real firm activities around governor elections is suggestive of the effects of political uncertainty, measures of market quality can provide a more direct link that is readily observable to both managers and investors. Studies of national or international political uncertainty employ market measures such as stock return or option volatility (Pástor and

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Veronesi, 2013; Baker et al., 2016; Kelly et al., 2016) and stock price liquidity (Pasquariello and Zafeiridou, 2014) to investigate this issue. There is less work, however, utilizing market measures of uncertainty emanating from gubernatorial elections. Jens (2017) provides some evidence along these lines by showing that realized return volatility increases for firms headquartered in a state with a governor election that year. Bernile et al. (2015) find that state-level economic conditions affect the stock liquidity due to the local nature of ownership and trading. We hypothesize that the transitory uncertainty induced by gubernatorial elections is reflected in deteriorations of market quality for local firms:

H1. *Gubernatorial elections result in greater uncertainty that alters market and trading quality for firms headquartered in that state.*

2.2. Political uncertainty and mandatory firm disclosure

The SEC requires firms to provide investors with timely disclosure when it incurs a predefined material event via an 8-K filing. Periodically, the SEC adds new events that trigger 8-K disclosure, including a significant expansion of reportable items in 2004, which induces a natural increase in mandated filings over the sample period. To the extent that gubernatorial elections generate uncertainty that attenuates firm investment and financing activities (Chen et al., 2016; Colak et al., 2016; Jens, 2017), then election firms would have relatively fewer SEC-required disclosures, thus reducing information flow via this mechanism. Thus, our second hypothesis is:

H2. *Firms headquartered in states with gubernatorial elections have fewer mandatory disclosures compared to non-election firms.*

2.3. Political uncertainty and voluntary firm disclosure

To the extent that gubernatorial elections temporarily escalate information asymmetries and uncertainty, managers might respond by altering voluntary disclosure. The relationship

between transitory uncertainty and voluntary disclosure depends on whether managers believe that the benefits of supplying supplemental information provides outweighs the costs.

One possibility is that managers enhance the quantity and/or quality of voluntary disclosure during this period. Pástor and Veronesi (2012) suggest that gubernatorial elections generate impact uncertainty (i.e. effect of election on cash flows), thereby increasing information asymmetry between managers and other market participants. Consistent with this notion, Baloria and Mamo (2015) find that analyst forecast accuracy declines during presidential election periods. Research suggests that managers providing more frequent or precise disclosures lessen information asymmetries, thus improving stock liquidity and reducing capital costs (Amihud and Mendelson, 1986; Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994, 2001; Easley and O'Hara, 2004, Balakrishnan et al., 2014). Investor or analyst concerns over the negative effects of political uncertainty on market quality could encourage managers to enhance voluntary disclosure (Boone and White, 2015).[3] Further, reputational concerns might incentivize managers to disclose value-relevant information in a timely manner, even when the news is negative (Beyer and Dye (2012). Finally, if managers expect to raise capital or sell their own shares in during these periods, they might increase disclosure to facilitate these events (Cheng and Lo, 2006; Clinton et al., 2014).

Other factors, however, could lead managers to curb the quantity or quality of voluntary information production during the election period. This effect could dominate if outcome uncertainty (i.e., the uncertainty tied to who wins the election) is particularly high and managers cannot adequately predict the ensuing impact of potential changes in government policy on their firms. Consistent with this notion, Kim et al. (2016) finds that firms are less likely to provide earnings forecasts during periods of high macroeconomic uncertainty. Indeed, there is some

[3] The Internet Appendix provides examples of discussions between managers and analysts that inquire about the effect of gubernatorial elections on the firm's activities.

disagreement in the literature on whether disclosures lessen uncertainty. Rogers et al. (2009) contend that unexpected voluntary disclosure can instead exacerbate uncertainty when information is imprecise. Moreover, if managers expect that the election outcome will negatively affect their firms, then they might choose to forego voluntary disclosure to delay revealing bad news or provide less informative or overly optimistic voluntary disclosures to downplay the potential impact (Verrecchia, 1983; Graham et al., 2005; Kothari et al., 2009).

H3a. *Due to heightened uncertainty and associated effects on market quality, firms headquartered in states with gubernatorial elections provide greater quantity and quality of voluntary disclosures versus non-election firms.*

Changes in mandatory information production during the election period could shape voluntary disclosure. One possibility is that managers increase voluntary disclosure to ameliorate reductions in information flow due to fewer mandated disclosures during the election period. Indeed, when firms are not required to produce particular types of disclosure, managers have more flexibility to provide the quantity and type of information that best suits their unique circumstances (Nelson and Pritchard, 2016).

A separate possibility is that reductions in mandatory disclosures lead managers to similarly curtail voluntary disclosures. Work such as Li and Yang (2016) finds that mandatory and voluntary disclosures are complements.[4] If, for example, firms restrict investment and capital raising activities ahead of elections, there might not be sufficient disclosure benefits to overcome the costs (e.g., Bushee and Noe, 2000; Graham et al., 2005). Hence, managers could postpone supplementary or enhanced information until the election uncertainty is resolved and information

[4] Beyer et al. (2010) note that most empirical studies ignore voluntary disclosure when analyzing the impact of changes in mandatory reporting. They state it is important to consider "multiple aspects of the corporate information environment to conclude whether it becomes more or less informative in response to an exogenous change."

asymmetries abate. Similarly, firms that maintain or increase mandatory disclosures could release more voluntary information in support of these activities (Clinton et al., 2014).

H3b. *The degree to which managers adapt their voluntary disclosure is intertwined with the changes in mandatory disclosure.*

2.4. Information flow and market quality

If managers alter disclosure in such a way to provide value-relevant information, then it could ameliorate the degree of uncertainty about firm value, thus attenuating declines in market quality due to political uncertainty. Studies show that disclosures have direct implications for firm liquidity (Cooper et al., 2016) and information asymmetries (Leuz and Verrecchia, 2000). Greater disclosure also can lessen the costs of uncertainty by reducing non-diversifiable information risk faced by uninformed investors (Healy and Palepu, 2001). Recent evidence suggests that political uncertainty is a priced risk that cannot be fully diversified away by investors (Kelly et al., 2016), thus increasing capital costs. Lambert et al., (2007) suggest that higher quality disclosures can affect investors' perception of the diversifiable risk, which lowers the cost of capital.

It is possible, however, that the added disclosures do not mitigate declines to market quality. Firms with increased disclosure might experience increases in stock return volatility if this process attracts investors that trade frequently on short-term news (Bushee and Noe, 2000). Further, if managers have incentives to disclose positive or overly optimistic information, while withholding negative information, then investors might not view the incremental disclosures as credible. Even if the disclosure provides useful information, it might not fully offset decreases in market quality because election outcome uncertainty remains unknown for all firms and their investors. Thus, the extent of any relationship between disclosure and market quality measures is unclear. We present H4 in its null form as follows:

H4. *Firms providing additional disclosure during the election period experience relatively lower declines in market quality compared to those with no change or a reduction of information flow.*

3. Data, research design, and sample construction

3.1. Political uncertainty and market quality

3.1.1. Measures of market and trading quality

To test our hypotheses of the relationship between election-induced uncertainty and market and trading quality, we use several measures from extant literature. First, we construct two indicators of uncertainty based on realized volatility of stock returns and implied volatility of stock options. *Abnormal return volatility* captures realized volatility and is computed as the standard deviation of the net value of daily stock returns less the CRSP equal-weighted index returns. *Implied volatility* represents the market's forward-looking view of uncertainty. For firms with available information in OptionMetrics, it is computed using at-the-money-forward call options with expirations of 91 calendar days.[5] Higher values of abnormal return and implied volatility indicate greater market uncertainty regarding expected firm outcomes (Rogers et al., 2009; Pástor and Veronesi, 2013; Baker et al., 2016; Kelly et al., 2016). Thus, we expect both measures of volatility to increase just prior to an election, as market prices adjust to the uncertainty of a potential change in government policy and its impact on firm profits.

To examine the how political uncertainty precipitates greater information asymmetry, we employ two widely used proxies: bid-ask spreads and share turnover (e.g., Leuz and Verrecchia, 2000). We compute *bid-ask spread* as the difference between daily bid and ask prices for each stock divided by the midpoint of bid and ask prices, and *turnover* as the total monthly share volume

[5] Our choice of the 91-day maturity is identical to Stein and Stone (2013) who use implied volatility to study the impact of uncertainty on firm behavior in the context of capital investment, hiring, R&D, and advertising. Results are robust to call options with expirations of 30 and 60 days, but are not reported for brevity.

divided by the number of shares outstanding per stock. We expect increases in information asymmetry stemming from political uncertainty to lead to wider spreads and lower share turnover as investors become concerned about the impact of gubernatorial elections on earnings (Kim and Verrecchia, 1994).

We gauge liquidity using *Amihud illiquidity*, which is calculated as the monthly average of absolute returns divided by dollar volume over all positive-volume days (Amihud, 2002). Following Avramov et al. (2006), we require firms to have at least 10 days with trades each month when calculating Amihud illiquidity, and we drop observations with stock prices less than $1 to reduce the influence of highly illiquid stocks. To the extent that information asymmetries increase prior to an election, we expect a corresponding increase in the Amihud illiquidity measure as the liquidity of firms headquartered in election states declines.

3.1.2. Tests of market quality

To assess the effect of political uncertainty stemming from gubernatorial elections on market quality, we compare monthly changes in our firm-level measures to the same months in non-election periods and to non-election firms. Specifically, we estimate the following monthly-level regression model:

$$Y_{ist} = \alpha_i + \mu_t + \sum_{t=1}^{12} \beta_t M_{st} + \sum_{n=1}^{N} \gamma_n X_{ist}^n + \upsilon GDP_{st} + \psi UR_t + \sum_{t=1}^{12} \delta_t D_t + \epsilon_{ist} \quad (1)$$

where *i*, *s*, and *t* indicates firms, states, and months respectively. The dependent variables, *Y*, are abnormal return volatility, implied volatility, bid-ask spread, turnover, and Amihud illiquidity, as described in subsection 3.1.1. α_i and μ_t are firm and year fixed effects. In all tests, we winsorize firm characteristics at the 1% and 99% levels and cluster standard errors at the state level.

This panel regression approach follows work by Pasquariello and Zafeiridou (2014) who assess the effect of presidential elections on proxies of market quality. M_{st} is a monthly dummy for election firms during the 12-month period beginning April prior to the election and ending in March following the election. We anticipate that the uncertainty associated with gubernatorial elections predominately affects market quality during the three-to-four-month period prior to the November election for two reasons. First, these months coincide with most gubernatorial primary elections, which are typically held during the summer months of the election year (see Appendix A). Second, Pasquariello and Zafeiridou (2014) note that political uncertainty is largely resolved once the election outcome is determined.[6] By examining a full 12-month period around the election date, our regressions account for any seasonality in uncertainty.

The coefficient on the variable, β_t, represents the conditional change in the dependent variables in the months preceding and following the elections after controlling for firm characteristics and economic conditions. Importantly, the vector of monthly dummies, D_t, controls for the unconditional change in our dependent variables during non-election periods, which enables us to isolate the election year effect.

X_{ist} are firm-level controls that explain cross-sectional and time variation in our market quality measures of volatility, information asymmetry, and liquidity. These include firm size, market-to-book, leverage, cash holdings, and analyst following, and are defined in Appendix B.

Firm size is the natural log of total assets. Prior work finds return volatility, information asymmetry, and liquidity of larger firms are less affected during periods of greater uncertainty (e.g., Chung and Chuwonganant, 2014). We control for growth opportunities using the market-to-book ratio because variation in investment opportunities is likely correlated with return volatility

[6] Not all political uncertainty is resolved on the election date. For example, newly elected governors cannot immediately impose changes in policies or regulatory agencies until after the November election date.

and information asymmetries. We control for leverage because firms with more proportional debt tend to have more volatile returns (e.g., French et al., 1987).

We include cash as a percentage of assets in our regressions because firms could use cash reserves as a buffer against uncertainty or difficulties in accessing capital markets (Archarya et al., 2012; Baum et al., 2006). We control for the natural log of analyst following because of their role as both producers and processors of information, including macroeconomic factors (Hutton et al., 2012). We also control for abnormal return volatility in regressions of bid-ask spread and turnover, and market volatility in regressions of Amihud illiquidity.

We include two proxies for state- and national-level economic conditions because the effects of political uncertainty could be exacerbated during periods of poor economic conditions. *State GDP growth* (GDP_{st}) is the growth rate of state gross domestic product. *Unemployment rate* (UR_t) is the change of unemployment rate. We obtain these data from the Bureau of Economic Analysis (BEA) Regional Economic Accounts database.

3.1.3. Sample for tests of market quality

All states but New Hampshire and Vermont hold a gubernatorial election every four years on the first Tuesday in November.[7] We obtain election data from ProQuest Congressional Publication and Congressional Quarterly (CQ) Researcher and combine these with election statistics from the Library of Congress website. We gather information on the following items: the primary and final election dates, winning candidate, and the vote differential between the winning candidate and the runner-up. Appendix A provides additional information on gubernatorial primary months and election years for each state.

[7] There are four special elections during our sample period: California (October 7, 2003), Utah (November 2, 2010), West Virginia (October 4, 2011), and Wisconsin (June 5, 2012).

We construct our sample by identifying all U.S.-based firms with data in CRSP and Compustat from 1998 to 2013. Panel A of Table 1 details our sample construction for tests of market quality. This initial sampling period produces 82,007 firm years. We delete firm years with missing price and total assets data during the year prior to the election. We exclude the Wisconsin special election in 2012 because it takes place much earlier than the normal election cycle. Using Compustat headquarter information, we designate *election* firms as those domiciled in a state with a gubernatorial election during the calendar year. A firm is classified as *non-election* if its state did not experience an election in that year. Our sample for the market quality panel regressions includes 19,854 election firm years and 56,928 non-election firm years.

[Insert Table 1 about here]

3.2. Political uncertainty and firm disclosure

3.2.1. Measures of disclosure

We examine the frequency and properties of two disclosure measures—SEC Form 8-K and management earnings forecasts—to capture information flow around gubernatorial elections. 8-Ks are our primary measure of disclosure because they have the advantage of being available for all firms in our sample and contain both mandatory and voluntary content. The SEC mandates that firms file 8-Ks in a timely manner when it experiences a pre-defined triggering event, such as changes to material agreements or capital raising, that an investor would likely construe as important to investment decisions. Managers can voluntarily provide other non-mandated information through an 8-K. Several papers conclude that 8-Ks contain value-relevant information because they are frequently accompanied by a significant market response (Carter and Soo, 1999;

Lerman and Livnat, 2010; Segal and Segal, 2016) and investors acquire the information they contain (Drake et al., 2015).

For each firm, we pull 8-K filing information from WRDS SEC Analytics Suite and calculate the total number of 8-K filings and unique items reported per 8-K. Using this source, we obtain the word count per sentence, and the proportion of uncertain, negative, and positive words. Additionally, we extract the specific 8-K item numbers, which enables us to assess the type of information reported and whether it is deemed mandatory or voluntary. The SEC groups 8-Ks into broad categories based on the type of information provided: Registrant's Business and Operations (Section 1), Financial Information (Section 2), Securities and Trading Markets (Section 3), and Corporate Governance (Section 5).[8] We further delve into disclosure content related to activities like investment, capital raising, and earnings based on specific item numbers within each section.

With voluntary 8-K disclosures, which are reported in Items 7.01 and 8.01, firms have more discretion in revealing information to investors and other market participants (Lerman and Livnat, 2010). Managers must simultaneously disseminate information to all investors on Item 7.01 as part of Regulation Fair Disclosure (Reg FD) when they provide material information to certain individuals.[9] These filings often contain press releases, conference calls, or investor conferences where managers discuss qualitative aspects of the firm or provide additional quantitative disclosures, such as specific indicators for the firm's divisions. Item 8.01 disclosures are "Other Events" not mandated by the SEC that managers consider of material interest to shareholders. Several recent papers use 8-K Items 7.01 and 8.01 as measures of voluntary

[8] See https://www.sec.gov/investor/pubs/readan8k.pdf. We exclude: Section 4 on asset backed securities because it applies to very few firms, Item 5.07 8-Ks (mine safety) because the SEC only requires it beginning in 2010, and Section 9 (Financial Statements and Exhibits) because they typically accompany other items numbers and do not reflect a separate event (Segal and Segal, 2016).

[9] See Selective Disclosure and Insider Trading, 65 Fed. Reg. 51718 (Aug. 24, 2000), at https://www.sec.gov/rules/final/33-7881.htm.

disclosure (e.g., Lerman and Livnat, 2010; Boone and White, 2015; Cooper et al., 2016; Segal and Segal, 2016). Item 7.01 was required starting in October 2000, and therefore, we only use election-period changes from 2002 onward for this measure.

We separately examine Item 2.02 – "Results of Operations and Financial Conditions" from other forms of disclosure. Item 2.02 disclosures typically coincide with an earnings release and potentially contain a corresponding discussion of results and updated guidance (Rogers and Van Buskirk, 2013).[10] Firms are not mandated to provide earnings figures ahead of the required reporting deadline for 10-Qs or 10-Ks (Cooper et al., 2016). Many firms, however, elect to release earnings early in response to pressure from market participants for timely information. Further, discussions of historical results, as well as guidance, are voluntary and not all firms provide this type of information. Thus, Item 2.02 are semi-voluntary because it entails the early release of periodic reports and can include voluntary discussions (Lerman and Livnat, 2010; Noh et al., 2017). Because the first full year of this item was 2004, we begin our tests of changes in this disclosure measure from 2005 onward.

Voluntary management earnings forecasts data are from the First Call Company Issued Guidelines database. We measure *forecast propensity*, which equals one if management provides a forecast of earnings, cash flow, or funds from operations during the specified period; and *forecast frequency*, which is the number of management forecasts during the specified period. Because firms might have a different proclivity to alter shorter versus longer-term forecasts in response to election uncertainty, we separately analyze annual and quarterly forecasts.

[10] If managers provide an oral discussion of earnings (e.g., a conference call), they do not have to file a new 8-K so long as the verbal disclosure occurs within 48 hours of the Item 2.02 filing and contains no additional material information that was not previously disclosed.

Managers can reduce uncertainty by providing more accurate forecasts or by offering them earlier in the fiscal period (Waymire, 1985). In contrast, election uncertainty could inhibit managers' ability to provide precise estimates or induce them to postpone earnings forecasts until the outcome uncertainty is resolved. Thus, we investigate two forecast quality measures. *Forecast horizon* is the number of calendar days between the quarterly (annual) management earnings forecast and the fiscal period end divided by 90 (365). *Forecast error* is the absolute value of the point or median of the range earnings forecast minus the actual earnings, divided by the stock price at the beginning of the fiscal period.[11]

3.2.2. Tests of disclosure

We examine changes in disclosure around gubernatorial elections using a d-in-d framework. First, we compare disclosure for election firms versus themselves over the same period during the prior year. This approach enables us to examine firm-level disclosure changes for the same calendar period and controls for seasonality. We then measure disclosure changes for a set of non-election firms during the same period. Finally, by taking the differences between the two groups, we isolate the treatment effect of political uncertainty on disclosure patterns. This approach helps ensure that disclosure policy variation prior to an election is not caused by contemporaneous disclosure trends or changes in other variables that influence disclosure decisions. For disclosure tests, we designate the months July through the November election date as the election period. Fig. 1 illustrates the periods analyzed for election and non-election firms.

[11] In line with extant work, we calculate management forecast accuracy only for point and range estimates because forecast errors are not clearly defined for open-ended and qualitative forecasts (e.g., Clinton et al., 2014). To avoid the small numerator problem, we drop observations where the stock price is less than $2.00 at the beginning of the fiscal period. For these calculations, we follow prior literature in deleting pre-earnings announcement forecasts made after the fiscal period end but prior to the earnings announcement date (e.g., Rogers and Stocken, 2005).

[Insert Fig. 1 about here]

There are limitations to this approach. A shorter measurement window could hinder the ability to find statistically significant variation in disclosure patterns. For example, managers might anticipate election uncertainty and alter disclosure patterns prior to the period we examine. Our control firms could also be exposed to election uncertainty outside of their headquarter state or to national election uncertainty (e.g., presidential elections). Both possibilities should work against finding measurable changes in disclosure patterns around elections.

3.2.3. Sample for tests of disclosure

For our disclosure analysis, we impose two additional sample restrictions beyond those of the market quality tests. First, we only use a firm as a control in our d-in-d tests if its headquarter state did not experience a gubernatorial election in the previous, current, or following year as the election firm, which limits potential contaminating effects of the control firm's own election exposure. Second, we delete firm years in 1997 because of coverage bias concerns for management earnings forecasts in the First Call database prior to 1998 (Chuk et al., 2013). Panel B of Table 1 reports that the final sample for tests of disclosure compares 19,398 election firm years with 16,521 non-election firm years. This sample includes 9,224 unique firms.

4. Results

4.1. Market quality regressions

Table 2 reports market quality measures. Panel A presents the average monthly values for these measures during non-election years, which establishes a baseline for comparison of the coefficients from the panel regression presented in Panel B. Panel A illustrates that all measures

have some degree of time variation, with the months of September, October, and November exhibiting among the largest differences. We account for this time-varying effect in the panel regressions via monthly controls, D_t.

Panel B and Fig. 2 display the plots of the coefficient estimates of β_t for each regression model. As noted in Subsection 3.1.2, β_t is the conditional change in firm-level volatility, information asymmetry, and stock illiquidity in the months around the elections after holding firm and economic conditions constant.

[Insert Table 2 and Fig. 2 about here]

Consistent with the notion that gubernatorial elections increase volatility during election periods, Columns (1) and (2) and Figs. 2A–2B reveal an inverted U-shape relationship between elections and firm-level stock and option market volatility. For example, Fig. 2A shows the monthly change in abnormal return volatility increases significantly beginning in June and peaks in October just prior to the election as compared to the average non-election month. The economic magnitude can be illustrated by comparing the October coefficient for abnormal return volatility in Column (1) to the October non-election average reported in Panel A. When compared to the non-election average of 3.69%, the 0.45% coefficient in October represents a 12.2% increase in abnormal return volatility during October of gubernatorial election years. Abnormal return volatility in December through February following an election year is not significantly different from non-election year levels for those months, indicating that return volatility abates after the uncertainty associated with election is resolved.

Table 2 and Fig. 2B reveal that implied volatility increases significantly beginning in June prior to the gubernatorial election before returning to baseline levels after the election. The months of July through October experience the largest increase in implied volatility, with coefficients

between 2.8% to 3.7%, all of which are statistically significant at the 1% level. Relative to the to the non-election baseline averages in Panel A, the coefficient estimates indicate that implied volatility increases by approximately 4.5% to 7.6% during these months. Collectively, these results suggest that firm-specific volatility is significantly greater during the months just before a gubernatorial election.

The results in Columns (3) to (5) of Table 2 and Figs. 2C–2E suggest that information asymmetry and stock price illiquidity increase during the months prior to a gubernatorial election as compared to the same period in non-election years. Bid-ask spreads widen significantly from August through October preceding the election (Fig. 2C). For example, the September coefficient in Column (3) indicates that spreads widen by 0.20% ($p < 0.001$), which is an 11.2% increase from the baseline non-election average spread of 1.78% in Panel A. Similarly, turnover (Fig. 2D) decreases substantially from July through October before increasing in November through January after the election outcome is determined. The decline in turnover during August (–0.68), September (–0.70), and October (–0.48) are statistically significant at the 1% level (p-values < 0.001), and economically significant as they represent a 9.8%, 9.5%, and 6.5% decline, respectively, versus the non-election period averages.

As shown in Column (5) and Fig. 2E the Amihud illiquidity measure increases in September and October ahead of the election with coefficients of 0.29 and 0.26 (p-values < 0.001), representing a 15.7% and 13.7% increase, respectively, above non-election year averages. Amihud illiquidity remains greater than the non-election periods during November through March following the election.

Overall, the results in Table 2 and Fig. 2 denote that uncertainty associated with gubernatorial elections results in significant deteriorations in market quality prior to elections. The

increases in firm-specific volatility, information asymmetries, and stock illiquidity are statistically and economically significant, with many measures changing by more than 10% as compared to the non-election period averages. These measures largely revert to non-election period levels once the election uncertainty is resolved. We contend that these empirical outcomes support our identification strategy that political uncertainty surrounding gubernatorial elections is a source of plausibly exogenous, but transitory, increase in uncertainty.[12]

4.2. Mandatory disclosure

We analyze changes in 8-Ks with mandatory content in Table 3.[13] To establish baseline disclosure levels, we tabulate the non-election average for mandatory disclosure frequency and properties in Column (1). Columns (2) to (5) contain the d-in-d analysis. Column (2) presents changes in disclosure characteristics for election firms versus themselves over the same time pre-election period. Column (3) presents the same test for the set of control firms without an election. Column (4) reports the mean d-in-d values between the election and non-election firms. This column provides the estimated treatment effect of political uncertainty on mandatory disclosure. Column (5) reports the *t*-statistic from a two-tailed test of the d-in-d estimator.[14]

[Insert Table 3 about here]

[12] To ascertain whether firms are also sensitive to elections outside their headquarter state, we analyze 10-Ks each year and calculate the percentage that a firm mentions a state. In untabulated results, we find that firms mentioning a non-headquarter state with a gubernatorial election more than the median percentage of all headquarter states in a 10-K also experience similar declines in market quality.

[13] Total 8-K frequency (mandatory and voluntary) increases for election firms, but this difference is not statistically larger than then trend for non-election firms. Thus, aggregated measures of 8-K frequency can mask how certain firms respond to a change in uncertainty.

[14] As a robustness check we employ regression and entropy balancing techniques on our 8-K disclosure measures to control for other firm and time-varying factors that could influence disclosure. As reported in the Internet Appendix, our results remain qualitatively unchanged using these methodologies.

Both election and non-election firms exhibit year-over-year increases in mandatory 8-K frequency as seen in Columns (2) and (3), which is likely due to an expanded number of required 8-K reporting events over time (Lerman and Livnat, 2010). This increase in disclosure across both groups illustrates the importance of using a set of control firms to discern between changes in disclosure due to election uncertainty and concurrent time trends in information flow. The d-in-d estimate in Column (4) is negative and statistically significant, showing that election firms supply 0.33 fewer mandatory 8-Ks prior to an election versus the non-election firms. In addition to frequency, we investigate whether firms have differing 8-K properties in an election year. Election firms are less likely to alter the number of items per mandatory filing, the words per sentence, and the percentage of negative and positive words than their non-election counterparts.

To provide additional granularity into mandatory 8-K disclosures, we present the d-i-d analysis at the 8-K section and item level in Table 4. The section levels are: Business and Operations (Section 1), Financial Information (Section 2), Securities and Trading Markets (Section 3), and Corporate Governance (Section 5). Prior research shows activities such as investment, acquisitions, and capital raising (Colak et al., 2016; Jens, 2017; Chen et al., 2016) are particularly sensitive to gubernatorial elections. Consistent with these findings, Table 4 shows that disclosures associated with these activities tend to decline during election years. For example, election firms are less likely to complete acquisitions (Item 2.01) or conduct sales of unregistered securities (Item 3.02) as compared to non-election firms. However, election firms have a greater propensity to enter material definitive agreements relative to non-election firms.

[Insert Table 4 about here]

4.3. Voluntary disclosure

4.3.1. Results using voluntary 8-Ks

Table 5 indicates that managers enhance voluntary disclosure via 8-Ks during the period leading up to an election. For example, election firms provide 0.21 more voluntary 8-Ks during this period in an election year versus the prior year, which is statistically different than zero at the 1% level (p-value < 0.001). Given that our sample firms average 1.27 voluntary 8-Ks during the period July through October in non-election years, this 16.6% increase in voluntary 8-K frequency is also economically significant.[15] The control firms also see an increase in voluntary 8-K frequency, yet the d-in-d estimate in Column (4) shows election firms provide a greater increase of 0.151 voluntary 8-Ks, a difference that is significant at the 1% level (p-value < 0.001).

[Insert Table 5 about here]

Partitioning voluntary 8-Ks into Reg FD (Item 7.01) and Other Events (Item 8.01) reveals that election firms increase voluntary disclosure along both dimensions versus the year prior to the election, but much of the difference in voluntary 8-Ks between the election and control firms arise from Reg FD-related disclosures. The relative d-i-d increase in the frequency of Reg FD related 8-Ks is 0.178 (p-value < 0.001), which represents a 26.3% increase over the baseline frequency of 0.676 reported in Column (1). For 8-Ks relating to Other Events, the period-over-period increase for election firms is 0.108, which is a 13.3% increase over the baseline value of 0.815. The d-in-d estimate is 0.029 and is significantly different from zero at the 10% level.

Next, we examine the properties of voluntary 8-K disclosures and find that election firms exhibit significant differences in the content and tone of these disclosures. For example, conditioned on a voluntary filing, election firms have 0.41 more items per 8-K and 1.76 more

[15] The percent decline is in comparison to non-election period averages. This estimate is not a precise interpretation because the d-i-d estimate represents the change versus only the year prior to the election.

words per sentence versus the year prior to the election. Even though there is a contemporaneous increase in these measures for non-election control firms, the d-in-d estimators are positive and statistically significant at the 1% level for both measures (p-values < 0.001), further indicating that firms increase voluntary information flow during election periods. Managers do not significantly alter their use of certain types of words as measured by the percentage that are positive, negative, or uncertain. The results in Table 5 suggest that firms increase the quantity and alter some content of voluntary 8-K disclosures prior to an election.

4.3.2. Results for operations and financial condition disclosures

We next explore how transitory uncertainty impacts managers' propensity to supply 8-Ks that contain Item 2.02, Results of Operations and Financial Conditions. These disclosures provide earnings updates and, potentially, supplemental discussion by management. The evidence in Table 6 indicates that both election and non-election firms exhibit period-over-period increases in filings of Item 2.02 8-Ks. This increase is lower for the election firms as shown by the negative and statistically significant d-in-d coefficient of –0.042 ($p < 0.001$) and is 2.7% lower number relative to the non-election year baseline levels. Thus, managers of election firms are less likely to provide additional discussions of reported earnings versus the non-election control firms. We find no significant differences in the properties of Item 2.02 8-Ks between election and non-election firms.

[Insert Table 6 about here]

4.3.3. Results using management earnings forecasts

As an alternative means to study voluntary information regarding earnings, we analyze management earnings forecasts in Table 7. Annual forecast propensity for election firms

significantly increases both year-over-year (+2.3%, *p*-value < 0.001) and relative to the non-election firms based on the d-i-d estimator (+0.7%, *p*-value = 0.018). Moreover, we see no deterioration in annual forecast accuracy or horizon despite the additional forecasts.

[Insert Table 7 about here]

There is no difference in the propensity or frequency of quarterly management earnings forecasts between election and non-election firms. However, the horizon increases for quarterly forecasts of election firms based on the d-i-d estimator. Quarterly forecasts also become significantly more accurate. Election firms experience an 8.5% decline in quarterly forecast error, while non-election firms experience a simultaneous increase. The d-in-d estimator for quarterly forecasts indicates that election firm forecasts are 35% more accurate, which is significantly different from zero at the 1% level (*p*-value < 0.001). Overall, these results suggest that managers respond to political uncertainty by providing timelier and more accurate quarterly forecasts, and increase their proclivity to provide annual forecasts that are no less accurate than control firms despite the additional uncertainty of the elections.

To obtain a comprehensive picture of how elections affect earnings timing, discussions, and forecasts, we consider both the results from this subsection and the findings from the prior subsection on 8-K Item 2.02 disclosures. In both cases, election and non-election firms exhibit year-over-year increases in the propensity to provide earnings discussions and guidance. The main difference is that election firms have a lower contemporaneous increase in Item 2.02 frequency versus non-election firms, but a higher relative increase in the propensity to supply management earnings forecasts. In untabulated results, we find that 73% of management earnings forecasts provided by election firms are bundled with the earnings release. Thus, one interpretation of the

findings is that that the increase in Item 2.02 disclosures is driven by the voluntary component of earnings discussions (i.e., the guidance).

4.3.4. Interaction of mandatory and voluntary disclosure

The analyses in Tables 3–6 reveal that election firms in aggregate decrease mandatory 8-Ks, but increase voluntary 8-Ks relative to non-election firms. To study how changes in real activities interact with voluntary disclosures, we partition firms by whether they have year-over-year decreases, increases, or no change in mandatory 8-Ks filings. Approximately 20.3% of firms have declines in mandatory disclosure, 57.4% of firms experience no change, and the remaining 22.4% have increases.

[Insert Table 8 about here]

Overall, we find a positive correlation between the change in mandatory and voluntary filings, regardless of whether firms reside in an election state. In other words, when firms increase (decrease) mandated disclosures, they have a corresponding increase (decrease) voluntary disclosures. These results support other work showing that mandatory and voluntary disclosures are complements rather than substitutes (Li and Yang, 2016).

There are, however, some differences in the response based on the change in mandatory filings. While the d-in-d estimator shows no differences in voluntary disclosure between election and non-election firms that reduce mandatory filings, election firms exhibit significant relative increases in voluntary disclosure when there is either an increase or no change in mandatory disclosure. Specifically, when mandatory disclosure increases, both election and non-election firms significantly increase voluntary disclosure, but election firms augment their voluntary information flow more. This effect is strongest for Reg FD filings and, overall, indicates that during

more uncertain periods when firms undertake activities that require more mandatory disclosure, they supplement it with greater voluntary information flow.

For firms with no changes in the number of their mandatory filings, election firms increase aggregate voluntary 8-Ks, while non-election firms show no statistical changes in total voluntary filings. The breakdown of the d-i-d estimator by Reg FD disclosures and Other Events shows the election firms provide significantly more of both types of voluntary filings. These findings suggest that even when election firms do not have changes in mandatory information flow versus the prior year, they still increase their voluntary disclosures during the peak period of election uncertainty.

4.3.5. Increases in disclosure and changes in market quality measures

The prior subsections establish that firms exposed to gubernatorial elections experience a deterioration in market quality measures consistent with elevated uncertainty. The results also indicate that firms adjust their disclosure practices during the election period by supplying more voluntary disclosure, perhaps to ameliorate some of the uncertainty about the impact of elections on firm prospects. To the extent that disclosure achieves the goal of reduced information asymmetry, we posit that firms with larger increases in information flow during the election period experience tempered declines in their market quality measures relative to other firms.

To examine this possibility, we re-estimate the monthly-level regressions from Table 2 and include interaction terms comprised of the monthly election period dummy variables and an indicator for firms that have the increases in information flow, measured discretely using mandatory and voluntary 8-K changes. A negative coefficient on the interaction term for stock return volatility, Amihud illiquidity, and bid-ask spreads (and a positive coefficient on turnover)

would indicate that firms increasing their information flow experience lower relative declines in market quality measures. The results are presented in Table 9.

[Insert Table 9 about here]

The coefficients on many of the election month indicators remain negative in these specifications, which confirms that market quality erodes during this time span. The coefficients on the interaction terms in Panel A indicate that election firms increasing their mandatory disclosure experience less deterioration in all market quality measures for at least some months during the election period. Similarly, firms increasing voluntary disclosure in Panel B have abated negative effects on return volatility, illiquidity, spreads, and turnover during some of the pre-election months. These results are generally consistent with the notion that greater information transfer is associated with less negative consequences of heightened uncertainty. We caution, however, that our results do not enable us to make causal arguments due to the simultaneous nature of the measurements. For example, firms with the lowest deteriorations in market quality could be the ones with a greater propensity to enhance their disclosure.

5. Additional tests

5.1. SEC 8-K expansion

In August 2004, the SEC amended the 8-K reporting regime by expanding the number of mandated reportable events. Lerman and Livnat (2010) note that many of the new items were previously considered voluntary, which reduces managerial discretion over which information is reported on an ongoing basis. We study whether this increase in the number of mandatory filings impacts how firms respond to transitory uncertainty through voluntary disclosure.

We conduct these tests using a d-in-d analysis in a regression framework to control for contemporaneous variation in covariates that could be correlated with the disclosure variables,

thereby addressing any compositional modifications induced by the 8-K expansion. For this analysis, we estimate the following equation using OLS:

$$\Delta Disclosure_{ist} = \alpha_i + \delta_1 Election_{ist} + \delta_2 Expand + \delta_3 Election \times Expand + X_{ist} + \epsilon_{ist} \quad (2)$$

where *i*, *s*, and *t* indicate firm, state, and year respectively. The dependent variable *ΔDisclosure* is the change in 8-K frequency for the specified item over July to the November election date during the election year versus the same period in the year prior to the election. *Election* is a dummy variable equal to one if state *s* has a gubernatorial election in year *t*. *Expand* is a dummy variable equal to one if the disclosure occurred in 2005 onward. *Election x Expand* is an interaction term that captures the effects of the election after the SEC rule change. *X* is a vector of firm-level control variables, which includes firm size, market-to-book, cash, return on assets, earnings volatility, analyst following, a loss indicator, and an equity issue indicator. Each regression includes state and Fama-French 49 industries fixed effects, and clusters standard errors at the state group level.[16]

In Table 10, we separately analyze each item number from Tables 4–6 to allow for differences across types of 8-Ks. Because many item numbers were only mandated post-reform, we only include the *Expand* dummy and the interaction of this variable with *Election* for any item type that was required both before and after 2004.

[Insert Table 10 about here]

The results in Panels A and B of Table 10 reveal that even after controlling for other firm-specific factors, many mandated items are still significantly lower for election firms, indicating a reduction in certain types of information flow. Consistent with the results in Table 4, the exception to the decline is an observed increase in the entry into material definitive agreements. For the item

[16] Firms tend to be more transparent if they are larger or more profitable (Lang and Lundholm, 1993), have higher analyst following (Lang and Lundholm, 1996), or are raising equity (Clinton et al., 2014). Riskier firms and those with negative or volatile earnings tend to provide fewer voluntary disclosures (Waymire, 1985), as do firms with higher proprietary costs as proxied by the market-to-book value (Bamber and Cheon, 1998).

numbers that were mandated both before and after the 8-K expansion (Items 1.03, 2.01, 5.01, 5.02, and 5.03), we find that the election-period decline abates in disclosures of completion of acquisition or disposition of assets (Item 2.01) and director or officer turnover (Item 5.02). The other items do not exhibit a significant interaction effect between the election period and the 8-K expansion. This finding could occur because some items that were reported as voluntary are now mandatory after the SEC rule change.

We examine the voluntary and earnings-related 8-K items in Panel C. Reg FD disclosures increase during the election period after the 8-K expansion, but the interaction term reveals this increase is confined primarily to the period before the expansion. Similarly, voluntary disclosures of Other Events increase for election firms, but decrease once interacted with the expansion indicator. These results indicate that some voluntary disclosures that were previously provided during the uncertain election period are now mandated for all firms by the SEC.

5.2. Close elections

In this subsection, we re-examine market quality and disclosure measures to ascertain whether close elections, defined as elections where the vote differential is in the bottom quartile of all elections (Julio and Yook, 2012), intensify the effect of political uncertainty. Consistent with this conjecture, Fig. 3 shows that close elections are associated with greater deteriorations in each of our measures of market quality.

[Insert Fig. 3 and Table 11 about here]

Table 11 presents disclosure regressions for all elections and close elections versus non-election firms. For mandatory 8-K disclosures, the magnitude of the coefficient on close elections (–0.084) is more than twice as large as the coefficient for regressions of all elections (–0.038).

Similarly, for 8-Ks related to earnings disclosures (Item 2.02), the magnitude of the close election coefficient (–0.093) is nearly double the coefficient for all elections (–0.050). The coefficient on voluntary 8-K disclosures is numerically smaller (+0.116) for close elections versus all elections (+0.154), but still positive and significantly different from zero at the 1% level (*p*-value = 0.003). These results suggest that close elections heighten the uncertainty associated with political policies, which leads to a reduction in mandatory filings.

6. Conclusion

Our paper provides new insights in how firms respond to events that generate transitory uncertainty for firms that leads to a deterioration in market quality. In the months leading up to the November election, firms exhibit increased volatility, greater information asymmetry, and lower liquidity. We find that such events are associated with changes in firm-provided information flow. Firms from election states produce fewer mandated disclosures compared to non-election firms, which suggests that these companies engage in fewer material transactions in the months ahead of elections. Election firms tend to increase voluntary disclosure as measured by both 8-K filings and management earnings forecasts.

Further exploration shows that year-over-year changes in mandatory disclosures are positively correlated with changes to voluntary disclosure for all firms, which suggests these two forms of information flow are complements, rather than substitutes. Election firms, however, exhibit greater relative increases in voluntary disclosure only when mandatory filings either increase or have no change. Thus, election firms have a greater propensity to supply voluntary information relative to non-election firms when it complements increases in mandatory disclosure. Election firms that increase their mandatory or voluntary disclosures year-over-year, experience

mitigated deteriorations in market quality, which signifies that, at least for some firms, information flow could mitigate political uncertainties.

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Appendix A. Election details

A-1. Gubernatorial election years in sample

Election years	States
1998, 2000, 2002, 2004, 2006, 2008, 2010, 2012	New Hampshire and Vermont
1998, 2002, 2006, 2010	Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, Nevada, New Mexico, New York, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Wisconsin, and Wyoming
2000, 2004, 2008, 2012	Delaware, Indiana, Missouri, Montana, North Carolina, North Dakota, Utah, Washington, and West Virginia
1999, 2003, 2007, 2011	Kentucky, Louisiana, and Mississippi
2001, 2005, 2009, 2013	New Jersey and Virginia
Special elections	California (2003), Utah (2010), West Virginia (2011)

A-2. Gubernatorial election primary month

Month	State(s)
February	Illinois
March	Texas
May	Arkansas, Idaho, Indiana, Kentucky, Nebraska, North Carolina, Ohio, Oregon, Pennsylvania, and West Virginia
June	Alabama, California, Iowa, Maine, Montana, Nevada, New Jersey, New Mexico, North Dakota, South Carolina, South Dakota, Utah, and Virginia
July	Georgia and Oklahoma
August	Alaska, Arizona, Colorado, Connecticut, Florida, Kansas, Michigan, Missouri, Minnesota, Mississippi, Tennessee, Vermont, Washington, and Wyoming
September	Delaware, Hawaii, Louisiana, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Wisconsin

Appendix B. Variable definitions

B-1 Dependent variable definitions

Variable	Definition
Market quality	
Abnormal return volatility	Standard deviation of the net value of daily returns less the CRSP equal-weighted index returns
Implied volatility	Implied volatility of at-the-money forward call options with 91-day expiration
Bid-ask spread	Closing ask price less closing bid price divided by the midpoint of the closing ask and bid prices
Turnover	Natural log of daily trading volume divided by shares outstanding
Amihud illiquidity	Ratio of absolute stock return to dollar volume from Amihud (2002)
SEC Form 8-K	
Mandatory 8-K	8-Ks required to be filed by the SEC under a specific item number
Voluntary 8-K	8-Ks not required to be filed by the SEC on Items 7.01 and 8.01
8-K Frequency	The number of 8-Ks filed within a certain period
Number of items	Number of distinct items contained in each 8-K
Word count per sentence	Number of words per sentence
Positive Words (%)	Proportion of financial positive to total words in an 8-K from Loughran and McDonald (2011)
Negative Words (%)	Proportion of financial negative to total words in an 8-K from Loughran and McDonald (2011)
Uncertain Words (%)	Proportion of financial uncertain to total words in an 8-K from Loughran and McDonald (2011)
Management earnings forecast	
Forecast propensity	Equals one if the firm provides any annual or quarterly company issued guidance of earnings, cash flow, or funds from operations
Forecast frequency	Number of company issued earnings forecasts
Forecast horizon	Number of calendar days between the annual or quarterly management earnings forecast and the fiscal period end divided by the number of days in the fiscal period
Forecast error	Absolute value of the manager's point or median of the range earnings forecast minus the actual earnings, divided by the stock price at the end of the prior fiscal period

B-2. Control variable definitions

VARIABLE	DEFINITION
Firm-level controls	
Cash	Cash and short-term investments divided by total assets
Earnings volatility	Standard deviation of quarterly earnings over prior 12 quarters divided by median total assets
Equity issuance	Equals one if the firm's net equity issues are positive in the current fiscal year; otherwise zero
Firm size	Natural log of total assets
Leverage	Book value of debt divided by book value of assets
Log analysts	Natural log of (1 + number of analysts following firm)
Loss	Equals one if net income is negative in the current fiscal year; otherwise zero
Market volatility	Standard deviation of the CRSP equal-weighted index daily returns
Market-to-book	Market value of common equity divided by book value of common equity
Return-on-assets	Operating income before depreciation divided by current assets
Return volatility	Standard deviation of daily returns less the CRSP equal-weighted index return
Local economy controls	
State GDP growth (ΔGDP)	Growth rate per year in the state gross domestic product
Unemployment rate	U.S. unemployment rate

Appendix C. List of 8-K item numbers examined

Item number	Description	First election year in sample
Section 1	***Registrants Business and Operations***	
1.01	Entry into a Material Definitive Agreement	2005
1.02	Termination of a Material Definitive Agreement	2005
1.03	Bankruptcy or Receivership	1998
Section 2	***Financial Information***	
2.01	Completion of Acquisition or Disposition of Assets	1998
2.02	Results of Operations and Financial Condition	2005
2.03	Creation of a Direct/Off Balance Sheet Financial Obligation	2005
2.04	Triggering Events that Accelerate/Increase a Direct/Off Balance Sheet Financial Obligation	2005
2.05	Costs Associated with Exit or Disposal Activities	2005
2.06	Material Impairments	2005
Section 3	***Securities and Trading Markets***	
3.01	Notice of Delisting or Failure to Satisfy a Continued Listing Rule or Standard; Transfer of Listing	2005
3.02	Unregistered Sales of Equity Securities	2005
3.03	Material Modification to Rights of Security Holders	2005
Section 5	***Corporate Governance and Management***	
5.01	Changes in Control of Registrant	1998
5.02	Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers	1998
5.03	Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year	1998
5.04	Temporary Suspension of Trading Under Registrant's Employee Benefit Plans	2005
5.05	Amendment to Registrant's Code of Ethics, or Waiver of a Provision of the Code of Ethics	2005
Section 7	***Regulation Fair Disclosure (Reg FD)***	
7.01	Reg FD Disclosure	2002
Section 8	***Other Events***	
8.01	Other Events Considered of Importance to Security Holders	1998

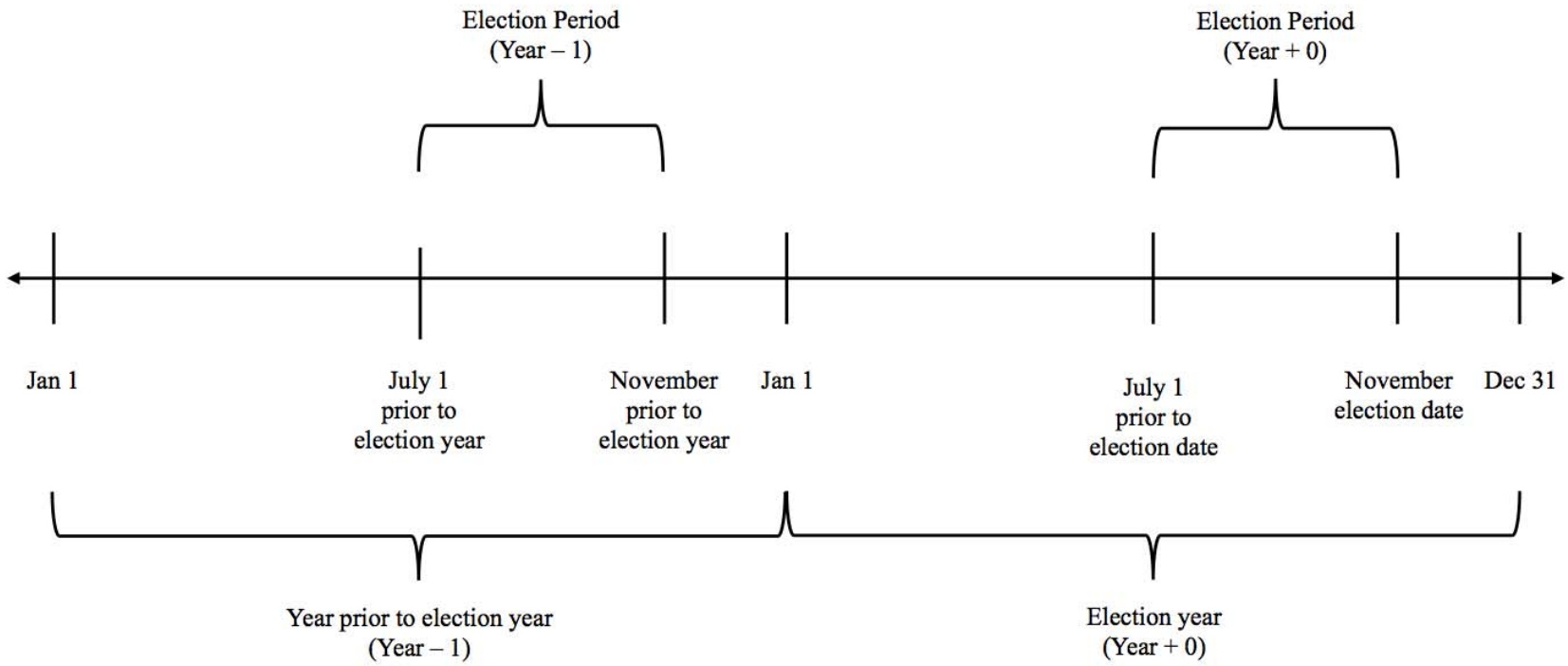
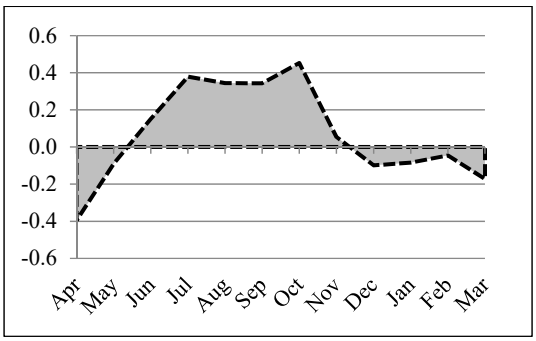
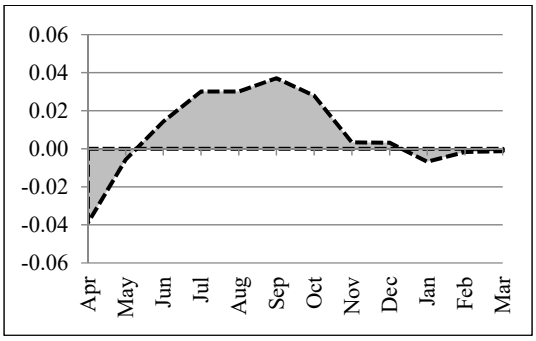


Fig. 1. Disclosure periods analyzed around gubernatorial elections. This figure provides an illustrative example of the disclosure periods analyzed for election firms (treatment) and non-election (control) firms.

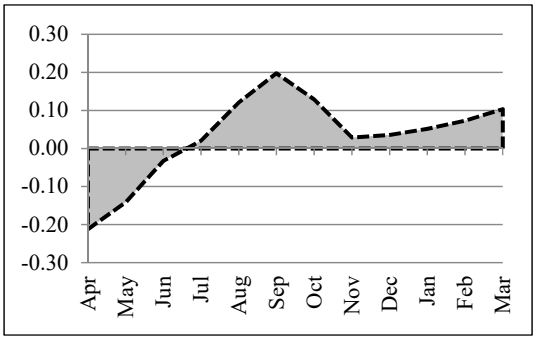
2A. Abnormal return volatility



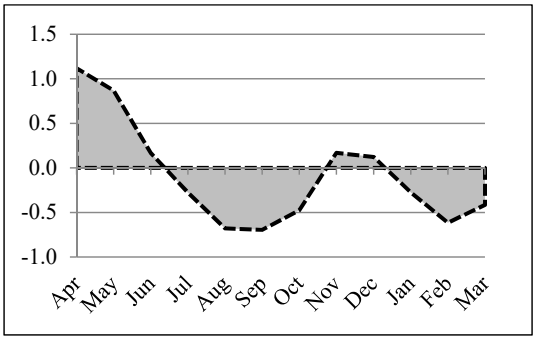
2B. Implied volatility



2C. Bid-ask spread percent



2D. Turnover



2E. Amihud Illiquidity

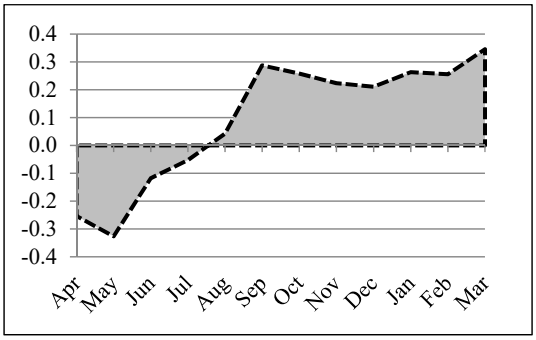
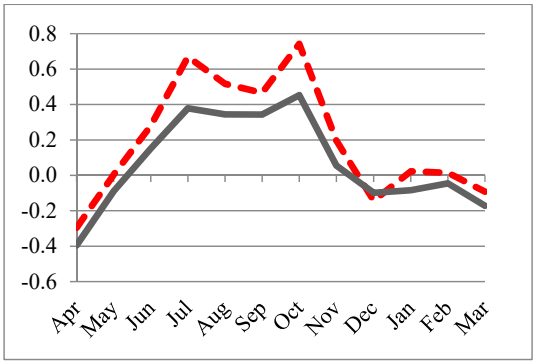
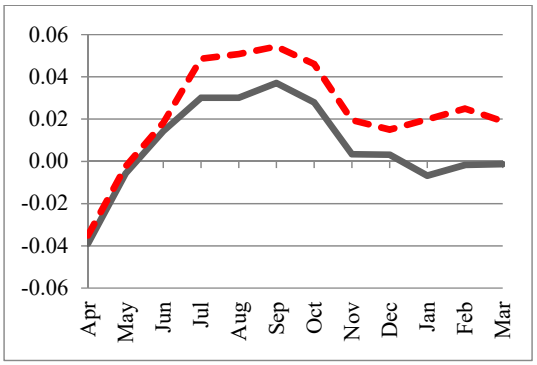


Fig. 2. Market quality graphs around gubernatorial elections. These graphs plot the monthly coefficients for election firms from the baseline regression specification of each measure reported in Table 2.

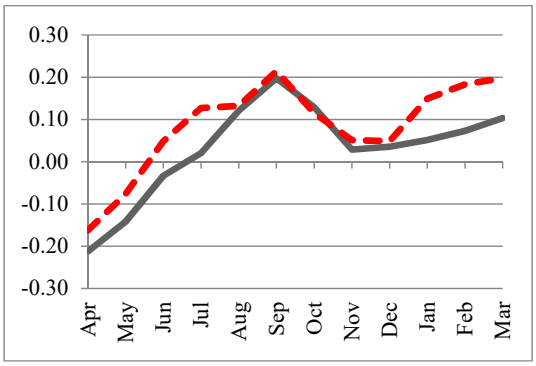
3A. Abnormal return volatility



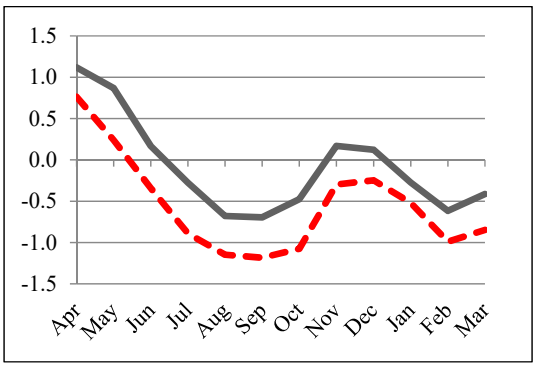
3B. Implied volatility



3C. Bid-ask spread percent



3D. Turnover



3E. Amihud Illiquidity

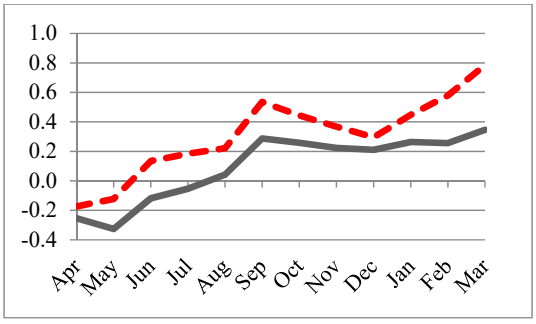


Fig. 3. Market quality graphs around close gubernatorial elections. A close election is defined as one where the vote differential is in the bottom quartile of all elections These graphs plot the monthly coefficients from the baseline regression specification of each measure. The solid line depicts all elections and the red dashed line illustrates close elections.

Table 1

Sample construction.

This table contains information on our sample construction for panel data regressions of market quality in Panel A and difference-in-difference (d-i-d) tests of disclosure in Panel B. Election firms are those with a gubernatorial election in their headquarter state in a given year. In the d-i-d tests, we match election firms with non-election firms who are those not headquartered in a state with a gubernatorial election during the previous, current, or subsequent year as the election firm. See Appendix B for variable definitions.

Panel A. Sample for tests of market quality	**N**
Firm years with non-missing state, price, and total assets data over 1997-2013	82,007
Less: firm years with missing price and total assets during year prior to gubernatorial election	(5,172)
Less: Wisconsin special election firms in 2012	(53)
Sample firm years	76,782
Composition	
Election firm years	19,854
Non-election firm years	56,928
Unique firms	10,445
Panel B. Sample for d-i-d tests of disclosure	**N**
(i) Election firm sample	
Firm years with gubernatorial election over 1997-2013	19,854
Less: firm years from 1997	(456)
Sample election firm years over 1998-2013	19,398
(ii) Non-election firm sample	
Firm years without a gubernatorial election over 1997-2013	56,928
Less: firm years with a gubernatorial election at year – 1	(18,479)
Less: firm years with a gubernatorial election at year + 1	(21,833)
Less: firm years from 1997	(95)
Sample of non-election firm years over 1998-2013	16,521
Unique firms	9,224

Table 2

Panel regression of market quality.

Panel A presents the average monthly values of market quality measures during non-election years only. Panel B reports the results of the following regression:

$$Y_{ist} = \alpha_i + \mu_t + \sum_{t=1}^{12} \beta_t M_{st} + \sum_{n=1}^{N} \gamma_n X_{ist}^n + \upsilon GDP_{st} + \psi UR_t + \sum_{t=1}^{12} \delta_t D_t + \epsilon_{ist} \quad (1)$$

where *i*, *s*, and *t* indicates firms, states, and months respectively. The dependent variables, *Y*, are abnormal return volatility, implied volatility, bid-ask spread percent, turnover, and Amihud illiquidity. We define variables in Appendix B. M_{st} is a monthly dummy for election firms during the 12-month period beginning April prior to the election and ending in March following the election. β_t represents the conditional change in the dependent variables in the months preceding and following the elections after controlling for firm characteristics and economic conditions. (–) indicates months prior to the gubernatorial election and (+) indicates months after a gubernatorial election. X_{ist} are firm-level control variables including firm size, market-to-book, leverage, cash, and log analyst following. We include abnormal return volatility as a control for regressions of bid-ask spread and turnover, and market volatility as a control for Amihud illiquidity. X_{ist} includes abnormal return volatility as a firm-level control variable in regressions on information asymmetry and liquidity. GDP_{st} is the state-level growth rate in gross domestic product. UR_t is the national unemployment rate. D_t represents monthly dummies to control for the unconditional change in the dependent variables. The coefficients for D_t and the intercept are not reported for brevity. Standard errors are clustered at the state level and reported in parentheses. All models include firm and year fixed effects. [a], [b], and [c] indicate statistical significance at the 1%, 5%, and 10% levels. Panel B also reports the mean and standard deviation of the market quality measures for the full sample period.

Panel A. Market quality during non-election years

	Abnormal return volatility	Implied volatility	Bid-ask spread	Turnover	Amihud Illiquidity
April (–)	3.633	0.496	1.894	7.648	1.682
May (–)	3.265	0.484	1.741	7.265	1.654
June (–)	3.134	0.478	1.696	7.466	1.731
July (–)	3.213	0.474	1.704	7.153	1.786
August (–)	3.209	0.483	1.734	6.887	1.777
September (–)	3.343	0.487	1.775	7.289	1.827
October (–)	3.685	0.513	1.893	7.352	1.882
November	3.662	0.517	1.823	7.527	1.899
December (+)	3.659	0.508	1.731	7.652	1.866
January (+)	3.634	0.509	1.870	8.059	1.993
February (+)	3.330	0.499	1.795	7.881	1.831
March (+)	3.478	0.499	1.830	7.900	1.436

Table 2 (continued)

Panel B. Regressions of market quality

Variable	Abnormal return vol. (1)	Implied volatility (2)	Bid-ask spread (3)	Turnover (4)	Amihud illiquidity (5)
April (–)	–0.396[a]	–0.039[a]	–0.212[a]	1.119[a]	–0.254[a]
	(0.043)	(0.003)	(0.046)	(0.275)	(0.084)
May (–)	–0.090[b]	–0.006[c]	–0.141[a]	0.867[a]	–0.326[a]
	(0.038)	(0.003)	(0.034)	(0.193)	(0.090)
June (–)	0.152[a]	0.014[a]	–0.033	0.166	–0.118[c]
	(0.047)	(0.004)	(0.032)	(0.108)	(0.069)
July (–)	0.379[a]	0.030[a]	0.020	–0.277[c]	–0.053
	(0.076)	(0.007)	(0.040)	(0.156)	(0.075)
August (–)	0.344[a]	0.030[a]	0.121[a]	–0.678[a]	0.043
	(0.079)	(0.007)	(0.035)	(0.146)	(0.045)
September (–)	0.344[a]	0.037[a]	0.198[a]	–0.696[a]	0.287[a]
	(0.066)	(0.008)	(0.027)	(0.187)	(0.058)
October (–)	0.453[a]	0.028[a]	0.129[a]	–0.475[a]	0.258[a]
	(0.084)	(0.007)	(0.031)	(0.161)	(0.041)
November	0.055	0.003	0.029[a]	0.169	0.224[a]
	(0.072)	(0.007)	(0.032)	(0.185)	(0.052)
December (+)	–0.099	0.003	0.036[a]	0.122	0.211[a]
	(0.082)	(0.007)	(0.031)	(0.225)	(0.052)
January (+)	–0.084	–0.007	0.052[a]	–0.274[b]	0.263[a]
	(0.051)	(0.005)	(0.018)	(0.131)	(0.046)
February (+)	–0.046	–0.002	0.073[a]	–0.616[a]	0.256[a]
	(0.040)	(0.004)	(0.018)	(0.175)	(0.053)
March (+)	–0.172[a]	–0.001	0.103[a]	–0.414[c]	0.346[a]
	(0.059)	(0.004)	(0.019)	(0.224)	(0.056)
Firm size	–0.576[a]	–0.054[a]	–0.358[a]	1.812[a]	-1.213[a]
	(0.038)	(0.004)	(0.027)	(0.130)	(0.093)
Market-to-book	–0.017[a]	–0.002[a]	–0.045[a]	0.251[a]	–0.053[a]
	(0.003)	(0.000)	(0.002)	(0.015)	(0.005)
Leverage	1.554[a]	0.129[a]	1.020[a]	–0.918[c]	1.543[a]
	(0.145)	(0.012)	(0.128)	(0.513)	(0.278)
Cash	–0.641[a]	–0.013	–0.715[a]	6.559[a]	-1.370[a]
	(0.098)	(0.014)	(0.084)	(0.586)	(0.413)
Log analysts	–0.138[a]	–0.021[a]	–0.310[a]	1.823[a]	–0.330[a]
	(0.024)	(0.004)	(0.022)	(0.158)	(0.036)
Volatility			0.246[a]	1.965[a]	0.417[a]
			(0.022)	(0.177)	(0.028)
ΔGDP	0.007	0.000	–0.010[c]	0.081[a]	0.007
	(0.005)	(0.001)	(0.006)	(0.022)	(0.008)
Unemployment	0.199[a]	0.008[a]	–0.056[a]	0.006	–0.053[b]
	(0.013)	(0.002)	(0.019)	(0.074)	(0.025)
Sample average	3.429	0.491	1.818	7.362	1.776
Sample SD	3.114	0.248	3.266	14.874	6.730
N	792,715	341,477	755,857	760,243	753,003
Adjusted R^2	0.411	0.701	0.616	0.301	0.398

Table 3

Tests of mandatory disclosure.

This table presents analysis of mandatory 8-K disclosures. Column 1 of this table presents the average values for July through the election date in November of non-election periods. Columns 2 through 5 present the changes in disclosure for the period July through the election date in November. Column 2 (3) presents changes for election (non-election control) firms in the year of the gubernatorial election (Year 0) versus the prior year (Year-1). [a], [b], and [c] indicate the difference across years for election or non-election firms are statistically different from zero at the 1%, 5%, and 10% levels. Column 4 shows the difference-in-difference (d-in-d) between these two groups. [***],[**],[*] indicate the d-in-d values in Column 4 are significantly different from zero at the 1%, 5%, and 10% levels based on the *t*-statistic reported in Column 5. All variables are defined in Appendix B.

Mandatory 8-K Variables	Non-Election Year Average	Changes versus Prior Year: July to November Election Date			
	July to November	Election Firms	Non-Election Firms	D-i-d	D-i-d *t*-stat
	(1)	(2)	(3)	(4)	(5)
Frequency	1.096	0.021	0.054[a]	–0.033[*]	–1.65
Properties					
Number of items	2.844	0.153[a]	0.448[a]	–0.295[***]	–3.96
Word count per sentence	9.083	0.695[a]	1.961[a]	–1.266[***]	–9.98
Positive words (%)	0.267	0.017[a]	0.060[a]	–0.043[***]	–9.77
Negative words (%)	0.337	0.035[a]	0.079[a]	–0.044[***]	–6.34
Uncertain words (%)	0.169	0.009[a]	0.037[a]	–0.029[***]	–6.22

Table 4

Itemized election year changes in mandatory 8-K disclosure frequency.

This table presents the analysis of itemized mandatory 8-K disclosures. Column 1 presents the average values for July through the election date in November of non-election periods. Columns 2 through 5 present the changes in disclosure tests for the period July through the election date in November. Column 2 (3) presents changes for election (non-election control) firms in the year of the gubernatorial election (Year 0) versus the prior year (Year-1). [a], [b], and [c] indicate the difference across years for election or non-election firms are statistically different from zero at the 1%, 5%, and 10% levels. Column 4 shows the difference-in-difference (d-in-d) between these two groups. [***],[**],[*] indicate the d-in-d values in Column 4 are significantly different from zero at the 1%, 5%, and 10% levels based on the *t*-statistic reported in Column 5.

Itemized Mandatory 8-K Variables	Non-Election	Changes versus Prior Year: July to November Election Date			
	July to November	Election Firms	Non-Election Firms	D-i-d	D-i-d *t*-stat
	(1)	(2)	(3)	(4)	(5)
Section 1 – Business and Operations	0.338	0.019[a]	–0.014[b]	0.034[***]	3.56
1.01 Enter material definitive agreement	0.547	0.047[a]	–0.027	0.073[***]	3.67
1.02 Terminate material definitive agreement	0.052	0.001	–0.008[b]	0.009	1.50
1.03 Bankruptcy or receivership	0.002	0.000	0.001[b]	–0.001[**]	–2.04
Section 2 – Financial Information	0.228	–0.007	0.010[c]	–0.017[**]	–2.28
2.01 Acquisition or disposition of assets	0.104	–0.005	0.007[c]	–0.012[**]	–2.26
2.03 Create debt/off-balance sheet obligation	0.169	0.001	–0.002	0.003	0.33
2.04 Accelerate debt/off-balance sheet obligation	0.006	0.001	0.001	0.000	–0.11
2.05 Costs of exit or disposal activities	0.035	–0.005[c]	0.004	–0.009[**]	–2.09
2.06 Material impairments	0.022	–0.002	0.004[c]	–0.006[*]	–1.87
Section 3 – Securities and Trading Markets	0.165	–0.008[a]	0.006[b]	–0.014[***]	–3.52
3.01 Delisting or transfer of listing	0.062	0.020[a]	0.021[a]	–0.002	–0.29
3.02 Unregistered sales of equity securities	0.066	–0.017[a]	0.001	–0.018[***]	–2.60
3.03 Modify rights of security holders	0.036	0.000	0.008[a]	–0.008[**]	–2.01
Section 5 – Corporate Governance	0.444	0.016[b]	0.052[a]	–0.036[***]	–3.62
5.01 Changes in control of registrant	0.015	–0.001	0.001	–0.002	–0.81
5.02 Director/Officer turnover or election	0.362	0.016[a]	0.049[a]	–0.033[***]	–3.89
5.03 Amend bylaws/articles of incorporation	0.058	–0.001	0.000	–0.001	–0.21
5.04 Suspend employee benefits plan trading	0.007	0.002[c]	0.000	0.002	1.23
5.05 Change code of ethics	0.007	0.000	0.002[c]	–0.002	–1.41

Table 5

Tests of voluntary 8-K disclosure.

This table presents the analysis for voluntary 8-K disclosures. Column 1 presents the average values for July through the election date in November of non-election periods. Columns 2 through 5 present the changes in disclosure tests for the period July through the election date in November. Column 2 (3) presents changes for election (non-election control) firms in the year of the gubernatorial election (Year 0) versus the prior year (Year-1). [a], [b], and [c] indicate the difference across years for election or non-election firms are statistically different from zero at the 1%, 5%, and 10% levels. Column 4 shows the difference-in-difference (d-in-d) between these two groups. [***],[**],[*] indicate the d-in-d values in Column 4 are significantly different from zero at the 1%, 5%, and 10% levels based on the *t*-statistic reported in Column 5. Item 7.01 begins in election year 2002. Item 8.01 begins in election year 1998. All variables are defined in Appendix B.

Voluntary 8-K Variables	Non-Election Year Averages	Changes versus Prior Year: July to November Election Date			
	July to November	Election Firms	Non-Election Firms	D-i-d	D-i-d *t*-stat
	(1)	(2)	(3)	(4)	(5)
Frequency					
Total (Items 7.01 and 8.01)	1.265	0.210[a]	0.060[a]	0.151[***]	8.23
Item 7.01 – Regulation Fair Disclosure	0.676	0.148[a]	–0.030[a]	0.178[***]	12.56
Item 8.01 – Other Events	0.815	0.108[a]	0.079[a]	0.029[*]	1.90
Properties					
Number of items	2.665	0.408[a]	0.185[a]	0.223[***]	5.41
Word count per sentence	9.551	1.758[a]	0.427	1.331[***]	4.18
Positive words (%)	0.227	0.023[a]	0.031[a]	–0.008[*]	–1.75
Negative words (%)	0.271	0.046[a]	0.042[a]	0.004	0.53
Uncertain words (%)	0.229	0.031[a]	0.028[a]	0.003	0.47

Table 6

Tests of 8-K Operations and Financial Reports

This table presents the analysis for 8-Ks with Item 2.02 - Results of Operations and Financial Condition during 2005-2013. Column 1 presents the average values for July through the election date in November of non-election periods. Columns 2 through 5 present the changes in disclosure tests for the period July through the election date in November. Column 2 (3) presents changes for election (non-election control) firms in the year of the gubernatorial election (Year 0) versus the prior year (Year-1). [a], [b], and [c] indicate the difference across years for election or non-election firms are statistically different from zero at the 1%, 5%, and 10% levels. Column 4 shows the difference-in-difference (d-in-d) between these two groups. [***], [**], [*] indicate the d-in-d values in Column 4 are significantly different from zero at the 1%, 5%, and 10% levels based on the *t*-statistic reported in Column 5. All variables are defined in Appendix B.

Item 2.02 8-K Variables	Non-Election Year Averages	Changes versus Prior Year: July to November Election Date			
	July to November	Election Firms	Non-Election Firms	D-i-d	D-i-d *t*-stat
	(1)	(2)	(3)	(4)	(5)
Frequency	1.528	0.113[a]	0.156[a]	–0.042[***]	–3.73
Properties					
Number of items	3.331	0.302[a]	0.345[a]	–0.043	–1.53
Word count per sentence	15.526	0.924[a]	0.937[a]	–0.013	–0.13
Positive words (%)	0.380	0.024[a]	0.024[a]	–0.000	–0.20
Negative words (%)	0.176	0.008[b]	0.013[a]	–0.005	–0.82
Uncertain words (%)	0.228	0.018[a]	0.017[a]	0.002	0.29

Table 7

Tests of management earnings forecasts.

This table presents the analysis for management earnings forecasts. Column 1 presents the average values for July through the election date in November of non-election periods. Columns 2 through 5 present the changes in disclosure tests for the period July through the election date in November. Column 2 (3) presents changes for election (non-election control) firms in the year of the gubernatorial election (Year 0) versus the prior year (Year-1). [a], [b], and [c] indicate the difference across years for election or non-election firms are statistically different from zero at the 1%, 5%, and 10% levels. Column 4 shows the difference-in-difference (d-in-d) between these two groups. [***],[**],[*] indicate the d-in-d values in Column 4 are significantly different from zero at the 1%, 5%, and 10% levels based on the *t*-statistic reported in Column 5. All variables are defined in Appendix B.

Management Earnings Forecast Variables	Non-election Year Averages	Changes versus Prior Year: July to November Election Date			
	July to November	Election Firms	Non-Election Firms	D-i-d	D-i-d *t*-stat
	(1)	(2)	(3)	(4)	(5)
Annual forecasts					
Propensity	0.168	0.023[a]	0.016[a]	0.007[**]	2.37
Frequency	0.288	0.049[a]	0.040[a]	0.008	1.51
Horizon	0.459	–0.013[a]	–0.023[a]	0.011	1.56
Error	1.716	–0.031	0.165	–0.196	–0.69
Quarterly forecasts					
Propensity	0.155	0.015[a]	0.015[a]	0.000	0.00
Frequency	0.244	0.030[a]	0.034[a]	–0.004	–0.63
Horizon	0.717	0.010	–0.013[a]	0.023[*]	1.66
Error	0.816	–0.085[b]	0.263[b]	–0.348[***]	–3.12

Table 8

Interaction of voluntary and mandatory disclosure.

This table presents the analysis for total 8-K frequency and the interaction of changes to mandatory and voluntary 8-K disclosures. Column 1 presents the percent of the sample with year-over-year increases in mandatory 8-K disclosure frequency for the period July through the election date in November. Columns 2 through 5 present changes in disclosure for the period July through the election date in November. Column 2 (3) presents changes for election (non-election control) firms in the year of the gubernatorial election (Year 0) versus the prior year (Year-1). [a], [b], and [c] indicate the difference across years for election or non-election firms are statistically different from zero at the 1%, 5%, and 10% levels. Column 4 shows the d-in-d between these two groups. [***],[**],[*] indicate the difference-in-difference (d-in-d) values in Column 4 are significantly different from zero at the 1%, 5%, and 10% levels based on the *t*-statistic reported in Column 5. All variables are defined in Appendix B.

8-K Variables	Changes versus Prior Year: July to November Election Date				
	Percent of Sample	Election Firms	Non-Election Firms	D-i-d	D-i-d *t*-stat
	(1)	(2)	(3)	(4)	(5)
Decreased mandatory filings	20.3				
Voluntary 8-K frequency: Total		–0.312[a]	–0.275[a]	–0.036	–0.81
Voluntary 8-K frequency: Regulation FD (7.01)		–0.066[a]	–0.083[a]	0.017	0.61
Voluntary 8-K frequency: Other Events (8.01)		–0.256[a]	–0.205[a]	–0.051	–1.35
No change in mandatory filings	57.4				
Voluntary 8-K frequency: Total		0.252[a]	0.018	0.234[***]	11.64
Voluntary 8-K frequency: Regulation FD (7.01)		0.208[a]	–0.083[a]	0.290[***]	15.29
Voluntary 8-K frequency: Other Events (8.01)		0.132[a]	0.060[a]	0.072[***]	4.26
Increased mandatory filings	22.4				
Voluntary 8-K frequency: Total		0.588[a]	0.440[a]	0.148[***]	3.13
Voluntary 8-K frequency: Regulation FD (7.01)		0.235[a]	0.083[a]	0.152[***]	5.12
Voluntary 8-K frequency: Other Events (8.01)		0.387[a]	0.367[a]	0.020	0.51

Table 9

Panel regression of market quality based on disclosure changes.

This table reports market quality regressions based on changes in disclosure. All dependent and independent variables are similar to those reported in Table 2 and Equation (1) except for the addition of a new variable and interaction to capture firms that increase their year-over-year disclosure. *Incr. Mandatory* (*Voluntary*) is an indicator variables equal to one if a firm exhibits an increase in their mandatory (voluntary) 8-K frequency relative to the prior year. Panel A includes the terms for increased mandatory disclosure, while Panel B contains the terms for increased voluntary disclosure. The months represent the conditional change in the dependent variables in the months preceding and following the elections after controlling for firm characteristics and economic conditions. (–) indicates months prior to the gubernatorial election and (+) indicates months after a gubernatorial election. All regressions include firm controls including firm size, market-to-book, leverage, cash, and log analyst following. They also include firm and state fixed effects. [a], [b], and [c] indicate statistical significance at the 1%, 5%, and 10% levels.

Panel A. Mandatory disclosure changes					
Variable	Abnormal return vol. (1)	Implied volatility (2)	Bid-ask spread (3)	Turnover (4)	Amihud illiquidity (5)
Incr. Mandatory	0.104[a]	0.009[a]	–0.034	0.250[c]	0.035
April (–)	–0.444[a]	–0.046[a]	–0.228[a]	0.938[a]	–0.133
May (–)	0.041	–0.009[a]	–0.275[a]	0.898[a]	–0.376[a]
June (–)	0.193[b]	0.009[c]	–0.067	0.013	–0.089
July (–)	0.359[a]	0.022[a]	–0.050	–0.050	–0.236[b]
August (–)	0.562[a]	0.044[a]	0.059	–0.424[c]	–0.152[b]
September (–)	0.452[a]	0.052[a]	0.138[a]	–0.684[a]	0.264[a]
October (–)	0.259[a]	0.022[b]	0.009	0.060	0.221[a]
November	–0.195[b]	–0.020[a]	–0.217[a]	1.002[b]	0.025
December (+)	–0.371[a]	–0.003	–0.150[b]	0.689[c]	–0.103
January (+)	0.685[a]	0.172[a]	0.244[a]	–3.378[a]	0.867[a]
February (+)	0.393[a]	0.158[a]	0.329[a]	–3.823[a]	1.041[a]
March (+)	0.418[a]	0.136[a]	0.297[a]	–3.569[a]	1.179[a]
Apr. x Incr. Mandatory	0.024	–0.001	0.124[a]	0.092	0.025[a]
May x Incr. Mandatory	0.181[a]	0.022[a]	0.129[a]	0.290	0.048
Jun. x Incr. Mandatory	0.161[a]	0.028[a]	0.056	0.537[c]	–0.118
Jul. x Incr. Mandatory	–0.032	0.007[c]	0.039	0.509	0.026
Aug. x Incr. Mandatory	–0.099	–0.007	0.002	0.539[a]	–0.094
Sep. x Incr. Mandatory	–0.224[a]	–0.020[a]	–0.101[b]	0.651[a]	–0.276[a]
Oct. x Incr. Mandatory	–0.461[a]	–0.033[a]	–0.149[a]	0.555[a]	–0.234[a]
Nov. x Incr. Mandatory	–0.320[a]	–0.025[a]	0.028	–0.026	–0.331[a]
Dec. x Incr. Mandatory	–0.168[a]	–0.021[a]	0.042	–0.178	0.063
Jan. x Incr. Mandatory	0.128[a]	–0.029[a]	0.031	–0.591[a]	0.025
Feb. x Incr. Mandatory	–0.666[a]	–0.037[a]	0.264[a]	–0.377[c]	–0.664[a]
Mar. x Incr. Mandatory	–0.364[a]	–0.043[a]	0.104[a]	–0.583[b]	–0.335[a]
Firm controls	Yes	Yes	Yes	Yes	Yes
N	391,930	163,398	378,427	380,094	376,348
Adjusted R^2	0.426	0.722	0.643	0.316	0.415

Table 9 (Continued)

Panel B. Voluntary disclosure changes

Variable	Abnormal return vol. (1)	Implied volatility (2)	Bid-ask spread (3)	Turnover (4)	Amihud illiquidity (5)
Incr. Voluntary	0.088[a]	0.001	–0.049[c]	0.387[a]	–0.021
April (–)	–0.456[a]	–0.043[a]	–0.246[a]	1.090[a]	–0.181[b]
May (–)	0.041	–0.001	–0.292[a]	1.075[a]	–0.416[a]
June (–)	0.170[a]	0.017[a]	–0.080	0.079	–0.098
July (–)	0.247[a]	0.021[b]	–0.061	0.036	–0.212[c]
August (–)	0.502[a]	0.039[a]	0.064	–0.305	–0.134
September (–)	0.397[a]	0.046[a]	0.155[a]	–0.667[a]	0.320[a]
October (–)	0.171[c]	0.014	0.037	0.088	0.275[a]
November	–0.226[b]	–0.025[a]	–0.213[b]	0.939[b]	0.025
December (+)	–0.327[a]	–0.005	–0.149[b]	0.743[b]	–0.096
January (+)	0.761[a]	0.173[a]	0.235[a]	–3.000[a]	1.102[a]
February (+)	0.458[a]	0.161[a]	0.326[a]	–3.847[a]	1.228[a]
March (+)	0.504[a]	0.136[a]	0.264[a]	–3.072[a]	1.436[a]
Apr. x Incr. Voluntary	0.040	–0.008[c]	0.148[b]	–0.405[b]	0.171
May x Incr. Voluntary	0.110[b]	–0.007	0.148[a]	–0.354[b]	0.154
Jun. x Incr. Voluntary	0.170[a]	–0.002	0.082	0.174	–0.060
Jul. x Incr. Voluntary	0.329[a]	0.009	0.064	0.091	–0.070
Aug. x Incr. Voluntary	0.115[a]	0.008	–0.012	0.006	–0.134
Sep. x Incr. Voluntary	0.016	0.003	–0.122[b]	0.407[c]	–0.377[a]
Oct. x Incr. Voluntary	–0.034	–0.002	–0.189[a]	0.315	–0.342[a]
Nov. x Incr. Voluntary	–0.127[a]	–0.004	0.006	0.217	–0.228[b]
Dec. x Incr. Voluntary	–0.265[a]	–0.009	0.027	–0.271[c]	0.017
Jan. x Incr. Voluntary	–0.156[a]	–0.008	0.034	–0.699[a]	–0.530[a]
Feb. x Incr. Voluntary	–0.231[a]	–0.014[c]	0.051[c]	0.112	–0.525[a]
Mar. x Incr. Voluntary	–0.236[a]	–0.009	0.089[a]	–0.941[a]	–0.614[a]
Firm controls	Yes	Yes	Yes	Yes	Yes
N	391,930	163,398	378,427	380,094	376,348
Adjusted R^2	0.426	0.722	0.643	0.315	0.415

Table 10

Disclosure regressions around SEC rule change.

This table presents regressions of 8-K disclosure frequency for the period July-November election date. Panels A and B present mandatory 8-K items. Panel C presents voluntary and earnings disclosures. The dependent variable is the change in the 8-K frequency during a gubernatorial election year (Year 0) versus the prior year (Year-1). *Election* equals one if the firm is domiciled in a state with an election. *Expand* equals one if the election occurs during 2005-2013. Regressions include state and industry fixed effects. Standard errors are clustered at the state level. ***,**,* indicate significance at the 1%, 5%, and 10% levels.

Panel A. Mandated 8-K Sections 1 and 2

	1.01	1.02	1.03	2.01	2.03	2.04	2.05	2.06
Election	0.061*	0.007	–0.001	–0.027***	0.001	–0.001	–0.008*	–0.004
	(1.86)	(1.18)	(–1.17)	(–4.43)	(0.05)	(–0.08)	(–1.81)	(–1.19)
Expand			–0.001	–0.009				
			(–0.88)	(–0.93)				
Election x Expand			–0.001	0.026**				
			(–0.14)	(2.33)				
Firm size	0.001	–0.001	–0.001	–0.002	–0.002	–0.001	–0.003**	–0.001
	(0.16)	(–0.61)	(–0.73)	(–0.67)	(–0.35)	(–0.34)	(–2.11)	(–0.31)
Market-to-book	–0.002	–0.002**	–0.001*	0.001	0.001	0.001	–0.001	0.001**
	(–0.53)	(–2.22)	(–1.86)	(1.09)	(0.56)	(0.73)	(–0.03)	(2.01)
Loss	0.014	0.012	0.001	–0.001	0.029**	0.006*	0.023***	0.035***
	(0.41)	(1.19)	(1.26)	(–0.05)	(2.42)	(1.76)	(3.64)	(3.80)
Return-on-assets	–0.198	0.033	–0.005	0.030	0.042	–0.006	–0.099**	0.054
	(–0.87)	(0.35)	(–0.98)	(0.43)	(0.44)	(–0.23)	(–2.01)	(1.23)
Cash	–0.056	0.013	–0.003	0.029**	0.006	–0.007	–0.024	–0.023**
	(–1.13)	(0.85)	(–1.12)	(2.10)	(0.15)	(–0.62)	(–1.55)	(–2.47)
Log Analysts	–0.011	0.004	0.001	0.002	–0.001	–0.001	0.007**	0.004
	(–0.76)	(0.83)	(0.37)	(0.33)	(–0.08)	(–0.53)	(2.39)	(1.48)
Equity issuance	0.118***	0.012	–0.001	0.024**	0.005	0.005	–0.005	–0.009*
	(3.98)	(1.49)	(–0.13)	(2.31)	(0.39)	(1.21)	(–1.07)	(–1.72)
Earnings Volatility	–0.469	–0.039	–0.009	–0.108*	0.088	–0.039	–0.082*	–0.030
	(–1.40)	(–0.46)	(–1.00)	(–1.69)	(0.51)	(–1.39)	(–1.79)	(–1.44)
Intercept	–0.031	–0.053	0.004	–0.020	–0.141*	0.002	–0.041	–0.005
	(–0.16)	(–1.31)	(1.54)	(–0.32)	(–1.77)	(0.28)	(–1.35)	(–0.47)
Years	2005–13	2005–13	1998–13	1998–13	2005–13	2005–13	2005–13	2005–13
N	14,820	14,820	33,306	33,306	14,820	14,820	14,820	14,820
Adj. R^2	0.010	0.008	0.004	0.004	0.008	0.007	0.011	0.012

Table 10 (Continued)

Panel B. Mandated 8-K Sections 3 and 5								
	3.01	3.02	3.03	5.01	5.02	5.03	5.04	5.05
Election	–0.004	–0.024***	–0.007	0.001	–0.066***	–0.007**	0.003	–0.001
	(–1.19)	(–3.26)	(–1.47)	(0.23)	(–4.17)	(–2.36)	(1.65)	(–0.24)
Expand				0.001	–0.072***	–0.028***		
				(0.24)	(–3.57)	(–3.15)		
Election x Expand				–0.001	0.073***	0.016		
				(–0.26)	(3.73)	(1.55)		
Firm size	–0.001	0.005**	0.001	0.003***	0.002	0.005***	0.002***	0.001
	(–0.31)	(2.22)	(0.25)	(3.17)	(0.72)	(4.34)	(3.26)	(0.14)
Market–to–book	0.001**	0.001	–0.002**	0.001	–0.003***	–0.001	–0.001	0.001
	(2.01)	(0.17)	(–3.65)	(0.96)	(–3.03)	(–0.81)	(–0.43)	(1.08)
Loss	0.035***	–0.018	0.006	–0.002	0.044***	–0.004	0.002	–0.002
	(3.80)	(–1.09)	(0.84)	(–0.79)	(2.80)	(–0.72)	(1.19)	(–0.73)
Return-on-assets	0.054	–0.051	–0.031	–0.059**	–0.036	–0.066*	–0.015	–0.026
	(1.23)	(–0.30)	(–0.77)	(–2.43)	(–0.45)	(–1.75)	(–0.92)	(–1.00)
Cash	–0.023**	0.030	0.002	–0.001	0.009	–0.004	0.006	–0.009**
	(–2.47)	(1.33)	(0.26)	(–0.12)	(0.35)	(–0.77)	(1.36)	(–2.05)
Log Analysts	0.004	–0.009*	0.002	–0.002	0.014**	0.001	–0.002	–0.002
	(1.48)	(–1.96)	(0.60)	(–1.41)	(2.33)	(0.16)	(–1.14)	(–1.43)
Equity issuance	–0.009*	0.027**	0.006	0.007**	0.026***	0.010*	–0.003	0.002
	(–1.72)	(2.04)	(0.99)	(2.28)	(2.69)	(1.90)	(–1.28)	(0.52)
Earnings Volatility	–0.030	–0.021	–0.064	–0.005	–0.045	–0.016	0.008	–0.054*
	(–1.44)	(–0.12)	(–0.86)	(–0.10)	(–0.35)	(–0.37)	(0.48)	(–1.77)
Intercept	–0.005	0.073	0.010	–0.002	–0.106	–0.112**	0.067***	0.001
	(–0.47)	(1.65)	(0.56)	(–0.18)	(–0.89)	(–2.52)	(11.39)	(0.11)
Years	2005–13	2005–13	2005–13	1998–13	1998–13	1998–13	2005–13	1998–13
N	14,820	14,820	14,820	33,306	33,306	33,306	14,820	33,306
Adjusted R^2	0.010	0.008	0.010	0.008	0.010	0.008	0.010	0.008

Table 10 (Continued)

Panel C. Voluntary and earnings 8-K disclosures			
	Voluntary disclosure		Earnings
	Item 7.01	Item 8.01	Item 2.02
Election	0.486***	0.086***	–0.050***
	(5.54)	(4.97)	(–4.95)
Expand	0.230***	–0.019	
	(3.37)	(–0.96)	
Election x Expand	–0.467***	–0.133***	
	(–5.17)	(–5.10)	
Firm size	0.027***	0.015*	–0.005
	(4.72)	(1.88)	(–1.10)
Market-to-book	–0.002	0.001	–0.001
	(–0.90)	(0.11)	(–1.02)
Loss	0.014	0.031	–0.029*
	(0.72)	(1.47)	(–1.74)
Return-on-assets	–0.138	–0.336**	0.386***
	(–0.54)	(–2.44)	(3.00)
Cash	0.038	0.038	–0.023
	(0.77)	(0.96)	(–0.69)
Log Analysts	–0.009	0.008	0.021***
	(–0.86)	(0.65)	(2.93)
Equity issuance	0.050**	0.074***	0.078***
	(2.02)	(3.23)	(3.51)
Earnings Volatility	–0.055	–0.081	0.585***
	(–0.29)	(–0.32)	(3.49)
Intercept	–0.886***	–0.177**	0.282***
	(–7.32)	(–2.19)	(3.42)
Years	2002–13	1998–13	2005–13
N	23,039	33,306	14,820
Adjusted R^2	0.026	0.006	0.014

Table 11

Disclosure around close elections.

This table presents regressions of 8-K disclosure frequency for all elections and close elections for the period July through the November election date. Columns 1 and 2 present mandatory 8-K items. Columns 3 and 4 present voluntary 8-K disclosures. Columns 5 and 6 present earnings disclosures. The dependent variable is the change in the 8-K frequency during a gubernatorial election year (Year 0) versus the prior year (Year-1). *Election* equals one if the firm is domiciled in a state with a gubernatorial election. *Close election* equals one if the vote differential is in the bottom quartile of all elections. Regressions include state and industry fixed effects. Standard errors are clustered at the state level. ***,**,* indicate significance at the 1%, 5%, and 10% levels.

	Mandatory 8-Ks		Voluntary 8-Ks		Item 2.02	
	(1)	(2)	(3)	(4)	(5)	(6)
Election	–0.038*		0.153***		–0.050***	
	(–1.77)		(7.63)		(–4.31)	
Close election		–0.084**		0.116***		–0.093***
		(–2.06)		(3.02)		(–3.99)
Firm size	0.009	0.024*	0.034***	0.018	–0.005	–0.003
	(0.88)	(1.71)	(3.75)	(1.39)	(–1.00)	(–0.55)
Market-to-book	–0.004	–0.000	–0.002	0.002	–0.001	–0.001
	(–1.15)	(–0.03)	(–0.86)	(0.44)	(–0.88)	(–0.49)
Loss	0.097***	0.126***	0.048*	0.080**	–0.029*	–0.033
	(3.03)	(2.83)	(1.73)	(2.13)	(–1.66)	(–1.53)
Return-on-assets	–0.180	–0.495	–0.445*	–0.271	0.386***	0.467**
	(–0.64)	(–1.19)	(–1.84)	(–0.82)	(2.74)	(2.46)
Cash	–0.009	0.118	0.047	0.050	–0.023	0.008
	(–0.15)	(1.34)	(0.84)	(0.62)	(–0.62)	(0.16)
Log Analysts	0.005	–0.008	–0.006	–0.001	0.021**	0.020*
	(0.27)	(–0.34)	(–0.35)	(–0.04)	(2.29)	(1.72)
Equity issuance	0.136***	0.105**	0.100***	0.096**	0.078***	0.080***
	(4.14)	(2.38)	(3.43)	(2.40)	(4.19)	(3.06)
Earnings Vol.	–0.467	–0.572	–0.050	–0.240	0.585***	0.528**
	(–1.59)	(–1.39)	(–0.19)	(–0.67)	(3.37)	(2.28)
Intercept	–0.373*	–0.836**	–0.709***	–0.073	0.282**	0.115
	(–1.65)	(–2.03)	(–3.16)	(–0.14)	(2.50)	(0.60)
Years	1998–13	1998–13	1998–13	1998–13	2005–13	2005–13
N	33,306	18,329	33,306	18,329	14,820	8,397
Adjusted R^2	0.005	0.008	0.008	0.011	0.014	0.023