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# The consequences of deviating from financial reporting industry norms: Evidence from the disclosure of foreign cash <sup>☆</sup>

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## ABSTRACT

This study examines how investors respond to firms' disclosure practices that deviate from the majority of industry peers (i.e., industry norms). The SEC has made repeated calls for the disclosure of foreign cash in order for investors to have more information in determining firms' liquidity positions. We examine the association between firm value and the non-disclosure of foreign cash in industries where the majority of firms choose to disclose foreign cash. We define partial disclosure as disclosing permanently reinvested earnings (PRE), but withholding the disclosure of foreign cash, and find that when the majority of industry peers disclose foreign cash, investors discount the firm-specific partial disclosure of foreign operations. This finding suggests that investors have similar information demands as the SEC, and that withholding foreign cash results in a valuation discount. We also find that this discount is more pronounced for firms predicted to have higher levels of foreign cash and higher levels of PRE. The discount in firm value is also concentrated among firms with managers who have more career concerns, suggesting that managers shift the cost of partial disclosure to shareholders instead of bearing the personal reputational cost of full disclosure. Our results are robust to multiple matched samples and entropy balancing. While previous literature has considered the valuation implications of foreign cash disclosures, we reveal the consequences of opting to withhold the disclosure of foreign cash. Our findings should be of interest to both managers and policy-setters in forming their disclosure protocols.

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## 1. Introduction

The Securities and Exchange Commission (SEC) first requested the disclosure of foreign cash balances in 2003 and then reiterated its request in 2010 ([Securities and Exchange Commission \(SEC\), 2003](#); [Securities and Exchange Commission \(SEC\), 2010](#)). The SEC's request for additional information initiated from an interest in the liquidity of multinational firms and their

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access to foreign cash. However, to date, even with substantial compliance with the request, not all firms have abided by this request.<sup>1</sup> This study utilizes this voluntary disclosure setting to examine the cost to firms for a financial reporting decision inconsistent with the majority of its peers. Specifically, we examine the effects on firm value of withholding the disclosure of foreign cash in industries where the majority of firms voluntarily comply with the SEC's request for disclosure of foreign cash. Failing to disclose foreign cash is especially relevant because the most recent years in our sample suggest that roughly 36 percent of multinational firms withheld the disclosure of foreign cash. This issue has been a prominent consideration among large accounting firms recently. For instance, in 2015, Ernst & Young (EY) stressed to clients that "the SEC staff believes disclosing the amount of cash held overseas is important for investors to understand a company's liquidity" (Ernst and Young, 2015).

Observing the decisions of others tends to alter one's behavior, resulting in decisions consistent with those observed (Bikhchandani et al., 1998). Prior literature provides evidence of this mimicking when firms report earnings (Bratten et al., 2016), in firms' disclosure quality (Li, 2010; Acito et al., 2015; Haw et al., 2015), and firms' tax-related decision making (Bird et al., 2018; Kim et al., 2017; Koester et al., 2016; Kubick et al., 2015). However, there is a reason to believe that some firms might not mimic the decision choices of other firms. That reason is if managers have career concerns about revealing information (e.g., voluntarily disclosing bad news that risks managers' reputations). Theoretical research suggests that they withhold bad news and hope that subsequent events will reverse the bad news or allow them to conceal the bad news (Verrecchia, 2001; Hermalin and Weisbach, 2007). Kothari et al. (2009) present empirical evidence from management forecasts that, on average, managers delay the release of bad news relative to good news. Baginski et al. (2017) provide evidence of a positive association between managers delaying the release of bad news and their level of career concerns. There is also evidence that managers withhold foreign disclosures even when they are mandatory. For example, from 2010 to 2012, Ayers et al. (2015) report that the SEC issued 113 comment letters requesting permanently reinvested earnings (PRE) disclosures. Thus, managers have conflicting incentives for disclosing or withholding financial information about firms' foreign activity.

The SEC's liquidity-related concern regarding foreign cash disclosures is easy to understand. Information about foreign cash balances allows investors to determine the cash portion of permanently reinvested foreign earnings that might be recoverable, and potentially assess its future utilization. Further, regulators and tax authorities are most interested in financial assets available for remission to the U.S. because of the tax revenue potential for the government.<sup>2</sup> Designating foreign earnings as PRE and subsequently investing them in operating assets abroad makes it more difficult to later remit those earnings to the U.S., which reduces tax revenue. If managers hold PRE in cash, it could result in additional scrutiny from investors concerned about returns on foreign investments as well as more scrutiny from the taxing authorities. Therefore, when managers disclose foreign cash in addition to PRE, investors should be less uncertain about the proportion of PRE held in financial assets, and the firm might be no more or less subject to scrutiny from taxing authorities than other firms in the industry. However, disclosure of foreign cash might come with substantial career costs to managers whose foreign investment results trail those of other firms in the industry.

We consider the SEC's liquidity concern and whether investors discount firm value when failing to disclose foreign cash balances, which reduces investors' ability to determine foreign cash utilization. Instead of examining the valuation of foreign cash (Harford et al., 2017; Campbell et al., 2018), this study focuses on the valuation of managements' withholding of disclosures. We define partial financial statement disclosure (i.e., "Partial Disclosure") as the disclosure of PRE, but non-disclosure of foreign cash. We identify industry pressure to disclose foreign cash (i.e., "Disclosure Pressure") for industries where more than half of the firms in a particular year provide the foreign cash disclosure. Firm value is measured using Tobin's Q in addition to stock returns over one year.

Using a hand-collected sample of 6570 firm-year observations from 1332 firms, we first provide evidence that partial disclosure is decreasing (increasing) in industry pressure (managerial career concerns). This result implies that firms are more likely to disclose foreign cash in the presence of industry pressure, and less likely to provide the disclosure when there are managerial career concerns. We then use a sample of 4195 firm-year observations from 1002 firms and find that investors discount partial disclosure for firms with high industry pressure to disclose. Thus, when most firms in the industry are disclosing foreign cash, those firms failing to comply with the SEC's request for disclosure experience a valuation penalty. This discount is concentrated in the post-2011 period when the number of foreign cash disclosers significantly increased. The discount we document is distinct from any discount stemming from the valuation of foreign cash, because the amount of foreign cash, by definition, is unknown for non-disclosers. To ensure that it is the disclosure choice underlying our findings, we control for estimated amounts of foreign cash (Campbell et al., 2018), and the inferences remain similar. Our primary analysis uses an entropy balanced sample.<sup>3</sup> The findings are robust to using price levels, returns, and a propensity-score matched sample.

In addition to our primary analysis, we examine whether the extent of foreign operations related to foreign cash disclosure affects investors' perceptions. We estimate the amount of the firm's trapped cash using a model provided by Laplante

<sup>1</sup> Recent studies examine the determinants of managers' foreign cash disclosure and provide evidence of an increase in disclosure related to regulatory pressure (Chen, 2014; Yang, 2015; Harford et al., 2017). However, disclosing foreign cash is not mandatory, but rather a voluntary choice.

<sup>2</sup> Although The Tax Cut and Jobs Act of 2017 (TCJA) moves the U.S. from a worldwide tax system to a territorial based system. The tax changes are not applicable to our study because our sample period pre-TCJA. Thus, the incentives to disclose or withhold foreign cash continue during the period of this study.

<sup>3</sup> We additionally find similar inferences when using a hierarchical linear model (HLM).

and Nesbitt (2017). Predictably, the discount in firm value for partial disclosure is stronger among the subsample of firms with higher estimated trapped cash. This finding suggests that investors discount firm value more for higher unreported estimates of trapped foreign cash. Broadly, the more informative the content of the disclosure, the steeper the penalty that firms incur for being inconsistent with industry reporting norms. Because trapped foreign cash is a different construct from PRE, we also disaggregate the sample by high and low levels of PRE. We find that not disclosing foreign cash negatively affects firm value in instances where firms have higher PRE balances.

We also document that the discount in firm value resulting from partial disclosure is stronger for managers with career concerns. This result suggests that managers in industries with significant career concerns related to disclosures of foreign operations results are more likely to shift the cost of non-disclosure to the shareholders instead of disclosing and bearing personal reputation costs.

This study adds to the discussion surrounding the SEC's concerns regarding the liquidity of foreign operations. The SEC states that firms should thoroughly discuss the cash (requirements and sources) of its foreign subsidiaries, including any inability to access such cash. For example, the SEC states that if the cash is "legally isolated," it might not be available to satisfy liquidity needs (Securities and Exchange Commission (SEC), 2003). We demonstrate that the SEC's concern is shared by investors and analysts, as evidenced by valuation penalties for the nondisclosure of foreign cash. While this disclosure has increased over time – and there appear to be consequences for non-compliers – all firms have not adopted the policy of disclosing foreign cash balances.

This study contributes to the industry peer effects literature. The previous literature on peer effects documents that firms tend to mimic industry leaders (Bratten et al., 2016; Kubick et al., 2015). For the majority of our sample, this mimicking behavior exists because firms' foreign cash disclosures increased rapidly once industry peers began disclosing foreign cash. However, given the voluntary nature of this disclosure, not every firm followed the industry norm. Accordingly, our results extend this mimicking literature by examining the consequences for those firms that do not follow the industry reporting norm and provide evidence that managers' career concerns affect the decision to conform to industry reporting practices. In other words, our findings extend Bratten et al. (2016), Brown et al. (2014), and Kubick et al. (2015) by providing evidence that non-mimicking firms suffer consequences when they ignore industry pressure to disclose. While mimicking behavior often exists within an industry, we document the outcome when firms choose to ignore industry pressure to disclose.

## 2. Background & hypothesis development

### 2.1. Management's disclosure of PRE and foreign cash

The SEC began requesting managers' voluntary financial statement disclosure of foreign cash balances in 2003 and then reiterated the request in 2010 (Securities and Exchange Commission (SEC), 2003; Securities and Exchange Commission (SEC), 2010). The request for foreign cash balances initiated from an interest in the liquidity of foreign subsidiaries owned by U.S. parent-multinational firms. The SEC first stated that companies should consider expanding the MD&A discussion to detail cash related to its foreign subsidiaries; this discussion should include comments on any inability to access this cash, such as when the cash is legally isolated or otherwise unusable (Securities and Exchange Commission (SEC), 2003). This request originally arose because since the initiation of MD&A requirements, companies are now "larger, more global, and more complex." Accordingly, in the discussion of liquidity and capital resources in the MD&A, the SEC now deems it valuable to disclose foreign cash balances. The SEC reinforced this liquidity concern later by stating that companies should discuss the nature and composition of their cash holdings, including any limits on their ability to access the funds (Securities and Exchange Commission (SEC), 2010). In 2014, the SEC stated that its Division of Corporate Finance would closely monitor disclosures within multinational companies' MD&A sections, particularly those surrounding foreign jurisdictions (Knox, 2014).<sup>4</sup> The Division of Corporate Finance oversees disclosure practices of public firms and is responsible for ensuring adequate disclosure such that investors can make informed decisions. The SEC's interest in foreign cash is understandable, given that estimated foreign cash held overseas was over \$1 trillion in 2017. In addition, corporate inversions (restructuring an organization using overseas locations in order to avoid taxes) have received increased scrutiny from the public (Asetla et al., 2019). De Simone et al. (2019) find that firms tend to increase foreign cash holdings in anticipation of upcoming U.S. corporate tax rate reductions (De Simone et al., 2019).

Foreign cash balances allow investors to understand the cash portion of PRE and make inferences about its future utilization. Withholding the disclosure of foreign cash does not allow investors to assess whether foreign cash will continue to sit idle or fund poor-performing foreign investments (Hanlon et al., 2015; Edwards et al., 2016). PRE disclosures are required given that PRE is a financial reporting designation allowing multinational firms to accumulate foreign earnings overseas and avoid paying taxes (or accruing a liability) related to those accumulated foreign earnings. Managers that designate their foreign earnings as PRE are required to disclose the annual amount of PRE in addition to the PRE tax liability. The PRE tax

<sup>4</sup> An example of the SEC's monitoring includes the following language from an SEC comment letter: "To the extent that you hold cash outside of the US and it is material to your liquidity, in future filings please (i) enhance your liquidity disclosure to quantify the amount of foreign cash and cash equivalents at the end of your reporting period, (ii) address the potential impact on your liquidity of having this cash outside the United States and (iii) include a statement, if true, that you would need to accrue and pay taxes if such foreign cash was repatriated."

liability represents taxes eventually paid on PRE if management decides to repatriate PRE at a future date. Managers can also disclose whether the PRE tax liability is too complex to calculate, and thus withhold this disclosure. Ayers et al. (2015) provide evidence that a significant number of firms do not disclose PRE, and that the economic magnitude of the undisclosed PRE is large. Regulators and tax authorities are also interested in financial assets available for remission to the U.S. because these amounts could result in tax revenue for the government. In contrast, designating earnings as PRE and investing them in operating assets abroad makes it more challenging to remit those earnings to the U.S., potentially reducing future tax revenue.

Recent studies examine the determinants of managers' foreign cash disclosure choices. Harford et al. (2017) provide evidence that greater tax avoidance reduces the likelihood of the foreign cash disclosure, while Chen (2014) provides evidence that repatriation costs affect the decision to disclose foreign cash. Yang (2015) finds that foreign cash disclosure increases for firms with stronger governance and higher PRE (i.e., higher agency costs and higher free cash flow). In contrast to Yang (2015), our focus is not on the determinants or valuation of disclosed foreign cash. Instead, our focus is on the consequences of voluntarily withholding disclosure of foreign cash when other firms are disclosing foreign cash.

Taken together, the disclosure of both PRE and foreign cash is relevant to investors, analysts, and policy-makers, as the disclosure of foreign cash balances provides information about the form of PRE holdings (i.e., financial or operating assets). The previous literature provides evidence that investors discount the value of PRE when holding PRE in financial assets (i.e., as cash) (Bryant-Kutcher et al., 2008), even though assessing the proportion of PRE in financial assets is problematic. Therefore, disclosure of foreign cash balances and PRE lowers investors' uncertainty about the proportion of PRE held in financial assets. Thus, disclosure of both PRE and foreign cash is incremental to disclosing just PRE or just foreign cash balances. In other words, in addition to liquidity concerns, financial statement stakeholders are interested in the utilization of PRE, and disclosure of foreign cash balances aids them in this analysis.

When a firm classifies foreign earnings as PRE, and the earnings subsequently remain on the balance sheet as cash (as opposed to reinvestment), the firm could incur more scrutiny (Dyreng et al., 2016). Managers might be hesitant to disclose foreign cash because foreign cash accumulation could be valued lower by investors because of sub-optimal investments overseas and reduced access to cash for investment opportunities in the U.S. (Chen, 2014; Edwards et al., 2016; Harford et al., 2017; Campbell et al., 2018). These disclosure deterrents are firm-specific and dependent on the individual company, the industry, and its overseas locations. Given that management is evaluated based on company performance, there may be an incentive to withhold the disclosure of foreign cash. Beyer et al. (2010) state that investors might view withholding disclosures as a bad sign, but managers could believe they will still be better off by not disclosing unfavorable information.

## 2.2. Peer influence and managerial career concerns

In general, observing the decisions of others can affect one's behavior related to similar decisions (Bikhchandani et al., 1998). In the financial realm, managers learn about an uncertain environment or uncertain practice from the actions of other firm managers who are trying to navigate that same environment (Useem, 1984; Rogers, 2003). Prior research documents that when early-reporting firms miss earnings expectations, peer firms are under less pressure to meet their own earnings expectations and are more likely to expedite their earnings announcement to "herd" with the peer's bad news (Bratten et al., 2016). Relatedly, Darrough et al. (2017) provide evidence that firms adjust their executive compensation structure when peer firms issue warnings to investors about future negative surprises. Prior literature provides evidence of an association between the change in one firm's tax avoidance behavior and a change in its peers' tax avoidance behavior (Armstrong et al., 2016). This result supports other research that finds that peer firms respond to tax rate shocks by exhibiting altered GAAP tax rates in the same direction, suggesting that peer firms influence changes in reporting behavior (Bird et al., 2018). Companies appear to mimic the tax outcomes of their competitive peers, and a company's competitive position in the industry is relevant to its tax policies (Kubick et al., 2015). Even more relevant to our study, companies not receiving SEC comment letters tend to alter their subsequent year's disclosures if the SEC has commented on the disclosure of an industry peer (Brown et al., 2014; Kubick et al., 2016).

Investors also recognize how industry-peer decisions influence individual firm decisions. Specifically, Gleason et al. (2008) provide evidence that an accounting restatement for one firm results in a valuation discount for firms in the same industry. Firms appear to counteract this valuation penalty by increasing earnings management following a restatement in the same industry (Kedia et al., 2015). Prior studies also find that competition from potential market peers increases disclosure quantity (Li, 2010). Further, there is a positive association between a firm's market share and the extent of public disclosures (Acito et al., 2015), and a positive association exists between peer competition and conservatism in enhanced disclosure environments (Haw et al., 2015). Collectively, these studies suggest that peer managers should be more likely to disclose foreign cash in the presence of PRE when doing so is the industry norm.

The SEC's concerns about liquidity remain unaddressed if firms do not disclose foreign cash balances. We expect that if the choice to disclose is inconsistent with industry norms, investors will discount firm value more with partial disclosure. This valuation consequence is distinct from any discount related to the foreign cash, because partial disclosers, by definition, do not disclose foreign cash. Thus, any observed valuation discount could not be attributed to the value of foreign cash

because the value of foreign cash, by definition, is unknown.<sup>5</sup> Recall that firms reporting PRE (i.e., those most likely to have foreign cash), but withholding the disclosure of foreign cash are considered partial disclosers. Accordingly, we state our hypothesis as follows:

**H1.** The market discounts partial disclosure when the firm has higher industry pressure to disclose.

Beyer et al. (2010) suggest that complete and full disclosure exists when (1) disclosures are costless, (2) investors know that firms have private information, (3) firms know how investors will interpret the information, (4) managers want to maximize firm value, (5) firms are credible, and (6) firms do not have an ex-ante voluntary disclosure policy. Thus, if one of these conditions does not hold, a firm might withhold the disclosure of foreign cash. For instance, the disclosure might not be costless. For firms withholding the disclosure of foreign cash, the perceived costs could exceed the perceived benefits of disclosure. If disclosing foreign cash reveals bad news (e.g., unproductive cash overseas), the costs of the disclosure include both shareholder costs (e.g., a negative effect on firm value) as well as managerial costs (e.g., career concerns). The prior literature documents management and executive career concerns related to reduced firm performance and CEO turnover occurs more often following poor firm performance (Weisbach, 1988; DeAngelo, 1988; Warner et al., 1988; Coughlan and Schmidt, 1985; Puffer and Weintrop, 1991; Farrell and Whidbee, 2003). Future employment opportunities are also at risk for underperforming managers and executives (Desai et al., 2006; Brickley et al., 1999).

Managers might ignore industry norms for disclosing foreign cash balances if the direct cost of the exposure to managers exceeds the cost they might bear related to the discount of firm value (i.e., loss of position versus reduced personal holding value). If managers have career concerns, theoretical research suggests that they likely withhold bad news and hope that subsequent events improve firm performance or allows them to conceal the bad news (Verrecchia, 2001; Hermalin and Weisbach, 2007). Hermalin and Weisbach (2007) provide a theoretical model indicating it is more beneficial to conceal bad news when the market has weaker ex ante beliefs about managers' ability. This result leads to an increased weight on the firm's current performance in evaluating the manager. The cost of withholding bad news information increases as it becomes more likely that the firm's stakeholders realize that the manager intentionally withheld bad news information. The magnitude of any penalty to the manager's reputation or job status also increases. Overall, the model predicts that this cost-benefit trade-off results in concealing bad news when managers have more career concerns. Kothari et al. (2009) present empirical evidence from management forecasts that, on average, managers delay the release of bad news relative to good news. Baginski et al. (2017) provide evidence that the extent to which managers delay the release of bad news is positively associated with their level of career concerns.

When the industry norm is to disclose foreign cash in the presence of PRE, we expect peer managers to be more likely to disclose foreign cash. However, in the presence of industry pressure, the partial disclosure choice could send a signal about the potential misuse of foreign cash, and incentivize managers to withhold the disclosure because of career concerns. While mimicking behavior occurs, the existence of financial accounting choices indicates that not all firms will exhibit the same mimicking behavior. Thus, some managers might opportunistically choose to withhold the disclosure of foreign cash (i.e., exhibit partial disclosure) even with industry pressure to disclose, if they believe such a decision is beneficial to themselves (i.e., less costly to their career). Managers might also withhold the disclosure of foreign cash because of the accounting cost of accumulating foreign cash balances. As the complexity of foreign operations increases, so does the cost of accounting for foreign cash balances. If the cost becomes too high, then managers might be incentivized to withhold the disclosure of foreign cash.

### 3. Research design

#### 3.1. Sample selection

Before testing our hypothesis, we perform an analysis that examines the determinants of disclosing foreign cash in the presence of PRE. We use this analysis to confirm prior studies' findings regarding the determinants of foreign cash disclosure (Chen, 2014; Yang, 2015; Harford et al., 2017) in addition to providing evidence on the relation between partial disclosure and managers' career concerns. The disclosure sample in this analysis includes 1332 firms and 6570 firm-year observations.<sup>6</sup> We require the disclosure of PRE, which is available in Audit Analytics beginning in 2007. Accordingly, our sample period is 2007 through 2016, and we begin the sample in 2008 to allow for lagged variables. Panel A of Table 1 provides the sources of the data. We start with all firms from Compustat with non-missing pretax foreign income. This approach ensures that our sample only includes firms with foreign operations. We also ensure the sample contains only firms that are headquartered in the U.S. because foreign firms cross-listed in the U.S. do not have the same tax incentives as domestic firms. We eliminate firms that do not disclose PRE, as well as those with missing data from Compustat. Panel B of Table 1 presents the annual distribution of the sample.

We identify firms that disclose PRE by examining whether or not firms have non-missing data for indefinitely reinvested foreign earnings in Audit Analytics. To verify the Audit Analytics dataset, we search the 10-K reports for all firms that have

<sup>5</sup> As discussed later in the research design section, we control for estimated foreign cash in order to address any further concerns.

<sup>6</sup> The sample is limited to multinational firms that disclose PRE given that these firms are most likely to have foreign cash.

**Table 1**  
Sample selection and distribution.

<i>Panel A: Sample Selection</i>				
Compustat non-missing foreign pretax income for the period 2007–2016				23964
Less:				
Firm-year observations that do not disclose PRE from Audit Analytics and cannot find PRE from the hand-collection procedure.				(8877)
Observations missing from Exhibit 21 data				(4818)
Firm-year observations missing Compustat items				(3699)
<b>Total Firm-Year Observations in Original Disclosure Sample</b>				<b>6570</b>
Less:				
Negative pretax income in year t				(1672)
Missing variables from the valuation model (i.e., CRSP and Compustat)				(703)
<b>Total Firm-Year Observations in Valuation Sample</b>				<b>4195</b>
<i>Panel B: Distribution by Year</i>				
Year	Disclosure Sample		Valuation Sample	
	N	%	N	%
2008	264	4.0%	159	3.8%
2009	418	6.4%	236	5.6%
2010	814	12.4%	541	12.9%
2011	886	13.5%	608	14.5%
2012	767	11.7%	510	12.2%
2013	934	14.2%	576	13.7%
2014	917	14.0%	558	13.3%
2015	917	14.0%	557	13.3%
2016	653	9.9%	450	10.7%
<b>Total</b>	<b>6570</b>		<b>4195</b>	
Year	Foreign Cash Disclosure % of Annual Sample		$\mu$ Partial Disclosure	
2008	20.8%		79.2%	
2009	24.4%		75.6%	
2010	24.1%		75.9%	
2011	49.4%		50.6%	
2012	59.8%		40.2%	
2013	65.4%		34.6%	
2014	63.9%		36.1%	
2015	64.3%		35.7%	
2016	63.8%		36.2%	

Table 1 presents the sample selection (Panel A), the sample distribution by year (Panel B), and mean values of foreign cash disclosure and *Partial Disclosure* (Panel C).

Bolded values are subtotals.

missing values of PRE. Next, we identify firms that choose to disclose the cash balances of foreign subsidiaries. We use DirectEdgar to hand collect the disclosures of foreign cash balances held by foreign subsidiaries from firms' MD&A section of their 10-K annual reports.<sup>7</sup> We classify each firm-year observation as disclosing or not disclosing levels of foreign cash. There are 883 (449) firms that disclose (do not disclose) foreign cash, with 3504 (3066) firm-year observations.<sup>8</sup> Panel C presents the average of foreign cash disclosure and mean values of partial disclosure by year. By construction, the sum of the two columns is 100 percent.

We omit all loss firms from the sample because of the difficulty of interpreting tax avoidance for loss firms (Hanlon et al., 2005). This sample restriction is also consistent with Guenther et al. (2015) and Drake et al. (2016). The valuation sample is an entropy balanced sample consisting of 1002 firms with 4195 firm-year observations. The purpose of the entropy balanced sample is to eliminate the concern that firms who partially disclose are inherently different from firms that fully disclose. The objective of entropy balancing is to match firms on three moments (i.e., mean, variance, and skewness) of all variables used in the regression. This matching procedure ensures that treatment firms (i.e., partial disclosers) are the equivalent to control firms (i.e., full disclosures) but chose not to disclose foreign cash.

<sup>7</sup> We examine both the MD&A section and the footnotes to the financial statements. For those firms that disclose foreign cash, the majority of the foreign cash amounts are disclosed in the MD&A section.

<sup>8</sup> Although the SEC requested the disclosure of foreign cash beginning in the year 2003, many management teams did not begin providing this disclosure until 2007. The disclosure of foreign cash has increased throughout our sample period which is likely attributable to SEC pressure (i.e., SEC comment letters).

### 3.2. Determinants of the foreign cash disclosure

In addition to control variables used in the prior literature, we also include variables that represent industry pressure to disclose and managers' career concern pressure to withhold disclosure.<sup>9</sup> Each variable is discussed following the presentation of the model:

$$\begin{aligned}
 \text{Partial Disclosure} = & \alpha_0 + \alpha_1 \text{IndPctDisc}_{i,t} + \alpha_2 \text{CEO Turnover}_{i,t} + \alpha_3 \text{Tax Haven}_{i,t} + \alpha_4 \text{Foreign Tax Avoidance}_{i,t} \\
 & + \alpha_5 \text{Domestic Tax Avoidance}_{i,t} + \alpha_6 \text{Estimated Foreign Cash}_{i,t} + \alpha_7 \text{Naive Foreign Cash}_{i,t} \\
 & + \alpha_8 \text{Std.FEARN}_{i,t} + \alpha_9 \text{Num Seg SIC}_{i,t} + \alpha_{10} \text{FEARN Growth}_{i,t} + \alpha_{11} \text{Double Irish}_{i,t} \\
 & + \alpha_{12} \text{Firm SEC Comment}_{i,t-1} + \alpha_{13} \text{Total Cash}_{i,t} + \alpha_{14} \text{Foreign Earnings}_{i,t} \\
 & + \alpha_{15} \text{Domestic Earnings}_{i,t} + \alpha_{16} \text{Size}_{i,t} + \alpha_{17} \text{Leverage}_{i,t} + \alpha_{18} \text{PPE}_{i,t} + \alpha_{19} \text{Intangibles}_{i,t} \\
 & + \alpha_{20} \text{Big4}_{i,t} + \alpha_{21} \text{SalesGrowth}_{i,t} + \alpha_{22} \text{ExFin}_{i,t} + \alpha_{23} \text{Disclose FSEG}_{i,t} + \alpha_{24} \text{ABS}_{D_{i,t}} \\
 & + \alpha_{25} \text{AFDISP}_{i,t} + \alpha_{26} \text{MA}_{i,t} + \alpha_{27} \text{Restatement}_{i,t} + \alpha_{28} \text{CEODual}_{i,t} \\
 & + \alpha_{29} \text{Industry SEC Comment}_{i,t-1} + \alpha_{30} \text{HHI}_{i,t} + \alpha_{31} \text{Litigate}_{i,t} + \text{Industry Fixed Effects} \\
 & + \text{Year Fixed Effects} + \varepsilon
 \end{aligned} \tag{1}$$

The dependent variable *Partial Disclosure* is an indicator variable equal to one when firms disclose PRE but not foreign cash and zero otherwise. All firms disclosing foreign cash also disclose PRE, but not all firms that disclose PRE choose to disclose foreign cash. *IndPctDisc* represents the percentage of firms disclosing foreign cash within an industry, based on the year and two-digit SIC codes.<sup>10</sup> Because this variable represents the magnitude of industry pressure to disclose foreign cash, we expect a negative association between *IndPctDisc* and *Partial Disclosure*. In other words, for firms with higher industry pressure to disclose foreign cash in the presence of PRE, we expect fewer firms to withhold the disclosure of foreign cash in the presence of PRE. *CEO Turnover* proxies for managers' career concerns. We use the following process to measure CEO Turnover. First, in each period, we count, for each 2-digit SIC industry, the number of CEOs that resigned or left the company in the prior two years and disclosed foreign cash during the same two-year period. Because of the foreign cash disclosure count, this measure correlates highly with *IndPctDisc*. Therefore, we orthogonalize the count of CEO resignations and firings from *IndPctDisc*. Then, *CEO Turnover* is equal to one when the orthogonalized variable is higher than the sample median, and zero otherwise. Thus, *CEO Turnover* represents those firms and industries where the disclosure of foreign cash and the turnover of CEOs appear contemporaneously related.<sup>11</sup> We predict a positive coefficient on *CEO Turnover* because managers in industries with a high correlation between foreign cash disclosure and CEO turnover are less likely to disclose foreign cash balances because of career concerns.

*Tax Haven* controls for the association between foreign tax avoidance and disclosure choices (Hope et al., 2013), and is one when firms have a foreign subsidiary located in a tax haven, and zero otherwise. We identify tax havens using Exhibit 21 data, consistent with Dyreng and Lindsey (2009).<sup>12,13</sup> We expect a positive association between *Tax Haven* and *Partial Disclosure*. We provide the predicted signs of coefficients in parentheses for the following control variables. *Foreign Tax Avoidance* is foreign tax expense scaled by pretax foreign income, multiplied by negative one for period  $t$  (+). Firms with greater foreign tax avoidance want to avoid scrutiny from foreign regulatory authorities and, therefore, withhold the disclosure of foreign cash, resulting in a positive association with partial disclosure. *Domestic Tax Avoidance* is total tax expense minus foreign tax expense, scaled by pretax domestic income, multiplied by negative one for period  $t$  (+). Firms with greater domestic tax avoidance want to avoid scrutiny from the IRS and, therefore, withhold the disclosure of foreign cash, resulting in a positive association with partial disclosure. We use a one-period measure of tax avoidance because firms can often restructure tax strategy in less than one year (Hoopes et al., 2012), which mitigates variable tax outcomes offsetting each other when using longer-term measures.<sup>14</sup> *Estimated Foreign Cash* is estimated foreign cash scaled by lagged total assets (–). We expect more material amounts of foreign cash will lead to greater foreign cash disclosure, which would imply a lower likelihood of partial disclosure. We use a methodology similar to Campbell et al. (2018) for estimating the amount of foreign cash a firm holds in its foreign subsidiaries. Campbell et al. (2018) validate the measure of foreign cash by comparing the estimate to proprietary data obtained from the

<sup>9</sup> Variables are also defined in Appendix A.

<sup>10</sup> Inferences are similar when we defined industry by Fama French 48 industry classification or NAICSH industry codes.

<sup>11</sup> We acknowledge that CEOs can be fired or resign from firms for multiple reasons. However, the disclosure of poor performance of foreign investments is likely a contributing factor for multinational firms.

<sup>12</sup> The following countries are considered tax havens: Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Brunei, Cape Verde, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Dominica, Gibraltar, Grenada, Guernsey and Alderney, Hong Kong, Ireland, Isle Of Man, Jersey, Kitts and Nevis, Latvia, Lebanon, Liberia, Liechtenstein, Luxembourg, Macau, Maldives, Malta, Marshall Islands, Mauritius, Monaco, Montserrat, Mottswana, Nauru, Netherlands Antilles (or Dutch Antilles), Niue, Palau, Panama, Samoa, San Marino, Seychelles, Singapore, St. Lucia, St. Vincent and The Grenadines, Switzerland, U.S. Virgin Islands, Uruguay, and Vanuatu.

<sup>13</sup> We acknowledge that relying on Exhibit 21 data to identify tax havens has its drawbacks because managers can choose to withhold the disclosure of certain foreign subsidiaries. However, to the extent that managers are not forthcoming about disclosures of the firm's foreign subsidiaries, the tax haven variable should contain more noise, and thus bias against a significant coefficient in the analysis.

<sup>14</sup> Both tax avoidance variables are bounded between zero and one.

Bureau of Economic Analysis (BEA). Multinational firms are required to report foreign cash balances to the BEA and thus are deemed reliable. Campbell et al. (2018) provide evidence of a correlation greater than 70 percent between the foreign cash estimate, and the BEA reported foreign cash.<sup>15</sup>

The following equation estimates foreign cash:

$$CASH_{i,t} = \sum \beta_k DA_{i,t} * COUNTRY_{k,i,t} + \sum \gamma_k FA_{i,t} * COUNTRY_{k,i,t} \quad (2)$$

where *CASH* is total worldwide cash; *DA* is domestic assets calculated as total worldwide assets minus foreign assets; *COUNTRY* is a vector of all countries where the firm has foreign subsidiaries located per Exhibit 21 contained within the 10-K (Dyregang et al., 2012) and *FA* is total foreign assets. We scale *CASH*, *DA*, and *FA* by worldwide assets. Each  $\gamma_k$  represents the increase in cash per dollar of foreign assets for firms with a material subsidiary in country *k*. As such, the total estimated foreign cash is the sum of the estimated coefficients multiplied by the foreign assets and the vector of country indicator variables. Specifically, we estimate total foreign cash as follows:  $FA_{i,t} * \sum (\gamma_k * Country_{k,i,t})$ . We determine domestic cash by subtracting the foreign cash estimate from total cash.

*Naïve Foreign Cash* is an alternative estimate of foreign cash, assuming managers and investors do not use the same methodology as Campbell et al. (2018) to estimate foreign cash. We rank all firms by size and calculate average foreign cash disclosed for each size decile. When the firm does not disclose foreign cash, *Naïve Foreign Cash* is the size decile average of foreign cash disclosed.

Managers also have incentives to withhold disclosure of foreign cash balances when the uses of foreign cash are unpredictable, and when the accounting costs are too high to process the foreign cash balances from foreign subsidiaries. To proxy for future uses of foreign cash, we control for the standard deviation of the prior five years of foreign earnings (*Std. FEARN*, +), and foreign earnings growth (*FEARN Growth*, +) measured as foreign earnings in period *t* minus foreign earnings in period *t* – 1, scaled by foreign earnings in period *t* – 1. *Num Seg SIC* (+) is the number of SIC industry codes in which foreign subsidiaries operate. More complex foreign operations could lead to higher accounting costs and fewer foreign cash disclosures. Managers also have incentives to withhold voluntary disclosure from regulatory authorities. Given the recent action of the Ireland tax authorities, we measure regulatory pressure using the variable *Double Irish* (+), which is an indicator equal to one when the firm has foreign subsidiaries in Ireland and either the Netherlands or Luxembourg and zero otherwise. Harris and O'Brien (2018) provide evidence that the Double Irish tax strategy reduces foreign tax rates and increases foreign acquisition activity. We use this measure to proxy for international regulatory pressure and expect a positive association with partial disclosure.

*Firm SEC Comment* is an indicator equal to one when the firm received an SEC Comment letter requesting the disclosure of foreign cash in period *t* – 1, and zero otherwise (–). We expect more firm-specific regulatory pressure to reduce the likelihood of partial disclosure. To arrive at this variable, we search all comment letters for our sample using DirectEdgar. We search for the term “foreign” and “international” within these comment letters to identify potential comment letters. We then read through each of these comment letters to verify whether the letter relates to foreign cash. See Appendix B for an example of an SEC comment letter. *Total Cash* is total cash scaled by lagged total assets (–).

*Foreign Earnings* is the five-year cumulative foreign pre-tax income scaled by lagged total assets (–). Similar to estimated foreign cash, more material amounts of total cash and greater reliance on foreign operations should reduce the likelihood of partial disclosure. *Domestic Earnings* is the five-year cumulative domestic pre-tax income scaled by lagged total assets (+). More reliance on domestic earnings should increase the likelihood of partial disclosure because foreign cash disclosure becomes less relevant. *Size* is the natural logarithm of the market value of equity (?). Larger firms tend to have increased regulatory scrutiny and better information environments. Thus, it is not clear, ex-ante, whether the construct of size represents regulatory scrutiny or the firm's information environment. If size represents the level of regulatory scrutiny, then we expect it to be positively associated with partial disclosure. However, larger firms also tend to have better information environments, which should decrease the likelihood of partial disclosure. *Leverage* is total debt scaled by lagged total assets (–) (Harford et al., 2017). Greater leverage implies better access to external capital markets, which should reduce the likelihood of partial disclosure.

*PPE* is total property, plant, and equipment scaled by lagged total assets (+) (Akamah et al., 2018; Hope et al., 2013). More capital-intensive firms relying less on foreign operations for intellectual property reduces the importance of foreign cash disclosure, and thus, should increase the likelihood of partial disclosure. *Intangibles* is total intangible assets scaled by lagged total assets (+) (Akamah et al., 2018; Hope et al., 2013). Firms with more intangible assets are more likely to use foreign operations for tax avoidance behavior, which should increase the likelihood of partial disclosure. *Big4* is an indicator variable equal to one for firms audited by a Big 4 audit firm, and zero otherwise (–). Higher audit quality increases voluntary disclosure, which should decrease the likelihood of partial disclosure. *Sales Growth* is total sales in period *t* minus sales in period *t* – 1, scaled by sales in period *t* – 1 (+). Higher agency costs should increase the likelihood of partial disclosure. *ExFin* represents external financing and is total net equity issuances plus total net debt issuances, all scaled by lagged total assets (–). Similar to leverage, more access to external markets should decrease the likelihood of partial disclosure. *Disclose FSEG* is an indicator variable equal to one when the firm discloses at least two foreign segments in their segment reporting footnote, and zero otherwise (–) (Hope and Thomas, 2008). Firms that are more transparent with other foreign disclosures should

<sup>15</sup> We also compare our estimated foreign cash balances to disclosed foreign cash balances and find a 76 percent correlation.

reduce the likelihood of partial disclosure. *AF Disp* is the standard deviation of analysts' earnings forecasts (+) and represents the general financial reporting quality of the firm. *ABS\_DA* is the absolute value of the firm's discretionary accruals and controls for financial reporting quality (+).<sup>16</sup> If financial reporting quality includes disclosures choices, we expect firms with higher discretionary accruals to have a higher likelihood of partial disclosure. *MA* measures the firm's acquisition activity and is an indicator equal to one when the firm reports a positive value for acquisitions or mergers on the income statement (–), and zero otherwise. Firms involved in merger and acquisition activity should provide more disclosure to external parties leading to a lower likelihood of partial disclosure. *Restatement* is one when the firm restates its earnings in period *t*, and zero otherwise (+). Similar to discretionary accruals, the lower financial reporting quality represented by restatements should increase the likelihood of partial disclosure. *CEO Dual* is an indicator variable equal to one when the CEO holds both the CEO position and the chairman position and zero otherwise (+). Higher agency costs should lead to an increase in the likelihood of partial disclosure.

Industry-level control variables include *Industry SEC Comment*, *HHI*, and *Litigate*. *Industry SEC Comment* is one when any firm within the same industry (defined using two-digit SIC codes) receives a comment letter from the SEC (asking the firm to disclose foreign cash) in period *t-1*, and zero otherwise (–). *HHI* is the Herfindahl-Hirschman Index using sales and two-digit SIC codes (+) (Harford et al., 2017). Finally, *Litigate* is an indicator variable equal to one for litigious industries (SICs: 2833–2836, 3570–3577, 3600–3674, 5200–5961, and 7370–7374), and zero otherwise (–). We also include fixed effects for year and industry, winsorize all continuous variables at the 1 and 99 percent levels, and cluster standard errors at the firm level.<sup>17</sup>

### 3.3. Firm value and partial disclosure

Our hypothesis predicts that investors discount firm value for partial disclosers in the presence of industry pressure to disclose foreign cash. To test this prediction, we model firm value (Tobin's Q) as a function of industry pressure and partial disclosure in addition to controlling for variables identified from the prior literature (Desai and Dharmapala, 2009; Wang, 2011; Drake et al., 2016). We estimate the following model on an entropy balanced sample:

$$\begin{aligned} \text{Tobin's } Q = & \gamma_0 + \gamma_1 \text{Partial Disclosure} * \text{Disclosure Pressure}_{i,t} + \gamma_2 \text{Partial Disclosure}_{i,t} + \gamma_3 \text{Disclosure Pressure}_{i,t} \\ & + \gamma_4 \text{Foreign Tax Avoidance}_{i,t} + \gamma_5 \text{Domestic Tax Avoidance}_{i,t} + \gamma_6 \text{Tax Risk}_{i,t} + \gamma_7 \text{Tax VAR}_{i,t} \\ & + \gamma_8 \text{PTROA}_{i,t} + \gamma_9 \text{Std.Dev.PTROA}_{i,t} + \gamma_{10} \text{NOL}_{i,t} + \gamma_{11} \text{Sales}_{i,t} + \gamma_{12} \text{Leverage}_{i,t} + \gamma_{13} \text{Foreign Earnings}_{i,t} \\ & + \gamma_{14} \text{CapEx}_{i,t} + \gamma_{15} \text{Sales Growth}_{i,t} + \gamma_{16} \text{R\&D}_{i,t} + \gamma_{17} \text{Advertising}_{i,t} + \gamma_{18} \text{Intangibles}_{i,t} + \gamma_{19} \text{Depreciation}_{i,t} \\ & + \gamma_{20} \text{Tax Haven}_{i,t} + \gamma_{21} \text{Estimated Foreign Cash}_{i,t} + \gamma_{22} \text{AF Disp}_{i,t} + \text{Year Fixed Effects} \\ & + \text{Industry Fixed Effects} + \varepsilon \end{aligned} \quad (3)$$

*Tobin's Q* measures firm value and is the market value of assets scaled by the book value of assets. The market value of assets is the market value of equity, plus total assets minus common equity. The market value of equity is the stock price multiplied by shares outstanding on the day following the release of the Form 10-K. *Disclosure Pressure* is an indicator variable equal to 1 when industry pressure to disclose (i.e., *IndPctDisc*) is greater than 50 percent.<sup>18</sup> **Hypothesis 1** predicts  $\gamma_1 < 0$ , suggesting a negative valuation of partial disclosure when firms have more pressure to disclose. The variables in this model from Eq. (1) are as previously defined. We provide the following directional coefficient predictions (all coefficient signs from Drake et al., 2016): *Foreign Tax Avoidance* (+), *Domestic Tax Avoidance* (+), *Leverage* ( $\pm$ ), *Foreign Earnings* (+), *Sales Growth* (+), *Intangibles* (+), *AF Disp* (–) and *TaxHaven* (+).<sup>19</sup> We expect a negative coefficient on *Partial Disclosure* because of the negative association between financial reporting obfuscation and firm value. We expect a positive association between firm value and *Estimated Foreign Cash* (Yang, 2015; Chen, 2014).<sup>20</sup>

Eq. (2) contains additional controls for multiple variables from the prior literature associated with firm value. *Tax Risk* is practitioners' perception of tax risk from Neuman et al. (2019). Neuman et al. (2019) construct a measure of tax risk using six unique tax risk components: transactional, operational, compliance, financial accounting, managerial, and reputation. They populate each component by identifying variables that contribute to the risk for each of the six components and then use principal component analysis to create an overall tax risk measure, where higher (lower) values represent higher (lower) levels of tax risk. We do not predict the sign of *Tax Risk* because it is possible that it increases after-tax earnings, or represents risky behavior by managers' tax avoidance behaviors. *Tax VAR* is the standard deviation of the cash ETR over the period *t – 4* to *t* (+). This measure is a proxy for the variability in tax outcomes observed in prior studies that can represent differences in firms' tax strategies (Neuman, 2016, Neuman et al., 2019, McGuire, Neuman, and Omer, 2013). Predictions for the following control variables are consistent with Drake et al. (2016). *PTROA* is the pre-tax return on assets measured as pre-tax income scaled by total assets (+). *St. Dev. PTROA* is the standard deviation of *PTROA* over the period *t – 4* to *t* (–). *NOL* is the total net

<sup>16</sup> We measure discretionary accruals using Kothari et al.'s (2005) model of performance-adjusted discretionary accruals.

<sup>17</sup> *IndPctDisc* changes each year. Industry fixed effects are time-invariant. *IndPctDisc* represents time-varying changes at the industry level.

<sup>18</sup> Inferences are similar if we measure pressure using 60 percent or 70 percent.

<sup>19</sup> In Eq. (1), the scalar for *Foreign Earnings* is lagged total assets. In Eq. (2), the scalar for *Foreign Earnings* is total pretax income, which is consistent with prior literature. In addition, *Foreign Earnings* in Eq. (2) is a one-year measure.

<sup>20</sup> *Estimated Foreign Cash* is set equal to zero when missing in order to prevent loss of sample. Inferences are similar to those presented when we include *Naïve Foreign Cash* as a control variable.

operating loss carryforwards scaled by total assets (–). *Sales* is the natural logarithm of total sales (+) (Manzon and Plesko, 2001; Rego, 2003). *Capex* is capital expenditures scaled by total assets (+). *R&D* is research and development expense scaled by pre-tax income (+) (Barth et al., 2001). *Advertising* is advertising expense scaled by pre-tax income (+) (Barth et al., 2001). *Depreciation* is depreciation expense scaled by pre-tax income (–) (Barth et al., 2001). We also include fixed effects for year and industry, winsorize all continuous variables at the 1 and 99 percent levels, and cluster standard errors at the firm level.<sup>21</sup>

## 4. Results

### 4.1. Descriptive statistics

Table 2, Panel A, presents the descriptive statistics for the disclosure sample containing 6570 firm-year observations representing 1332 unique firms. Firms provide partial disclosure 46 percent of the time. On average, 43 percent of each industry discloses foreign cash.<sup>22</sup> Total cash balances represent 20 percent of assets, and the effective domestic tax rate (*Domestic Tax Avoidance*) for the disclosure sample is 28 percent. Panel B presents the differences in means for the variables used in the partial disclosure determinants model. As expected, there are significant differences between partial and full disclosers. Partially disclosing firms have less industry pressure to disclose foreign cash (*IndPctDisc*), have lower foreign earnings (*Foreign Earnings*), and are smaller (*Size*). Because of these differences, we perform entropy balancing and propensity score matching for our sample used to test our hypothesis. In other words, we use matching in order to provide comfort that the sample firms are comparable.

Panel C presents descriptive statistics for the valuation sample. The sample is 1002 firms and 4195 firm-year observations. The average Tobin's Q is 2.06, and the average effective domestic tax rate is 32 percent. These averages are consistent with those reported in Drake et al. (2016). Panel D presents the differences in means for partial versus full disclosers. Inferences from Panel D are similar to those in Panel B, and our entropy balanced sample should alleviate the concern that differences in firm characteristics influence our results.

Table 3 presents Pearson (Spearman) correlations below (above) the diagonal for the sample used to test our valuation hypothesis. The correlations in bold and italics are significant at the 10 percent level. There is a negative association between Tobin's Q and partial disclosure, but a positive association with disclosure pressure. Our hypothesis focuses on the interaction between these two variables (*Partial Disclosure* and *Disclosure Pressure*), making it challenging to assess univariate relationships. Therefore, we next focus on the multivariate setting.

### 4.2. Determinants of the foreign cash disclosure

We perform an analysis that examines the determinants of withholding foreign cash in the presence of PRE. Because prior studies document the determinants of foreign cash disclosure (Chen, 2014; Yang, 2015; Harford et al., 2017), we conduct this analysis to examine whether the determinants of foreign cash disclosure in our sample are consistent with the previous literature. Table 4 presents the coefficient estimates from Eq. (1), where the dependent variable is *Partial Disclosure*. We present standard errors in parentheses and one-tailed p-values for coefficient predictions. Column (1) includes the full sample. Column (2) controls for the estimated amount of foreign cash and reduces the sample to 4787 firm-year observations.<sup>23</sup> We find a negative association between *Partial Disclosure* and *IndPctDisc*, implying that firms respond to industry pressure to disclose by disclosing foreign cash. The coefficient on *CEO Turnover* is positive and significant, suggesting that managers with greater reputational career concerns are less likely to disclose foreign cash. The results from both models provide evidence that partial disclosure of foreign operations is decreasing in industry pressure.<sup>24</sup> We also find that *Naïve Foreign Cash* and *Std. FEARN* are positively associated with the occurrence of partial disclosure. This result suggests that managers try to obfuscate the foreign cash disclosure when the estimated foreign cash is higher (*Naïve Foreign Cash*). It also appears that managers withhold disclosure when plans for foreign cash are uncertain (*Std. FEARN*).

Other firm characteristics also explain why firms do or do not disclose foreign cash. Specifically, *Partial Disclosure* is negatively related to *Firm SEC Comment*, *Total Cash*, *Foreign Earnings*, *Big4*, and *Size*. These relationships suggest that firms disclose foreign cash with higher regulatory pressure (*Firm SEC Comment*), more cash (*Total Cash*), more reliance on foreign operations (*Foreign Earnings*), greater auditor monitoring (*Big4*), and better information environments (*Size*).<sup>25</sup> As previously discussed, it was not clear, ex-ante, whether size represents the firm's information environment or regulatory scrutiny.

<sup>21</sup> The number of observations in a cluster is low for clustering. Inferences are consistent when not clustering standard errors.

<sup>22</sup> The mean of *Partial Disclosure* is 46.4% and the mean of *IndPctDisc* is 43.3%. Recall that *Partial Disclosure* is one when the firm discloses PRE but withholds the disclosure of foreign cash; and *IndPctDisc* is the percentage of firms disclosing foreign cash within an industry, calculated on an annual basis, with the individual firm not included in this calculation. Given the difference in design and calculation (e.g., annual basis; excluding firm itself), these two variables represent different phenomena and thus have unique descriptive statistics.

<sup>23</sup> To ensure that multicollinearity is not a concern we examine the condition number of the matrix of control variables and note that the largest condition index is 25.01, which alleviates multicollinearity concerns because it is less than 30 (as suggested by Belsley et al., 1980). We also note that the largest variance inflation factor is 2.32, which once again alleviates multicollinearity concerns (Kennedy, 2003).

<sup>24</sup> We note that *IndPctDisc* changes each year, while industry fixed effects are time-invariant; thus, *IndPctDisc* captures time-varying changes at the industry level.

<sup>25</sup> We omit industry fixed effects in untabulated analysis and the *Industry SEC Comment* letter variable significantly reduces partial disclosure, however this significance is subsumed by industry fixed effects in the tabulated results.

**Table 2**  
Descriptive statistics.

Panel A: Descriptive Statistics on Disclosure Sample						
	N	Mean	St. Dev.	Q1	Median	Q3
Partial Disclosure	6570	0.464	0.499	0.000	0.000	1.000
IndPctDisc	6570	0.433	0.176	0.275	0.477	0.574
CEO Turnover	6570	0.500	0.500	0.000	0.500	1.000
Tax Haven	6570	0.714	0.452	0.000	1.000	1.000
Foreign Tax Avoidance	6570	-0.251	0.232	-0.324	-0.222	-0.081
Domestic Tax Avoidance	6570	-0.285	0.242	-0.381	-0.305	-0.050
Estimated Foreign Cash	4801	0.071	0.082	0.004	0.046	0.114
Naive FCASH	6570	0.101	0.075	0.058	0.087	0.122
Comment Letter	6570	0.014	0.118	0.000	0.000	0.000
Std. FEARN	6570	178.800	563.700	3.107	21.280	92.710
Num Seg SIC	6570	1.751	1.090	1.000	1.000	2.000
FEARN Growth	6570	-0.027	2.078	-0.232	0.000	0.218
Double Irish	6570	0.035	0.183	0.000	0.000	0.000
Total Cash	6570	0.204	0.185	0.065	0.145	0.282
Foreign Earnings	6570	0.049	0.075	0.008	0.031	0.071
Domestic Earnings	6570	0.041	0.136	-0.007	0.037	0.092
Size	6570	7.673	1.821	6.457	7.680	8.864
Leverage	6570	0.556	0.266	0.373	0.536	0.700
PPE	6570	0.203	0.178	0.079	0.146	0.263
Intangibles	6570	0.266	0.231	0.073	0.215	0.405
Big4	6570	0.893	0.310	1.000	1.000	1.000
Sales Growth	6570	0.077	0.196	-0.023	0.052	0.144
External Fin	6570	-0.006	0.160	-0.066	-0.022	0.014
Disclose FSEG	6570	0.117	0.321	0.000	0.000	0.000
ABS_DA	6570	0.866	2.076	0.050	0.179	0.585
MA	6570	0.067	0.250	0.000	0.000	0.000
Restatement	6570	0.061	0.239	0.000	0.000	0.000
CEO Dual	6570	0.022	0.146	0.000	0.000	0.000
Industry SEC Comment	6570	0.367	0.482	0.000	0.000	1.000
HHI	6570	0.046	0.036	0.026	0.032	0.052
Litigate	6570	0.355	0.478	0.000	0.000	1.000
AF Disp	6570	0.167	0.243	0.040	0.098	0.192

Panel B: Difference in Means by Partial Disclosure (Disclosure Sample)

	Partial Disclosure = 0	Partial Disclosure = 1	Difference	(p-value)
IndPctDisc	0.50	0.36	0.13	0.00
CEO Turnover	0.49	0.52	-0.03	0.02
Tax Haven	0.72	0.71	0.01	0.40
Foreign Tax Avoidance	-0.25	-0.25	0.00	0.63
Domestic Tax Avoidance	-0.29	-0.28	-0.01	0.06
Estimated Foreign Cash	0.07	0.07	0.01	0.00
Naive FCASH	0.10	0.10	0.00	0.51
Comment Letter	0.02	0.01	0.01	0.00
Std. FEARN	160.20	194.92	-34.72	0.01
Num Seg SIC	1.72	1.78	-0.06	0.03
FEARN Growth	-0.01	-0.04	0.03	0.52
Double Irish	0.05	0.02	0.03	0.00
Total Cash	0.22	0.19	0.03	0.00
Foreign Earnings	0.04	0.03	0.01	0.00
Domestic Earnings	0.03	0.03	0.00	0.08
Size	7.94	7.37	0.57	0.00
Leverage	0.56	0.55	0.00	0.58
PPE	0.18	0.22	-0.04	0.00
Intangibles	0.28	0.25	0.03	0.00
Big4	0.92	0.87	0.05	0.00
Sales Growth	0.07	0.09	-0.02	0.00
External Fin	-0.01	0.00	-0.01	0.03
Disclose FSEG	0.07	0.17	-0.10	0.00
ABS_DA	0.90	0.83	0.07	0.16
MA	0.07	0.06	0.01	0.02
Restatement	0.05	0.07	-0.02	0.00
CEO Dual	0.01	0.04	-0.03	0.00
Industry SEC Comment	0.43	0.30	0.13	0.00

(continued on next page)

Table 2 (continued)

Panel B: Difference in Means by Partial Disclosure (Disclosure Sample)						
	Partial Disclosure = 0	Partial Disclosure = 1	Difference	(p-value)		
HHI	0.05	0.05	0.00	0.15		
Litigate	0.40	0.31	0.09	0.00		
AF Disp	0.16	0.17	-0.01	0.13		
Panel C: Descriptive Statistics for Valuation Sample						
	N	Mean	St. Dev.	Q1	Median	Q3
Tobins Q	4195	2.062	1.028	1.363	1.776	2.425
Partial Disclosure	4195	0.438	0.496	0.000	0.000	1.000
Disclosure Pressure	4195	0.447	0.497	0.000	0.000	1.000
Foreign Tax Avoidance	4195	-0.256	0.207	-0.320	-0.231	-0.129
Domestic Tax Avoidance	4195	-0.323	0.220	-0.390	-0.330	-0.214
Tax Risk	4195	1.194	3.308	0.074	0.216	0.783
Tax VAR	4195	1.364	1.506	0.000	1.445	2.564
PTROA	4195	0.101	0.063	0.057	0.089	0.132
St. Dev PTROA	4195	0.043	0.040	0.018	0.031	0.052
NOL	4195	0.066	0.127	0.000	0.019	0.069
Sales	4195	7.750	1.547	6.672	7.702	8.691
Leverage	4195	0.212	0.169	0.075	0.196	0.314
Foreign Earnings	4195	0.575	0.660	0.167	0.433	0.757
CapEx	4195	0.712	1.334	0.171	0.320	0.641
Sales Growth	4195	0.161	0.272	-0.005	0.112	0.278
R&D	4195	0.561	1.255	0.000	0.169	0.553
Advertising	4195	0.144	0.386	0.000	0.000	0.091
Intangibles	4195	0.262	0.198	0.096	0.230	0.399
Depreciation	4195	0.733	1.343	0.211	0.359	0.661
Tax Haven	4195	0.736	0.441	0.000	1.000	1.000
Estimated Foreign Cash	4195	0.051	0.075	0.000	0.011	0.083
AF Disp	4195	0.161	0.219	0.044	0.101	0.191
Panel D: Difference in Means by Partial Disclosure (Valuation Sample)						
	Partial Disclosure = 0	Partial Disclosure = 1	Difference	(p-value)		
Tobins Q	2.17	1.93	0.24	0.00		
Disclosure Pressure	0.59	0.26	0.33	0.00		
Foreign Tax Avoidance	-0.25	-0.26	0.00	0.59		
Domestic Tax Avoidance	-0.33	-0.32	-0.01	0.37		
Tax Risk	1.34	1.40	-0.06	0.23		
Tax VAR	1.10	1.31	-0.21	0.04		
PTROA	0.10	0.10	0.00	0.56		
St. Dev PTROA	0.04	0.05	-0.01	0.00		
NOL	0.07	0.06	0.00	0.41		
Sales	7.88	7.58	0.30	0.00		
Leverage	0.21	0.21	0.00	0.81		
Foreign Earnings	0.61	0.54	0.07	0.00		
CapEx	0.66	0.78	-0.13	0.00		
Sales Growth	0.16	0.16	0.01	0.54		
R&D	0.61	0.50	0.12	0.00		
Advertising	0.16	0.12	0.04	0.00		
Intangibles	0.27	0.25	0.03	0.00		
Depreciation	0.72	0.74	-0.02	0.62		
Tax Haven	0.05	0.05	0.01	0.00		
Estimated Foreign Cash	0.73	0.75	-0.02	0.23		
AF Disp	0.16	0.16	-0.01	0.36		

Table 2 presents the descriptive statistics for the disclosure sample (Panel A) and the valuation sample (Panel C). Panels B and D provide differences in means t-tests for the disclosure and valuation sample, respectively. See Appendix A for variable definitions. Bolded values are sub-headings.

The negative association between *Size* and *Partial Disclosure* provides evidence that *Size* is a better proxy for firms' information environments and not the level of regulatory scrutiny associated with the disclosure of foreign cash. The firm characteristics positively associated with *Partial Disclosure* include *PPE*, *Sales Growth*, and *CEO Dual*, implying that more capital intensity (*PPE*) and agency costs (e.g., sales growth and *CEO Dual*) reduce full disclosure.<sup>26</sup> While several of the control variables are insignificant, we note that this is not uncommon; for comparison, this appears to be consistent with Column 1 of Table 4 in Yang (2015).

<sup>26</sup> In untabulated analysis, we examine annual reports for 2098 firm-year observations and hand collect the deferred tax liability associated with unremitted foreign earnings. Inferences for the base model remain qualitatively and quantitatively similar when we control for whether or not the firm discloses the deferred tax liability associated with unremitted foreign earnings.

**Table 3**

Correlation matrix.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
<b>1</b> Tobins Q		<b>-0.128</b>	<b>0.098</b>	<b>0.063</b>	<b>-0.079</b>	<b>-0.034</b>	<b>-0.262</b>	<b>0.598</b>	-0.004	<b>-0.055</b>	-0.016	<b>-0.057</b>	<b>-0.100</b>	<b>-0.390</b>	<b>0.174</b>	<b>0.130</b>	<b>0.157</b>	<b>0.066</b>	<b>-0.459</b>	0.022	<b>0.066</b>	<b>-0.088</b>
<b>2</b> Partial Disclosure	<b>-0.115</b>		<b>-0.325</b>	0.001	-0.005	0.023	-0.022	-0.007	<b>0.081</b>	<b>-0.076</b>	<b>-0.096</b>	-0.012	<b>-0.102</b>	<b>0.066</b>	<b>-0.029</b>	<b>-0.095</b>	-0.001	<b>-0.070</b>	0.017	0.018	<b>-0.043</b>	0.011
<b>3</b> Disclosure Pressure	<b>0.077</b>	<b>-0.325</b>		0.012	<b>0.032</b>	<b>-0.201</b>	0.001	<b>-0.078</b>	<b>-0.115</b>	<b>0.122</b>	<b>-0.034</b>	<b>0.037</b>	0.024	0.013	0.000	<b>0.132</b>	<b>0.033</b>	<b>0.098</b>	<b>0.065</b>	<b>-0.098</b>	<b>-0.049</b>	<b>-0.118</b>
<b>4</b> Foreign Tax Avoidance	<b>0.079</b>	-0.008	-0.004		<b>-0.092</b>	<b>0.031</b>	<b>0.126</b>	<b>0.040</b>	<b>0.075</b>	<b>0.034</b>	-0.001	<b>-0.053</b>	<b>0.169</b>	<b>-0.037</b>	<b>0.064</b>	<b>0.118</b>	<b>-0.032</b>	<b>-0.045</b>	<b>-0.049</b>	0.014	-0.023	0.016
<b>5</b> Domestic Tax Avoidance	<b>-0.050</b>	0.014	0.009	<b>-0.065</b>		-0.022	<b>0.180</b>	<b>-0.172</b>	<b>0.053</b>	<b>0.101</b>	<b>-0.034</b>	0.025	<b>0.088</b>	<b>0.103</b>	<b>-0.058</b>	<b>0.168</b>	<b>-0.036</b>	0.006	<b>0.175</b>	0.014	<b>0.049</b>	0.020
<b>6</b> Tax VAR	<b>-0.064</b>	0.019	<b>-0.198</b>	<b>0.046</b>	<b>-0.036</b>		0.011	<b>0.055</b>	0.012	<b>-0.051</b>	<b>0.402</b>	<b>0.064</b>	<b>0.119</b>	<b>-0.081</b>	0.001	<b>0.093</b>	<b>-0.114</b>	<b>0.143</b>	<b>-0.056</b>	<b>0.342</b>	<b>0.228</b>	<b>0.376</b>
<b>7</b> Tax Risk	<b>-0.094</b>	<b>0.032</b>	<b>-0.026</b>	0.013	<b>0.052</b>	<b>-0.036</b>		<b>-0.375</b>	<b>0.372</b>	<b>0.271</b>	<b>-0.126</b>	<b>-0.041</b>	<b>0.355</b>	<b>0.252</b>	<b>-0.056</b>	<b>0.298</b>	<b>-0.061</b>	<b>-0.096</b>	<b>0.354</b>	<b>0.088</b>	<b>0.091</b>	<b>0.031</b>
<b>8</b> PTROA	<b>0.611</b>	0.009	<b>-0.075</b>	<b>0.083</b>	<b>-0.095</b>	<b>0.036</b>	<b>-0.137</b>		<b>0.067</b>	<b>-0.175</b>	<b>0.065</b>	<b>-0.177</b>	<b>-0.265</b>	<b>-0.574</b>	<b>0.191</b>	<b>-0.171</b>	<b>0.062</b>	<b>-0.112</b>	<b>-0.779</b>	<b>0.043</b>	0.015	<b>0.030</b>
<b>9</b> St. Dev PTROA	<b>0.040</b>	<b>0.089</b>	<b>-0.114</b>	<b>0.036</b>	<b>0.057</b>	0.001	<b>0.159</b>	<b>0.125</b>		<b>0.079</b>	<b>-0.174</b>	<b>-0.135</b>	<b>0.091</b>	<b>0.054</b>	<b>0.039</b>	<b>0.099</b>	0.005	<b>-0.220</b>	<b>0.042</b>	<b>0.066</b>	<b>0.036</b>	<b>0.138</b>
<b>10</b> NOL	<b>-0.030</b>	-0.013	<b>0.058</b>	<b>0.030</b>	<b>0.102</b>	<b>-0.072</b>	<b>0.169</b>	<b>-0.125</b>	<b>0.238</b>		<b>-0.042</b>	<b>0.048</b>	<b>0.164</b>	<b>0.122</b>	-0.003	<b>0.147</b>	0.002	<b>0.030</b>	<b>0.177</b>	<b>0.054</b>	<b>0.052</b>	<b>-0.027</b>
<b>11</b> Sales	<b>-0.054</b>	<b>-0.096</b>	<b>-0.035</b>	0.022	<b>-0.045</b>	<b>0.417</b>	<b>-0.096</b>	<b>0.060</b>	<b>-0.151</b>	<b>-0.111</b>		<b>0.362</b>	0.021	-0.020	<b>-0.101</b>	<b>-0.205</b>	<b>0.061</b>	<b>0.100</b>	<b>-0.095</b>	<b>0.081</b>	-0.024	<b>0.326</b>
<b>12</b> Leverage	<b>-0.061</b>	-0.004	<b>0.038</b>	<b>-0.029</b>	0.006	<b>0.031</b>	<b>-0.052</b>	<b>-0.138</b>	<b>-0.106</b>	0.011	<b>0.285</b>		0.000	<b>0.148</b>	<b>-0.117</b>	<b>-0.183</b>	<b>0.047</b>	<b>0.299</b>	<b>0.182</b>	<b>-0.044</b>	<b>-0.039</b>	<b>0.045</b>
<b>13</b> Foreign Earnings	<b>-0.114</b>	<b>-0.053</b>	<b>0.034</b>	0.113	<b>0.029</b>	0.012	<b>0.165</b>	<b>-0.322</b>	<b>0.067</b>	<b>0.193</b>	<b>-0.055</b>	0.013		<b>0.220</b>	<b>-0.068</b>	<b>0.281</b>	<b>-0.079</b>	<b>-0.107</b>	<b>0.246</b>	<b>0.212</b>	<b>0.188</b>	<b>0.061</b>
<b>14</b> CapEx	<b>-0.208</b>	<b>0.048</b>	-0.007	<b>-0.040</b>	-0.011	<b>-0.096</b>	<b>0.108</b>	<b>-0.395</b>	<b>0.028</b>	<b>0.112</b>	<b>-0.076</b>	<b>0.127</b>	<b>0.539</b>		<b>-0.081</b>	<b>0.026</b>	<b>-0.063</b>	<b>-0.259</b>	<b>0.759</b>	<b>-0.048</b>	<b>-0.102</b>	<b>0.095</b>
<b>15</b> Sales Growth	<b>0.189</b>	-0.009	-0.020	<b>0.054</b>	-0.002	0.004	0.018	<b>0.179</b>	<b>0.102</b>	-0.022	<b>-0.088</b>	<b>-0.103</b>	<b>-0.065</b>	<b>-0.048</b>		0.005	0.015	<b>0.040</b>	<b>-0.170</b>	0.006	0.024	<b>0.029</b>
<b>16</b> R&D	0.010	<b>-0.046</b>	<b>0.085</b>	0.014	<b>0.065</b>	<b>-0.038</b>	<b>0.195</b>	<b>-0.298</b>	<b>0.101</b>	<b>0.182</b>	<b>-0.194</b>	<b>-0.132</b>	<b>0.470</b>	<b>0.358</b>	-0.007		<b>0.030</b>	<b>0.060</b>	<b>0.183</b>	<b>0.127</b>	<b>0.200</b>	<b>-0.047</b>
<b>17</b> Advertising	<b>0.036</b>	<b>-0.045</b>	-0.005	<b>-0.074</b>	-0.025	<b>-0.092</b>	<b>0.029</b>	<b>-0.110</b>	<b>0.039</b>	0.019	0.013	<b>0.038</b>	<b>0.136</b>	<b>0.138</b>	-0.004	<b>0.124</b>		<b>0.132</b>	<b>-0.040</b>	-0.005	-0.002	<b>-0.056</b>
<b>18</b> Intangibles	<b>-0.038</b>	<b>-0.065</b>	<b>0.096</b>	<b>-0.032</b>	0.007	<b>0.139</b>	<b>-0.061</b>	<b>-0.158</b>	<b>-0.165</b>	<b>-0.069</b>	<b>0.072</b>	<b>0.270</b>	<b>-0.070</b>	<b>-0.181</b>	<b>0.030</b>	0.003	<b>0.070</b>		<b>0.038</b>	<b>0.027</b>	<b>0.093</b>	<b>-0.138</b>
<b>19</b> Depreciation	<b>-0.183</b>	0.008	<b>0.028</b>	<b>-0.085</b>	0.016	<b>-0.080</b>	<b>0.132</b>	<b>-0.443</b>	<b>0.050</b>	<b>0.126</b>	<b>-0.095</b>	<b>0.094</b>	<b>0.601</b>	<b>0.830</b>	<b>-0.071</b>	<b>0.532</b>	<b>0.230</b>	<b>-0.029</b>		-0.022	<b>-0.030</b>	-0.008
<b>20</b> Tax Haven	-0.024	0.018	<b>-0.098</b>	0.014	-0.017	<b>0.326</b>	<b>0.048</b>	<b>0.030</b>	<b>0.060</b>	0.021	<b>0.080</b>	<b>-0.059</b>	<b>0.086</b>	<b>-0.049</b>	-0.001	<b>0.056</b>	-0.018	0.006	<b>-0.045</b>		<b>0.409</b>	<b>0.269</b>
<b>21</b> Estimated Foreign Cash	0.016	<b>-0.061</b>	-0.011	0.025	0.025	<b>0.206</b>	<b>0.083</b>	-0.013	<b>0.072</b>	<b>0.068</b>	-0.022	<b>-0.052</b>	<b>0.139</b>	<b>-0.050</b>	0.023	<b>0.111</b>	<b>-0.039</b>	0.023	<b>-0.031</b>	<b>0.356</b>		<b>0.112</b>
<b>22</b> AF Disp	-0.017	0.014	<b>-0.121</b>	0.001	<b>-0.035</b>	<b>0.255</b>	0.012	<b>0.078</b>	<b>0.131</b>	-0.012	<b>0.282</b>	<b>0.027</b>	0.008	<b>0.079</b>	<b>0.129</b>	<b>-0.054</b>	<b>-0.031</b>	<b>-0.163</b>	0.012	<b>0.132</b>	0.000	

Table 3 presents the correlation matrix for the valuation sample. All correlations that are in **bold italics** are significant at the 10 percent level. See Appendix A for variable definitions.

**Table 4**  
Determinants of partial disclosure.

		(1)		(2)	
	Prediction	Partial Disclosure		Partial Disclosure	
<i>IndPctDisc</i>	–	–1.978***	(0.292)	–1.787***	(0.340)
<i>CEO Turnover</i>	+	0.094**	(0.049)	0.076*	(0.057)
<i>Tax Haven</i>	+	–0.112	(0.066)	–0.089	(0.088)
<i>Foreign Tax Avoidance</i>	+	0.025	(0.094)	0.055	(0.111)
<i>Domestic Tax Avoidance</i>	+	0.080	(0.085)	0.173**	(0.100)
<i>Estimated Foreign Cash</i>	–			–0.057	(0.456)
<i>Naive Foreign Cash</i>	+	1.807***	(0.515)	2.371***	(0.587)
<i>Std. FEARN</i>	+	0.000**	(0.000)	0.000***	(0.000)
<i>Num Seg SIC</i>	+	0.015	(0.032)	0.005	(0.035)
<i>FEARN Growth</i>	+	0.005	(0.008)	0.001	(0.010)
<i>Double Irish</i>	+	–0.157	(0.091)	–0.182	(0.100)
<i>Firm SEC Comment</i>	–	–0.465***	(0.158)	–0.404***	(0.167)
<i>Total Cash</i>	–	–0.624***	(0.221)	–0.793***	(0.244)
<i>Foreign Earnings</i>	–	–1.868***	(0.373)	–1.938***	(0.428)
<i>Domestic Earnings</i>	+	0.256	(0.218)	0.390*	(0.248)
<i>Size</i>	?	–0.122***	(0.025)	–0.130***	(0.028)
<i>Leverage</i>	–	0.005	(0.120)	0.047	(0.134)
<i>PPE</i>	+	0.565**	(0.250)	0.378*	(0.287)
<i>Intangibles</i>	+	–0.117	(0.174)	–0.124	(0.200)
<i>Big4</i>	–	–0.192**	(0.112)	–0.188*	(0.125)
<i>Sales Growth</i>	+	0.513***	(0.113)	0.586***	(0.132)
<i>ExFin</i>	–	0.317	(0.152)	0.344	(0.165)
<i>Disclose FSEG</i>	–	0.283	(0.106)	0.052	(0.154)
<i>ABS_DA</i>	+	–0.004	(0.008)	–0.006	(0.009)
<i>AF Disp</i>	+	–0.037	(0.119)	–0.007	(0.140)
<i>MA</i>	–	–0.045	(0.073)	–0.088	(0.087)
<i>Restatement</i>	+	0.092	(0.079)	–0.015	(0.094)
<i>CEO Dual</i>	+	0.352**	(0.158)	0.337**	(0.179)
<i>Industry SEC Comment</i>	–	0.050	(0.045)	0.069	(0.052)
<i>HHI</i>	+	3.234*	(2.454)	7.220**	(3.423)
<i>Litigate</i>	–	–0.154*	(0.112)	–0.117	(0.125)
<i>Intercept</i>	?	2.393***	(0.841)	1.658**	(1.006)
Industry Fixed Effects		Included		Included	
Year Fixed Effects		Included		Included	
<i>N</i>		6570		4787	
pseudo R <sup>2</sup>		0.1737		0.1710	
Area under ROC		0.7720		0.7693	
Pearson $\chi^2$ P-Value		0.2060		0.2232	

Table 4 presents the estimated coefficients from the probit model presented in Eq. (1). Standard errors are in parentheses. Significance tests are one-tailed where predicted and two-tailed where we make no prediction. \*\*\*, \*\*, \* represent significance at the 10, 5, and 1 percent levels, respectively. See Appendix A for variable definitions.

Bolded values highlight the variables of interest.

Because we are interested in the industry-level influence on foreign cash disclosure, we next examine how partial disclosers differ from the industry-mean on the control variables presented in Table 4. In Table 5, we group firms into industries by two-digit SIC codes and present the mean value of control variables in odd-numbered columns. We present the mean values of control variables for partial disclosers in the even-numbered columns. Control variables presented are limited to variables that have at least one industry where the absolute difference between partial disclosers and the industry mean is at least 30 percent. Table 5 suggests that *FEARN Growth*, *Double Irish*, *Firm SEC Comment*, *ExFin*, *Disclose FSEG*, and *Domestic Earnings* do not vary across industries. However, the effect of *Naive Foreign Cash* is more prevalent among food products, paper products, durable goods, eating and drinking establishments, and entertainment services. Similarly, the effect of *Foreign Earnings* is stronger among the construction and entertainment services industries. The effect of sales growth on partial disclosure is stronger in the oil and gas, construction, chemical products, and transportation industries.

#### 4.3. Firm value and partial disclosure

Table 6 presents the results from testing our hypothesis using an entropy balance sample.<sup>27</sup> Panel A of Table 6 presents the mean, variance, and skewness for the covariates following the entropy balancing procedure. The differences presented are minimal and not statistically significant. Using the reweighted covariates, we estimate Equation (3) and present the results

<sup>27</sup> In addition to entropy balancing, we also use the “eregress” command in STATA and find that the average treatment effect is –1.107 which is statistically significant with a p-value <0.001 (untabulated).

**Table 5**  
Industry level differences.

Industry Level Differences																
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)						
Industry	SIC2	Naïve Foreign Cash	Naïve Foreign Cash	Difference %	FEARN Growth	FEARN Growth	Difference %	Double Irish	Double Irish	Difference %	Firm SEC Comment	Firm SEC Comment	Difference %	Foreign Earnings	Foreign Earnings	Difference %
Oil and gas	13,29	0.086	0.111	0.291	-0.088	-0.190	1.159	0.037	0.025	-0.324	0.011	0.000	-1.000	0.069	0.075	0.087
Construction	15-19	0.087	0.097	0.115	-0.035	0.031	-1.886	0.037	0.000	-1.000	0.037	0.063	0.703	0.033	0.017	-0.485
Food products	20	0.087	0.116	0.333	0.093	0.024	-0.742	0.060	0.053	-0.117	0.005	0.000	-1.000	0.051	0.044	-0.137
Paper and paper products	24-27	0.072	0.097	0.347	0.009	-0.014	-2.556	0.045	0.017	-0.622	0.023	0.009	-0.609	0.039	0.040	0.026
Chemical products	28	0.106	0.108	0.019	0.217	0.308	0.419	0.045	0.031	-0.311	0.021	0.007	-0.667	0.071	0.066	-0.070
Manufacturing	30-34	0.081	0.096	0.185	-0.215	-0.168	-0.219	0.023	0.000	-1.000	0.032	0.006	-0.813	0.044	0.038	-0.136
Computer equipment and services	35,73	0.107	0.099	-0.075	-0.049	-0.142	1.898	0.042	0.024	-0.429	0.012	0.008	-0.333	0.045	0.035	-0.222
Electronic equipment	36	0.128	0.099	-0.227	-0.128	-0.254	0.984	0.017	0.010	-0.412	0.010	0.008	-0.200	0.058	0.044	-0.241
Transportation	37,39-45	0.088	0.103	0.170	-0.126	-0.039	-0.690	0.025	0.010	-0.600	0.014	0.005	-0.643	0.047	0.043	-0.085
Scientific instruments	38	0.113	0.097	-0.142	-0.024	-0.050	1.083	0.029	0.029	0.000	0.018	0.022	0.222	0.057	0.041	-0.281
Communications	48	0.092	0.113	0.228	0.156	0.383	1.455	0.036	0.024	-0.333	0.009	0.000	-1.000	0.018	0.017	-0.056
Durable goods	50-51	0.073	0.097	0.329	0.029	0.147	4.069	0.039	0.008	-0.795	0.007	0.000	-1.000	0.025	0.021	-0.160
Retail	53,54,56,57,59	0.089	0.104	0.169	-0.140	0.003	-1.021	0.039	0.070	0.795	0.013	0.018	0.385	0.033	0.029	-0.121
Eating and drinking establishments	58	0.074	0.112	0.514	-0.277	0.148	-1.534	0.026	0.000	-1.000	0.000	0.000	0.000	0.066	0.085	0.288
Entertainment services	70,78,79	0.092	0.100	0.087	0.246	0.243	-0.012	0.016	0.031	0.938	0.000	0.000	0.000	0.045	0.021	-0.533
Health	80	0.079	0.103	0.304	0.498	0.191	-0.616	0.000	0.000	0.000	0.000	0.000	0.000	0.005	0.033	5.600
Others		0.080	0.099	0.238	0.057	-0.064	-2.123	0.035	0.020	-0.429	0.011	0.000	-1.000	0.041	0.040	-0.024

  

	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)						
Industry	SIC2	Domestic Earnings	Domestic Earnings	Difference %	Sales Growth	Sales Growth	Difference %	ExFin	ExFin	Difference %	Disclose FSEG	Disclose FSEG	Difference %	Restatement	Restatement	Difference %
Oil and gas	13,29	0.009	-0.008	-1.889	0.032	0.047	0.469	0.004	0.004	0.000	0.101	0.093	-0.079	0.053	0.068	0.283
Construction	15-19	0.033	0.040	0.212	0.070	0.109	0.557	0.074	0.122	0.649	0.000	0.000	0.000	0.037	0.063	0.703
Food products	20	0.095	0.097	0.021	0.076	0.093	0.224	-0.011	-0.008	-0.273	0.104	0.126	0.210	0.077	0.095	0.234
Paper and paper products	24-27	0.053	0.040	-0.245	0.049	0.059	0.204	-0.039	-0.037	-0.051	0.127	0.174	0.370	0.055	0.070	0.273
Chemical products	28	0.057	0.038	-0.333	0.075	0.098	0.307	-0.014	0.002	-1.143	0.093	0.149	0.602	0.056	0.075	0.339
Manufacturing	30-34	0.038	0.037	-0.026	0.033	0.032	-0.030	-0.012	-0.010	-0.167	0.140	0.243	0.736	0.086	0.072	-0.163
Computer equipment and services	35,73	0.034	0.023	-0.324	0.097	0.100	0.031	0.004	0.010	1.500	0.117	0.190	0.624	0.055	0.059	0.073
Electronic equipment	36	0.002	0.003	0.500	0.083	0.092	0.108	-0.001	-0.004	3.000	0.099	0.170	0.717	0.075	0.081	0.080
Transportation	37,39-45	0.060	0.064	0.067	0.049	0.067	0.367	-0.013	-0.008	-0.385	0.080	0.114	0.425	0.064	0.070	0.094
Scientific instruments	38	0.035	0.022	-0.371	0.088	0.100	0.136	0.003	0.019	5.333	0.088	0.165	0.875	0.046	0.050	0.087
Communications	48	0.051	0.052	0.020	0.050	0.060	0.200	-0.031	-0.035	0.129	0.225	0.220	-0.022	0.072	0.073	0.014
Durable goods	50-51	0.075	0.092	0.227	0.067	0.073	0.090	-0.007	-0.011	0.571	0.113	0.212	0.876	0.064	0.076	0.188
Retail	53,54,56,57,59	0.113	0.147	0.301	0.078	0.067	-0.141	-0.050	-0.070	0.400	0.209	0.246	0.177	0.046	0.070	0.522
Eating and drinking establishments	58	0.038	0.002	-0.947	0.054	0.062	0.148	-0.050	-0.050	0.000	0.179	0.105	-0.413	0.000	0.000	0.000
Entertainment services	70,78,79	0.029	0.044	0.517	0.089	0.067	-0.247	-0.025	-0.031	0.240	0.532	0.375	-0.295	0.081	0.094	0.160
Health	80	-0.067	-0.020	-0.701	0.101	0.116	0.149	0.028	0.016	-0.429	0.400	0.529	0.323	0.040	0.059	0.475
Others		0.072	0.075	0.042	0.083	0.102	0.229	-0.008	0.000	-1.000	0.106	0.111	0.047	0.065	0.091	0.400

Table 5 presents the average of all control variables where partial disclosures have an absolute difference of 30 percent or more (shaded) compared to the industry mean. We present the industry means in the odd-numbered columns, and the partial disclosure group means in the even-numbered columns.

**Table 6**  
Firm value consequences of partial disclosure.

Panel A: Entropy Balance Diagnostics									
	Partial Disclosure = 1			Partial Disclosure = 0			$\Delta$ Mean	$\Delta$ Variance	$\Delta$ Skewness
	Mean	Variance	Skewness	Mean	Variance	Skewness			
Disclosure Pressure	0.434	0.246	0.267	0.434	0.246	0.267	0.000	0.000	0.000
Foreign Tax Avoidance	-0.258	0.046	-1.573	-0.258	0.046	-1.573	0.000	0.000	0.000
Domestic Tax Avoidance	-0.320	0.047	-1.033	-0.320	0.047	-1.033	0.000	0.000	0.000
Tax Risk	1.396	2.391	-0.219	1.396	2.391	-0.219	0.000	0.000	0.000
Tax VAR	1.313	14.210	5.167	1.313	14.210	5.167	0.000	0.000	0.000
PTROA	0.102	0.004	1.079	0.102	0.004	1.079	0.000	0.000	0.000
St. Dev. PTROA	0.047	0.002	2.325	0.047	0.002	2.325	0.000	0.000	0.000
NOL	0.065	0.017	3.633	0.065	0.017	3.633	0.000	0.000	0.000
Sales	7.581	2.595	0.253	7.581	2.595	0.253	0.000	0.000	0.000
Leverage	0.211	0.030	0.707	0.211	0.030	0.707	0.000	0.000	0.000
Foreign Earnings	0.535	0.406	3.271	0.535	0.406	3.271	0.000	0.000	0.000
CapEx	0.784	1.976	4.253	0.784	1.976	4.253	0.000	0.000	0.000
Sales Growth	0.158	0.084	1.188	0.158	0.084	1.188	0.000	0.000	0.000
R&D	0.496	1.428	5.039	0.496	1.428	5.039	0.000	0.000	0.000
Advertising	0.125	0.097	4.567	0.125	0.097	4.567	0.000	0.000	0.000
Intangibles	0.247	0.038	0.651	0.247	0.038	0.651	0.000	0.000	0.000
Depreciation	0.745	1.639	4.745	0.745	1.639	4.745	0.000	0.000	0.000
Tax Haven	0.746	0.190	-1.128	0.746	0.190	-1.128	0.000	0.000	0.000
Estimated Foreign Cash	0.046	0.005	1.815	0.046	0.005	1.815	0.000	0.000	0.000
AF Disp	0.165	0.052	3.460	0.165	0.052	3.460	0.000	0.000	0.000

  

Panel B: Entropy Balanced Regression Results					
	Prediction	(1) Tobin's Q Full Sample	(2) Tobin's Q Full Sample		
<b>Partial Disclosure * Disclosure Pressure</b>	-		<b>-0.101**</b>		<b>(0.057)</b>
Partial Disclosure	-	-0.074**	(0.035)	-0.030	(0.043)
Disclosure Pressure	?	0.057*	(0.031)	0.110***	(0.043)
Foreign Tax Avoidance	+	0.072	(0.068)	0.074	(0.068)
Domestic Tax Avoidance	+	-0.015	(0.064)	-0.016	(0.064)
Tax Risk	?	0.013	(0.016)	0.013	(0.016)
Tax VAR	-	-0.001	(0.005)	-0.001	(0.005)
PTROA	+	10.638***	(0.488)	10.641***	(0.486)
Std. Dev. PTROA	-	-0.931**	(0.521)	-0.919**	(0.519)
NOL	-	-0.093	(0.177)	-0.092	(0.175)
Sales	+	-0.051	(0.018)	-0.052	(0.018)
Leverage	?	0.310**	(0.145)	0.310*	(0.145)
Foreign Earnings	+	0.040	(0.035)	0.038	(0.035)
Capex	+	0.032	(0.027)	0.034	(0.027)
Sales Growth	+	0.294***	(0.079)	0.292***	(0.078)
R&D	+	0.145***	(0.024)	0.145***	(0.024)
Advertising	+	0.232***	(0.071)	0.231***	(0.071)
Intangibles	+	0.141	(0.122)	0.133	(0.122)
Depreciation	-	-0.029	(0.030)	-0.029	(0.030)
Tax Haven	+	-0.006	(0.048)	-0.005	(0.048)
Estimated Foreign Cash	+	0.008	(0.249)	0.017	(0.248)
AF Disp	-	-0.011	(0.125)	-0.008	(0.125)
Intercept	?	0.915***	(0.177)	0.879***	(0.177)
Industry Fixed Effects		Included		Included	
Year Fixed Effects		Included		Included	
N		4195		4195	
Adj. R <sup>2</sup>		0.5479		0.5483	

Table 6 presents the estimated coefficients from Eq. (3). Panel A presents the mean, variance, and skewness for the covariates disaggregated by *Partial Disclosure*. Panel B uses an entropy balanced sample. Standard errors are in parentheses. Significance tests are one-tailed where predicted and two-tailed where we make no prediction. \*\*\*, \*\*, \* represent significance at the 10, 5, and 1 percent levels, respectively. See Appendix A for variable definitions. Bolded values are both sub-headings and highlight the variables of interest.

in Panel B.<sup>28</sup> Similar to Table 4, we present standard errors in parentheses and significance based on one-tailed p-values for coefficient predictions. Before testing H1, Column (1) presents a base model without any interactions and provides evidence of a negative association between *Partial Disclosure* and *Tobin's Q*. Next, we add the interaction *Partial Disclosure*  $\times$  *Disclosure Pressure* to the model in Column (2). Consistent with H1, the coefficient on the interaction is negative and significant, suggesting

<sup>28</sup> To ensure that multicollinearity is not a concern we examine the condition number of the matrix of control variables and note that the largest condition index is 13.01. We also note that the largest variance inflation factor is 4.76.

Table 7

Valuation consequences for firms with high trapped foreign cash or PRE.

	Prediction	(1)		(2)		(3)		(4)	
		Trapped Cash				PRE			
		High	Low	High	Low	High	Low	High	Low
<b>Partial Disclosure * Disclosure Pressure</b>	–	<b>–0.215***</b>	<b>(0.090)</b>	<b>–0.060</b>	<b>(0.071)</b>	<b>–0.100*</b>	<b>(0.073)</b>	<b>–0.074</b>	<b>(0.076)</b>
Partial Disclosure	–	0.115	(0.081)	–0.036	(0.065)	0.011	(0.056)	–0.067	(0.067)
Disclosure Pressure	?	0.133*	(0.093)	–0.004	(0.077)	0.143***	(0.056)	0.081*	(0.058)
Foreign Tax Avoidance	+	0.133*	(0.081)	–0.042	(0.080)	0.049	(0.133)	0.094	(0.076)
Domestic Tax Avoidance	+	0.046	(0.081)	–0.007	(0.058)	–0.054	(0.072)	–0.005	(0.117)
Tax Risk	?	0.050**	(0.025)	–0.048**	(0.021)	0.055**	(0.024)	–0.012	(0.021)
Tax VAR	–	–0.026	(0.026)	–0.053**	(0.023)	–0.009*	(0.006)	0.005	(0.008)
PTROA	+	10.896***	(0.719)	8.184***	(0.624)	10.360***	(0.663)	10.563***	(0.685)
Std. Dev. PTROA	–	–0.180	(0.931)	–0.268	(0.853)	–0.719	(0.696)	–1.459**	(0.707)
NOL	–	–0.145	(0.402)	–0.372*	(0.278)	–0.366*	(0.227)	0.273	(0.221)
Sales	+	–0.031	(0.031)	–0.022	(0.025)	–0.105	(0.024)	–0.010	(0.024)
Leverage	?	0.205	(0.211)	0.434**	(0.194)	0.768***	(0.213)	–0.048	(0.175)
Foreign Earnings	+	–0.091	(0.079)	0.104*	(0.065)	0.115***	(0.049)	–0.016	(0.051)
Capex	+	0.022	(0.074)	0.022	(0.069)	0.077**	(0.037)	0.019	(0.030)
Sales Growth	+	0.285***	(0.115)	0.141*	(0.088)	0.096	(0.115)	0.432***	(0.108)
R&D	+	0.461***	(0.072)	0.281***	(0.073)	0.176***	(0.031)	0.117***	(0.031)
Advertising	+	0.433***	(0.194)	0.494***	(0.178)	0.089	(0.093)	0.280***	(0.084)
Intangibles	+	–0.021	(0.166)	0.243*	(0.150)	0.160	(0.177)	0.128	(0.162)
Depreciation	–	0.060	(0.110)	–0.055	(0.098)	–0.126***	(0.046)	0.009	(0.034)
Tax Haven	+	0.051	(0.052)	0.073	(0.065)	–0.076	(0.077)	0.011	(0.060)
Estimated Foreign Cash	+	–0.016	(0.428)	–0.125	(0.328)	–0.071	(0.287)	0.232	(0.482)
AF Disp	–	–0.406**	(0.227)	–0.206	(0.190)	0.019	(0.170)	0.087	(0.195)
Intercept	?	–0.156	(0.264)	1.004***	(0.255)	1.307***	(0.258)	0.552**	(0.270)
Industry Fixed Effects		Included		Included		Included		Included	
Year Fixed Effects		Included		Included		Included		Included	
N		1570		1576		2098		2097	
adj. R <sup>2</sup>		0.6095		0.6441		0.6250		0.4931	

Table 7 presents the estimated coefficients from Eq. (3). Column 1 includes firms with above-median trapped cash, and column 2 includes firms with below-median trapped cash. Column 3 includes firms with above-median PRE, and Column 4 includes firms with below-median PRE. Standard errors are in parentheses. Significance tests are one-tailed for predictions and two-tailed where we make no prediction. \*\*\*, \*\*, \* represent significance at the 10, 5, and 1 percent levels, respectively. See Appendix A for variable definitions.

Bolded values are both sub-headings and highlight the variables of interest.

that partial disclosure is negatively valued when the firm experiences higher industry pressure to disclose.<sup>29</sup> In other words, partial disclosers only experience discounted firm value when the industry norm is to disclose fully. Control variables are similar to those presented in Column (1). These findings provide evidence that investors discount firm value when managers do not conform to industry norms of financial reporting.

#### 4.4. Perceived foreign cash, PRE and partial disclosure

Nondisclosure of foreign cash could stem from immaterial amounts of foreign cash. If the decision to withhold the disclosure of foreign cash is an issue of materiality, then no association (between partial disclosure and discounted firm value) should exist. The lack of an association could imply that PRE is held in operating assets instead of financial assets, and investors positively value PRE held in operating assets compared to financial assets (Bryant-Kutcher et al., 2008). Disclosing PRE but not foreign cash could signal poor investment opportunities while disclosing both could signal efficient operation with attractive investment opportunities. Without the disclosure of foreign cash, it is difficult for investors to estimate firms' foreign cash balances. However, the prior literature provides the means to estimate the amount of trapped foreign cash (Laplante and Nesbitt, 2017). We partition our entropy balanced sample on estimated trapped cash to examine how investors respond to the potential materiality of foreign cash. We predict that the discount on partial disclosure should be stronger for firms estimated to have higher foreign cash balances.

In Table 7, we partition the entropy balanced sample based on estimated trapped foreign cash using the model provided by Laplante and Nesbitt (2017).<sup>30</sup> Column 1 (2) includes firms with above-(below-) median estimated trapped cash.<sup>31</sup> The coef-

<sup>29</sup> Inferences remain unchanged when we control for *Naïve Foreign Cash* (untabulated). We also estimated a stepwise regression where we add one control variable at a time to the regression. The inferences remain similar to those presented (untabulated).

<sup>30</sup> Trapped Cash is estimated using the coefficients provided in Table 3 column (2) of Laplante and Nesbitt (2017). We do not estimate within sample coefficients because our sample is in the post-AJCA period while Laplante and Nesbitt (2017) use the AJCA to hand-collect actual repatriations. The estimation uses the same control variables as Laplante and Nesbitt (2017): *R&D\_Intensity*, *Capital\_Intensity*, *Lag\_Interest*, *Lag\_Leverage*, *Fgn\_Growth*, *Haven*, *LnAssets*, and *Dom\_Growth*.

<sup>31</sup> We are unable to calculate trapped cash for 1049 firm-year observations thus decreasing the total sample size to 3146.

**Table 8**  
Managerial costs to foreign cash disclosure.

	Prediction	(1) High CEO Turnover	(2) Low CEO Turnover	
<b>Partial Disclosure * Disclosure Pressure</b>	–	<b>–0.222**</b>	<b>(0.104)</b>	<b>–0.057</b>
<i>Partial Disclosure</i>	–	0.074	(0.084)	–0.057
<i>Disclosure Pressure</i>	?	0.147**	(0.070)	0.094**
<i>Foreign Tax Avoidance</i>	+	0.029	(0.120)	0.073
<i>Domestic Tax Avoidance</i>	+	–0.025	(0.094)	–0.032
<i>Tax Risk</i>	?	0.069***	(0.025)	–0.031**
<i>Tax VAR</i>	–	–0.000	(0.008)	–0.004
<i>PTROA</i>	+	11.163***	(0.750)	10.074***
<i>Std. Dev. PTROA</i>	–	–1.626**	(0.845)	–0.568
<i>NOL</i>	–	0.087	(0.238)	–0.194
<i>Sales</i>	+	–0.101	(0.027)	–0.005
<i>Leverage</i>	?	–0.184	(0.250)	0.721***
<i>Foreign Earnings</i>	+	0.007	(0.058)	0.048*
<i>Capex</i>	+	0.049*	(0.037)	0.028
<i>Sales Growth</i>	+	0.654***	(0.131)	0.123*
<i>R&amp;D</i>	+	0.184***	(0.038)	0.105***
<i>Advertising</i>	+	0.288**	(0.133)	0.198***
<i>Intangibles</i>	+	0.282*	(0.200)	0.004
<i>Depreciation</i>	–	–0.074*	(0.049)	–0.000
<i>Tax Haven</i>	+	–0.042	(0.081)	0.028
<i>Estimated Foreign Cash</i>	+	0.523*	(0.347)	–0.245
<i>AF Disp</i>	–	–0.055	(0.226)	–0.060
<i>Intercept</i>	?	1.527***	(0.277)	0.637***
<i>Industry Fixed Effects</i>		Included		Included
<i>Year Fixed Effects</i>		Included		Included
<i>N</i>		1836		2359
<i>Adj. R<sup>2</sup></i>		0.5345		0.5788

Table 8 presents the estimated coefficients from Eq. (3). Column 1 (Column 2) includes firms within industries that have above (equal to or below) the sample median of CEO Turnover and foreign cash disclosure within the prior two years. Standard errors are in parentheses. Significance tests are one-tailed for predictions and two-tailed where we make no prediction. \*\*\*\*, \*\*\*, \*\*, \* represent significance at the 10, 5, and 1 percent levels, respectively. See Appendix A for variable definitions.

Bolded values are both sub-headings and highlight the variables of interest.

efficient on the interaction *Partial Disclosure* × *Disclosure Pressure* is negative and significant for firms with high estimated trapped foreign cash but is insignificant for firms with low estimated trapped foreign cash. This result suggests the importance of the content of the disclosure to investors when discounting firm value as a result of partial disclosure. Additionally, the insignificant results in Column 2 imply that the discount on partial disclosure does not exist when the materiality of foreign cash is low. This result supports our hypothesis.

Because our trapped foreign cash measure represents a different construct than PRE, we perform a similar disaggregated analysis using PRE values. We split the sample at the median of reported PRE in Columns 3 and 4. Column 3 includes firms with above-median levels of PRE and column 4 includes firms with below-median levels of PRE. Similar to the trapped foreign cash results, the coefficient on the interaction *Partial Disclosure* × *Disclosure Pressure* is only negative and significant for firms with high levels of PRE. This result supports our hypothesis and is consistent with the notion that withholding the disclosure of foreign cash negatively affects firm value in instances where firms have more foreign resources than other firms.

#### 4.5. Managers' reputational costs and disclosure

The evidence presented in Table 6 Panel B and Table 7 implies that managers are willing to have shareholders incur a cost (i.e., reduction in firm value) as a consequence of partially disclosing. We next examine whether the managers' reputational career concerns affect the willingness to incur the discount to firm value. In Table 8, we partition the sample based on the median number of 2-digit SIC industry CEO resignations or firings coupled with a foreign cash disclosure in the prior two years. Column 1 (Column 2) includes the sample with an above (below) median number of total CEO departures. The coefficient on *Partial Disclosure* × *Disclosure Pressure* is only negative and significant for firms that have a higher amount of CEO departures. This result suggests that managers are more willing to shift the partial disclosure consequence (e.g., reputational costs) to shareholders (e.g., a decline in firm value) when it is more likely that disclosing foreign cash might lead to their departure from the firm. In other words, if managers believe disclosing foreign cash would reveal bad news that could affect their career, they are more likely to withhold the disclosure (i.e., partial disclosure) even though it reduces firm value.

#### 4.6. Other costs to foreign cash disclosure

In Table 4, we documented that uncertainty about the need for foreign cash results in greater partial disclosure. As such, we partition the valuation sample based on the uncertainty in foreign cash needs in Table 9, columns 1 and 2.

Table 9

Firm costs to foreign cash disclosure.

	Prediction	(1)		(2)		(3)		(4)	
		Foreign Cash Needs Uncertainty				Foreign Reporting Complexity			
		Low	High	Low	High	Low	High	Low	High
<b>Partial Disclosure × Disclosure Pressure</b>	–	<b>–0.114*</b>	<b>(0.083)</b>	<b>–0.019</b>	<b>(0.067)</b>	<b>–0.128*</b>	<b>(0.079)</b>	<b>–0.031</b>	<b>(0.059)</b>
Partial Disclosure	–	–0.027	(0.059)	–0.087**	(0.053)	–0.024	(0.055)	–0.071*	(0.052)
Disclosure Pressure	?	0.093*	(0.063)	0.076*	(0.051)	0.162***	(0.066)	0.033	(0.044)
Foreign Tax Avoidance	+	0.078	(0.081)	0.092	(0.101)	0.105	(0.088)	–0.014	(0.082)
Domestic Tax Avoidance	+	–0.056	(0.118)	0.011	(0.066)	–0.059	(0.079)	0.030	(0.091)
Tax Risk	?	0.020	(0.021)	–0.004	(0.023)	0.048**	(0.021)	0.001	(0.019)
Tax VAR	–	–0.004	(0.007)	0.004	(0.008)	–0.007	(0.007)	0.009	(0.008)
PTROA	+	11.308***	(0.610)	9.728***	(0.639)	10.661***	(0.445)	9.874***	(0.625)
Std. Dev. PTROA	–	–0.700	(0.665)	–1.562**	(0.674)	–1.203**	(0.582)	–0.914*	(0.637)
NOL	–	–0.055	(0.251)	–0.071	(0.164)	–0.132	(0.173)	–0.234	(0.185)
Sales	+	–0.030	(0.029)	–0.091	(0.023)	–0.056	(0.022)	–0.036	(0.021)
Leverage	?	0.078	(0.189)	0.658***	(0.190)	0.353***	(0.140)	0.141	(0.193)
Foreign Earnings	+	–0.004	(0.052)	0.044	(0.051)	0.049*	(0.037)	0.010	(0.055)
Capex	+	0.044*	(0.034)	0.016	(0.036)	0.018	(0.027)	0.040*	(0.031)
Sales Growth	+	0.373***	(0.114)	0.189**	(0.098)	0.386***	(0.085)	0.113*	(0.078)
R&D	+	0.160***	(0.032)	0.124***	(0.031)	0.173***	(0.023)	0.074*	(0.048)
Advertising	+	0.229***	(0.084)	0.273***	(0.104)	0.231***	(0.065)	0.201**	(0.107)
Intangibles	+	0.139	(0.175)	0.178	(0.148)	–0.263	(0.137)	0.512	(0.122)
Depreciation	–	–0.024	(0.038)	–0.022	(0.040)	–0.065**	(0.033)	0.019	(0.035)
Tax Haven	+	0.009	(0.059)	–0.069	(0.068)	0.004	(0.056)	–0.060	(0.055)
Estimated Foreign Cash	+	–0.154	(0.410)	0.106	(0.273)	–0.385	(0.268)	0.447	(0.297)
AF Disp	–	–0.035	(0.269)	0.102	(0.131)	–0.021	(0.172)	–0.029	(0.117)
Intercept	?	0.609*	(0.390)	1.620***	(0.250)	0.784**	(0.414)	1.058***	(0.226)
Industry Fixed Effects		Included		Included		Included		Included	
Year Fixed Effects		Included		Included		Included		Included	
N		2097		2098		2189		2006	
adj. R <sup>2</sup>		0.5403		0.5838		0.5498		0.5654	

Table 9 presents the estimated coefficients from Eq. (3). Columns 1 and 2 partitions the sample based on foreign cash needs uncertainty (using the standard deviation of earnings). Columns 3 and 4 partition the sample based on foreign reporting complexity (using the number of SIC codes of foreign subsidiaries). Standard errors are in parentheses. Significance tests are one-tailed where predicted and two-tailed where we make no prediction. \*\*\*, \*\*, \* represent significance at the 10, 5, and 1 percent levels, respectively. See Appendix A for variable definitions. Bolded values are both sub-headings and highlight the variables of interest.

Column 1 (Column 2) includes firms that have low (high) uncertainty in their foreign cash needs using below (above) the median of the standard deviation of foreign earnings (*Std. FEARN*). The coefficient on *Partial Disclosure × Disclosure Pressure* is only negative and significant for firms that have low uncertainty in foreign cash needs. This result suggests that the valuation discount is not present in all settings where partial disclosure exists. Investors appear to withhold the valuation discount for firms where the predictability of future foreign cash needs is challenging. In Column 3 (Column 4), we disaggregate the sample based on low (high) foreign reporting complexity by using *Num Seg SIC = 1* (*Num Seg SIC > 1*). The coefficient on *Partial Disclosure × Disclosure Pressure* is only negative and significant for firms that have low financial reporting complexity.

The results in Table 9 provide evidence that when foreign operations are complex or when partial disclosure reflects foreign operational characteristics (i.e., uncertainty about foreign cash needs), investors withhold the negative valuation consequences associated with partial disclosure. This evidence suggests that the discount because of partial disclosure manifests from the discounting of managers' opportunistic withholding of foreign cash disclosure. The findings in Koonce et al. (2010) suggest that if investors in our settings are unable to determine the reason behind the withholding of foreign cash disclosure, management might be given "the benefit of the doubt" and not blamed for the lack of disclosure. In other words, unless the market thinks management is intentionally withholding the disclosure, a penalty might not be imposed. The absences of a discount on partial disclosure in these two cross-sections (i.e., foreign cash predictability and foreign operational complexity) are consistent with Koonce et al. (2010).

#### 4.7. Additional analyses

##### 4.7.1. Partial disclosure and stock returns

Thus far, our results rely on price data (i.e., Tobin's Q) to test the association between firm value and partial disclosure. It is possible that relying on prices in the calculation of Tobin's Q results in an omitted variable bias (Kothari et al., 2005). Therefore, we also test our hypothesis using two specifications of a returns regression and estimate the following equation.

**Table 10**  
Partial disclosure and earnings response coefficients.

	Prediction	(1) $R_{it}$	(2) $R_{it}$
<i>Partial Disclosure * Disclosure Pressure</i>	–		–0.045** (0.024)
<i>Partial Disclosure * ΔFEARN</i>	–		–1.612** (0.936)
<i>Partial Disclosure * ΔDEARN</i>	?		0.166 (0.575)
<i>ΔDEARN</i>	+	1.705*** (0.221)	1.661*** (0.191)
<i>ΔFEARN</i>	+	2.826** (0.423)	3.358** (0.445)
<i>Partial Disclosure</i>	–	–0.002 (0.012)	0.016 (0.018)
<i>Disclosure Pressure</i>	?	0.034 (0.022)	0.041* (0.024)
Intercept	?	0.285*** (0.060)	0.272*** (0.059)
Industry Fixed Effects		Included	Included
Year Fixed Effects		Included	Included
N		3918	3918
Adj. R <sup>2</sup>		0.1465	0.1487

Table 10 presents the estimated coefficients from Eq. (4). Standard errors are in parentheses. Significance tests are one-tailed where predicted and two-tailed where no prediction is made. \*\*\*, \*\*, \* represent significance at the 10, 5, and 1 percent levels, respectively. See Appendix A for variable definitions.

$$\begin{aligned}
 R_{i,t} = & \alpha_0 + \beta_1 \text{Partial Disclosure}_{i,t} * \text{Disclosure Pressure}_{i,t} + \beta_2 \text{Partial Disclosure}_{i,t} * \Delta \text{FEARN}_{i,t} \\
 & + \beta_3 \text{Partial Disclosure}_{i,t} * \Delta \text{DEARN}_{i,t} + \beta_4 \Delta \text{DEARN}_{i,t} + \beta_5 \Delta \text{FEARN}_{i,t} + \beta_6 \text{Partial Disclosure}_{i,t} \\
 & + \beta_7 \text{Disclosure Pressure}_{i,t} + \text{Year Fixed Effects} + \varepsilon
 \end{aligned} \quad (4)$$

In Eq. (4),  $R_{i,t}$  is the buy and hold returns compounded daily for twelve months starting the day after the 10K filing, minus the value-weighted index return for the same period.<sup>32</sup> *DEARN* is after-tax domestic earnings. *FEARN* is foreign after-tax earnings. We scale changes in both *DEARN* and *FEARN* by the market value measured on the day following the 10-K filing. *Partial Disclosure* and *Disclosure Pressure* are as defined above. Consistent with H1, we predict  $\beta_1 < 0$ .

We present the coefficient estimates from Eq. (4) in Table 10. Column 1 presents a baseline model and indicates a higher valuation of foreign earnings compared to domestic earnings, consistent with Bodnar and Weintrop (1997). These results are also consistent with Thomas (1999), who finds that the market tends to understate the persistence of foreign earnings and posits this could be because it is difficult for investors to understand the source of foreign earnings. Low-quality foreign disclosures related to foreign earnings could prevent investors from fully understanding the effect of foreign earnings on firm value. In Column 2, the coefficient on the interaction *Partial Disclosure* × *Disclosure Pressure* is negative and significant, supporting our prior findings that investors discount the choice to withhold the disclosure of foreign cash in the presence of PRE in instances of higher industry pressure. Additionally, the coefficient on the interaction *Partial Disclosure* × *ΔFEARN* is also negative and significant. This result suggests that foreign earnings are valued less for partial disclosers because partial disclosers likely invest the cash generated from those earnings less efficiently. Interestingly, the coefficient on *Partial Disclosure* × *ΔDEARN* is not significantly different from zero. Therefore, it appears that investors disentangle the non-disclosure discount and attribute the discount to foreign, but not domestic, earnings obfuscation.

#### 4.7.2. Time trend

Given the sharp increase in the number of disclosers in 2012 (see Table 1), we next perform two tests to examine whether there was a fundamental shift in how investors perceived the foreign cash disclosure over time. First, we disaggregate the sample into a pre-2012 and post-2011 partition. We present the estimated coefficients in Table 11. The negative coefficient on *Partial Disclosure* × *Disclosure Pressure* is only significant in the post-2011 period. This result is consistent with a positive association between investors' perceptions of the importance of foreign cash disclosure and the prevalence of firms disclosing foreign cash.

The second test examining the time trend in foreign cash disclosure uses a Hierarchical Linear Modeling (HLM) (or mixed model) approach to determine how much of the variability of the dependent variable is related to unobservable year differences. This procedure estimates a separate intercept for each year and determines the extent to which those intercepts affect

<sup>32</sup> The 12 month return window is a research design choice based on prior literature that finds stock prices adjust slowly to information (Barberis et al., 1998). Inferences remain the same when we use a 3 month return window.

**Table 11**  
Time trend analysis.

	Prediction	(1) Pre-2012	(2) Post-2011
<b>Partial Disclosure * Disclosure Pressure</b>	–	<b>–0.088</b>	<b>–0.134**</b>
<i>Partial Disclosure</i>	–	–0.020	–0.012
<i>Disclosure Pressure</i>	?	0.157**	0.110**
<i>Foreign Tax Avoidance</i>	+	0.074	0.057
<i>Domestic Tax Avoidance</i>	+	–0.025	0.014
<i>Tax Risk</i>	?	–0.004	0.021
<i>Tax VAR</i>	–	–0.002	0.000
<i>PTROA</i>	+	9.328***	11.478***
<i>Std. Dev. PTROA</i>	–	–1.348**	–0.747
<i>NOL</i>	–	–0.034	–0.052
<i>Sales</i>	+	–0.048	–0.038
<i>Leverage</i>	?	0.480**	0.171
<i>Foreign Earnings</i>	+	0.003	0.068*
<i>Capex</i>	+	0.039	0.022
<i>Sales Growth</i>	+	0.096	0.571***
<i>R&amp;D</i>	+	0.088***	0.191***
<i>Advertising</i>	+	0.300***	0.162**
<i>Intangibles</i>	+	–0.075	0.211*
<i>Depreciation</i>	–	–0.008	–0.047*
<i>Tax Haven</i>	+	0.037	–0.050
<i>Estimated Foreign Cash</i>	+	–0.183	0.339
<i>AF Disp</i>	–	0.040	–0.110
<i>Intercept</i>	?	0.357	1.035***
<i>Industry Fixed Effects</i>		Included	Included
<i>Year Fixed Effects</i>		Included	Included
<i>N</i>		1544	2651
<i>Adj. R<sup>2</sup></i>		0.4951	0.5960

Table 11 presents the estimated coefficients from Eq. (3). We partition the sample into pre-2012 and post-2011 periods and present standard errors in parentheses. Significance tests are one-tailed where predicted and two-tailed where we make no prediction. \*\*\*\*\*, \*\*\*, \*\*, \* represent significance at the 10, 5, and 1 percent levels, respectively. See Appendix A for variable definitions.

Bolded values are both sub-headings and highlight the variables of interest.

the outcome. We find year differences account for 6 percent of the variability, which is well below the 10 percent benchmark (Robson and Pevalin, 2016; Lee, 2000) considered appropriate for establishing a significant year-level effect.

#### 4.7.3. Untabulated additional analysis

**4.7.3.1. Repatriation costs.** Withholding the disclosure of foreign cash balances should negatively affect firms that have more trapped foreign cash or PRE coupled with high repatriation costs. Therefore, we disaggregate the entropy balanced sample based on repatriation costs. We use the samples provided in columns 1 and 3 of Table 7 (i.e., high trapped foreign cash and high PRE) and disaggregate them into high versus low repatriation costs. Consistent with expectations, the coefficient on *Partial Disclosure* × *Disclosure Pressure* is negative and significant when the firm has higher repatriation costs (Column 1).

**4.7.3.2. Propensity score matching.** Entropy balancing (used in the primary analysis) allows us to weight the covariates of the valuation model so that the covariates of full disclosing firms in the reweighted dataset are similar across three moments (i.e., mean, variance, and skewness) to partial disclosing firms. Another matching procedure is propensity score matching (PSM). For PSM, we use the estimation results from Column 2 of Table 4 to generate a propensity score. As shown in Table 4, the pseudo-R-squared is 0.1710. We use one-to-one matching without replacement and require the propensity score to be within 0.049 which is 20 percent of the standard deviation of the propensity score. This caliper is recommended by Austin (2011) and used in the accounting literature by Hope et al. (2013). The PSM sample results in 1562 firm-year observations. Using this PSM sample, the coefficient on the interaction *Partial Disclosure* × *Disclosure Pressure* is negative and significant, which supports our findings for H1.

## 5. Conclusion

The SEC has expressed – and continues to express – concerns regarding the liquidity of foreign operations of multinational companies. While many firms have complied with the SEC by disclosing foreign cash balances, there remain many firms withholding the disclosure. The prior literature provides little evidence of the consequences for firms that do not conform to industry norms for financial reporting. In this study, we identify and use a voluntary disclosure setting to examine the valuation cost to firms making a financial reporting decision that is not consistent with the majority of its peer firms. We

consider the voluntary context of whether a firm chooses to disclose foreign cash in the presence of PRE and the effect that the choice has on firm value when the industry norm is to provide the disclosure.

In the presence of PRE, the disclosure of foreign cash allows investors to understand the utilization of PRE, which can have valuation consequences to the firm. Industry peer influence becomes an important consideration, as the pressure to disclose occurs when firms observe peer reporting decisions, or if they observe regulatory action against peer firms. We maintain that industry pressure could be a contributing factor in financial disclosure choices. When the industry norm is to disclose foreign cash in the presence of PRE, we expect peer managers to be more likely to disclose foreign cash. Further, we expect the discounting of firm value from partial disclosure to be stronger when there is more industry pressure to disclose. However, if voluntarily disclosing bad news affects managers' careers, they could withhold the disclosure and hope that subsequent events will improve firm performance or allow them to conceal the bad news (Verrecchia, 2001; Hermalin and Weisbach, 2007). It is also possible that investors impose no penalty on non-disclosing firms, as long as investors do not believe managers are purposely misleading them.

We find that when most firms in the industry are disclosing foreign cash, investors penalize those firms that do not provide the disclosure. Specifically, we find that investors do not react to partial disclosure, but rather only to instances when the majority of industry peers opt to disclose. These findings provide evidence that investors discount firm value when managers do not conform to industry norms of financial reporting. We also find that the investor discount is more when unreported estimates of trapped foreign cash are higher, implying that when the content of the disclosure increases in importance, so does the penalty for firms deviating from industry disclosure norms. The same applies to firms with higher levels of PRE.

We then provide evidence that partial disclosure is decreasing (increasing) in industry pressure (managerial career concerns). This result suggests that firms are more likely to disclose foreign cash in the presence of industry pressure, and less likely to provide the disclosure when there are managerial career concerns. We then provide evidence that investors are willing to withhold the negative valuation consequences when managers partially disclose if the firm is more complex or needs for foreign cash are more uncertain.

This study contributes to the industry peer effects literature, which documents that firms tend to mimic industry leaders (Bratten et al., 2016; Kubick et al., 2015). For our sample, we demonstrate that this mimicking behavior exists because firms' foreign cash disclosures increase in frequency after peer firms opt to provide the disclosure. Our results extend this literature by examining the consequences for those firms departing from the industry norm. These findings extend the literature (Bratten et al., 2016; Brown et al., 2014; Kubick et al., 2015) by providing evidence that investors penalize firms that ignore the pressure to disclose. In other words, while many firms do exhibit mimicking behavior, our study focuses on those that do not, and the consequences that follow. Our results also extend this literature by providing evidence that career concerns are considered by managers when deciding whether to herd with the industry.

While past literature has documented the valuation implications for firms that disclose foreign cash (Yang, 2015; Chen, 2014), we document consequences for firms withholding the disclosure of foreign cash when disclosing is the industry norm. Our results should interest a wide array of stakeholders, including investors, management teams, and policymakers like the SEC and the IRS because they consider financial reporting disclosure choices and industry behavior.

## Appendix A

### Variable Definitions

#### Variables from Eq. (1) used for Disclosure Sample

<i>Partial Disclosure</i>	An indicator variable equal to one when the firm discloses PRE but withholds the disclosure of foreign cash, zero otherwise. PRE is defined below. Foreign cash is hand collected.
<i>Disclose FSEG</i>	An indicator variable equal to 1 when the firm discloses at least two foreign segments within their segment reporting footnote, and equal to zero otherwise. Foreign segments are hand collected.
<i>IndPctDisc</i>	The percentage of firms disclosing foreign cash within an industry, calculated on an annual basis. We do not include the individual firm in this calculation.
<i>CEO Turnover</i>	We use the following process to measure <i>CEO Turnover</i> . The number of CEOs that resigned or left the company within the prior two years and disclosed foreign cash within the prior two years by 2-digit SIC industry. We orthogonalize this number from <i>IndPctDisc</i> . <i>CEO Turnover</i> is one when the orthogonalized variable is greater than the sample median and equal to zero otherwise.

## Appendix A (continued)

## Variable Definitions

## Variables from Eq. (1) used for Disclosure Sample

<i>Tax Haven</i>	An indicator variable equal to 1 when the firm has a foreign subsidiary located in a tax haven per <a href="#">Dyreng and Lindsey (2009)</a> ; zero otherwise. The following countries are considered tax havens: Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Brunei, Cape Verde, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Dominica, Gibraltar, Grenada, Guernsey and Alderney, Hong Kong, Ireland, Isle Of Man, Jersey, Kitts and Nevis, Latvia, Lebanon, Liberia, Liechtenstein, Luxembourg, Macau, Maldives, Malta, Marshall Islands, Mauritius, Monaco, Montserrat, Motswana, Nauru, Netherlands Antilles (or Dutch Antilles), Niue, Palau, Panama, Samoa, San Marino, Seychelles, Singapore, St. Lucia, St. Vincent and The Grenadines, Switzerland, U.S. Virgin Islands, Uruguay, and Vanuatu.
<i>ETR</i>	Income tax expense (TXT), scaled by pretax income (PI) less special items (SPI).
<i>Foreign Tax Avoidance</i>	Foreign tax expense (TXFO) / Pretax foreign income (PIFO).
<i>Domestic Tax Avoidance</i>	Total tax expense (TXT) minus foreign tax expense (TXFO), scaled by pretax domestic income (PIDOM).
<i>PRE</i>	Permanently reinvested earnings: Indefinitely reinvested foreign earnings in Audit Analytics (FOREIGN_EARNINGS/1,000,000).
<i>Estimated Foreign Cash</i>	Estimated foreign cash using the methodology presented in <a href="#">Campbell et al. (2018)</a> scaled by lagged total assets.
<i>Naïve Foreign Cash</i>	We rank all firms by size, and the average foreign cash disclosed is calculated for each size decile. When the firm does not disclose foreign cash, Naïve Foreign Cash is the size decile average of foreign cash disclosed.
<i>Tax VAR</i>	The standard deviation of the current ETR over the period $t-4$ to $t$ .
<i>Firm SEC Comment</i>	An indicator equal to 1 when a firm receives an SEC comment letter requesting the disclosure of foreign cash in period $t-1$ or any period prior to $t-1$ , and equal to zero otherwise.
<i>Total Cash</i>	Total cash (CHE), scaled by lagged total assets (AT).
<i>Foreign Earnings</i>	Foreign pre-tax income (PIFO), scaled by lag assets (AT) in Eq. (1). In Eq. (2), the scalar is total pretax income (PI).
<i>Domestic Earnings</i>	Domestic pre-tax income (PI – PIFO), scaled by lag assets (AT).
<i>Size</i>	Natural log of market value (PRCC_F * CSHO).
<i>Leverage</i>	Total liabilities (LT), scaled by lag assets (AT).
<i>PPE</i>	Total property, plant, and equipment (PPENT), scaled by lag assets (AT).
<i>Intangibles</i>	Intangible assets (INTAN), scaled by lag assets (AT).
<i>Big4</i>	An indicator equal to 1 if Big 4 auditor (AU) used, and zero otherwise. If a firm is missing the auditor variables, then this control variable is set to zero.
<i>Sales Growth</i>	Current year sales (SALE), less $t-1$ year sales, scaled by $t-1$ year sales.
<i>ExFin</i>	ExFin represents external financing and is total net equity issuances (SSTK - PRSTKC - DV) plus total net debt issuances (DLTIS - DLTR - DLCCH), all scaled by lagged total assets (AT).
<i>ABS_DA</i>	The absolute value of discretionary accruals calculated using the performance-adjusted discretionary accruals model from <a href="#">Kothari et al. (2005)</a> .
<i>AF DISP</i>	The standard deviation of analysts' earnings forecasts in IBES.
<i>MA</i>	An indicator variable equal to 1 if the firm had any mergers and acquisition activity (AQP) during period $t$ , and equal to zero otherwise.
<i>Restatement</i>	Indicator equal to 1 if the firm had a restatement in the prior period, equal to zero otherwise. We obtain restatements from Audit Analytics.
<i>CEO Dual</i>	An indicator variable equal to 1 if the CEO is also the Chairman of the Board, equal to zero otherwise.
<i>Industry SEC Comment</i>	An indicator variable equal to 1 when a firm within the same two-digit SIC code receives an SEC comment letter requesting the disclosure of foreign cash in period $t-1$ , and zero otherwise.
<i>Litigate</i>	Indicator equal to 1 for litigious industries, defined by the following SICs: 2833–2836, 3570–3577, 3600–3674, 5200–5961, and 7370–7374.

(continued on next page)

## Appendix A (continued)

**Variable Definitions***Variables from Eq. (1) used for Disclosure Sample*

*HHI* The Herfindahl-Hirschman Index using sales and two-digit SIC codes.

*Additional Variables from Equation (2) for the Valuation Sample*

*Tobin's Q* The market value of assets scaled by the book value of assets. The market value of assets is the market value of equity (PRCC\_F\*CSHO) plus total assets (AT) minus common equity (CEQ). Stock price and shares outstanding are from the day following the filing date of the 10-K.

*Disclosure Pressure* An indicator variable equal to 1 when *IndPctDisc* is higher than 50 percent, and equal to zero otherwise.

*Tax VAR* The standard deviation of the current ETR for the period  $t-4$  to  $t$ .

*PTROA* Pretax income (PI) scaled by total assets (AT).

*St. Dev. PTROA* The standard deviation of *PTROA* for the period  $t-4$  to  $t$ .

*NOL* Net operating loss carryforwards (TLCF) scaled by total assets (AT).

*Sales* Natural logarithm of total sales (SALE).

*Capex* Capital expenditures scaled by total assets (AT).

*R&D* Research and development expense (XRD) scaled by pretax income (PI).

*Advertising* Advertising expense (XAD) scaled by pretax income (PI).

*Depreciation* Depreciation expense (DP) scaled by pretax income (PI).

*Additional Analysis Variables*

*R* Buy and hold returns compounded daily for the twelve months ending three months following the firm's fiscal year-end minus the value-weighted index return for the same period.

$\Delta$ *DEARN* Post-tax domestic earnings (PIDOM\*MTR) in period  $t$  minus post-tax domestic earnings in period  $t-1$ , scaled by market value (PRCC\_F\*CSHO) measured three months following the end of fiscal period  $t-1$ .

$\Delta$ *FEARN* Post-tax foreign earnings (PIFO\*MTR) in period  $t$  minus post-tax foreign earnings in period  $t-1$ , scaled by market value (PRCC\_F\*CSHO) measured three months following the end of fiscal period  $t-1$ .

**Appendix B**

## Example SEC Comment Letter

April 4, 2011

Mr. Donald Allan Jr.  
Senior Vice President and Chief Financial Officer  
Stanley Black & Decker, Inc.  
1000 Stanley Drive  
New Britain, CT 06053

RE: Stanley Black & Decker, Inc.  
Form 10-K for the Fiscal Year ended January 1, 2011  
File No. 1-5224

Dear Mr. Allan:

We have limited our review of your filing to those issues we have addressed in our comments. In some of our comments, we may ask you to provide us with information so we may better understand your disclosure.

Please respond to this letter within ten business days by providing the requested information or by advising us when you will provide the requested response. If you do not believe our comments apply to your facts and circumstances, please tell us why in your response.

After reviewing the information you provide in response to these comments, we may have additional comments

FORM 10-K FOR THE YEAR ENDED JANUARY 1, 2011

General

1. Where a comment below requests additional disclosures or other revisions to be made, please show us in your supplemental response what the revisions will look like. These revisions should be included in your future filings.

Item 7 – Management’s Discussion and Analysis of Financial Condition & Results of Operations, page 22

Liquidity, Sources and Uses of Capital, page 36

2. Given your significant foreign operations, please consider enhancing your liquidity disclosure to address the following:

- Disclose the amount of foreign cash and cash equivalents you have as compared to your total amount of cash and cash equivalents as of January 1, 2011; and
- Discuss the fact that if the foreign cash and cash equivalents are needed for your operations in the U.S., you would be required to accrue and pay U.S. taxes to repatriate these funds but your intent is to permanently reinvest these foreign amounts outside the U.S. and your current plans do not demonstrate a need to repatriate the foreign amounts to fund your U.S. operations, if true.

## Appendix C. Supplementary material

Supplementary data to this article can be found online at <https://doi.org/10.1016/j.jaccpubpol.2019.106712>.

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