Internet Appendix to "The Effect of SOX Section 404: Costs, Earnings Quality and Stock Prices"*

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A Section 404 of the Sarbanes Oxley Act of 2002

SEC. 404. MANAGEMENT ASSESSMENT OF INTERNAL CONTROLS.

(a) RULES REQUIRED.—The Commission shall prescribe rules requiring each annual report required by section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) to contain an internal control report, which shall—

(1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and

(2) contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.

(b) INTERNAL CONTROL EVALUATION AND REPORTING.—With respect to the internal control assessment required by subsection (a), each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this subsection shall be made in accordance with standards for attestation engagements issued or adopted by the Board. Any such attestation shall not be the subject of a separate engagement.

B SEC Regulation

SEC Release No. 33-7391, Sept. 5, 2002 Therefore, the Commission proposes to add the following to the definition of affiliate in Rule 144.

A person shall be deemed not to be an affiliate for purposes of this section if the person: (i) is not the beneficial owner, directly or indirectly, of more than 10% of any class of equity securities of the issuer; (ii) is not an officer of the issuer; and (iii) is not a director of the issuer.

. . .

The proposal clearly excludes from the definition persons who are not executive officers, directors or 10% holders. Members of one or more of these classes may contend, nevertheless, that they are not affiliates because they are not in a ‘control‘ position. For such persons, the determination of affiliate status would be a ‘facts and circumstances‘ test.

SEC Release No. 33-8128, Sept. 5, 2002 Companies have to declare if they are an accelerated filer. Under the final rules, accelerated deadlines will apply to a company after it first meets the following conditions as of the end of its fiscal year as of the end of their first fiscal year ending on or after December 15, 2002:

- Its common equity public float was $75 million or more as of the last business day of its most recently completed second fiscal quarter;
- The company has been subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act for a period of at least 12 calendar months;
- The company has previously filed at least one annual report pursuant to Section 13(a) or 15(d) of the Exchange Act; and
- The company is not eligible to use Forms 10-KSB and 10-QSB.

Once a company becomes an accelerated filer, it remains an accelerated filer subject to shortened deadlines unless and until it subsequently becomes eligible to use Forms 10-KSB and 10-QSB for its annual and quarterly reports. To become eligible to use these forms, a company must have revenues and public float of less than $25 million for two consecutive years. Accelerated filers will have annual report deadlines accelerated from 90 days to 60 days in three years. The annual report deadline will remain 90 days for year one and change from 90 days to 75 days for year two and from 75 days to 60 days for year three and thereafter.

Currently, companies are required to disclose on the cover page of their annual report on Form 10-K their public float as of a specified date within 60 days before filing. To assist investors and the Commission in evaluating whether a company is subject to accelerated deadlines, we are revising this requirement. We are requiring every company, regardless of whether it is an accelerated filer, to disclose its public float as computed on the last business day of the company’s most recently completed second fiscal quarter. We recognize that this will reduce the currency of this disclosure, but we believe such a change will simplify the burdens companies face by requiring them to calculate only one public float amount. Also, to clarify further a company's filing status, we are requiring each company to check a box on the cover of its quarterly and annual reports to indicate whether it is an accelerated filer.

SEC Release No. 33-8238, June 5, 2003 As directed by Section 404 of the Sarbanes-Oxley Act of 2002, we are adopting rules requiring companies subject to the reporting requirements of the Securities Exchange Act of 1934, other than registered investment companies, to include in their annual reports a report of management on the company's internal control over financial reporting. (The COSO Framework defined internal control as "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives" in three categories – effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.) The internal control report must include: a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the company; management's assessment of the effectiveness of the company's internal control over financial reporting as of the end of the company's most recent fiscal year; a statement identifying the framework used by management to evaluate the effectiveness of the company's internal control over financial reporting; and a statement that the registered public accounting firm that audited the company's financial statements included in the annual report has issued an attestation report on management's assessment of the company's internal control over financial reporting. Under the new rules, a company is required to file the registered public accounting firm's attestation report as part of the annual report.

A company that is an "accelerated filer" as of the end of its first fiscal year ending on or after June 15, 2004, must begin to comply with the management report on internal control over financial reporting disclosure requirements in its annual report for that fiscal year. A company that is not an accelerated filer as of the end of its first fiscal year ending on or after June 15, 2004, including a foreign private issuer, must begin to comply with the annual internal control report for its first fiscal year ending on or after April 15, 2005.

SEC Release No. 33-8392, Feb. 24, 2004 The compliance dates are extended as follows: A company that is an "accelerated filer" must begin to comply with the management report on internal control over financial reporting requirement and the related registered public accounting firm report requirement for its first fiscal year ending on or after November 15, 2004. A non-accelerated filer must begin to comply with these requirements for its first fiscal year ending on or after July 15, 2005. A foreign private issuer that files its annual report on Form 20-F or Form 40-F must begin to comply with the corresponding requirements in these forms for its first fiscal year ending on or after July 15, 2005.

SEC Release No. 33-8507, Nov. 17, 2004 Under the amended rules, the deadline for an accelerated filer to file its annual report for its fiscal year ending on or after December 15, 2004 will remain at 75 days after fiscal year end. The current year two deadlines therefore will remain in place for one additional year, which is year three of the phase-in period. The phase-in schedule will resume in year four, during which an accelerated filer will have to file its annual report within 60 days after its fiscal year ending on or after December 15, 2005.

SEC Release No. 33-8545, Mar. 2, 2005 The compliance dates are extended as follows: A company that is a non-accelerated filer, or foreign private issuer that files its annual reports on Form 20-F or Form 40-F, must begin to comply with these requirements (to include in their annual reports a report of management on the company's internal control over financial reporting) for its first fiscal year ending on or after July 15, 2006.

SEC Release No. 33-8618, Sep. 22, 2005 The compliance dates are extended as follows: A company that is not an accelerated filer must begin to comply with these requirements (to include in their annual reports a report of management on the company's internal control over financial reporting) for its first fiscal year ending on or after July 15, 2007.

SEC Release No. 33-8644, Dec. 21, 2005 We are adopting amendments to the accelerated filing deadlines that apply to periodic reports so that a large accelerated filer (an Exchange Act reporting company with a worldwide market value of outstanding voting and non-voting common equity held by non-affiliates of $700 million or more) will become subject to a 60-day Form 10-K annual report filing deadline, beginning with the annual report filed for its first fiscal year ending on or after December 15, 2006. Until then, large accelerated filers will remain subject to a 75-day annual report deadline. Accelerated filers will continue to file their Form

10-K annual reports under a 75-day deadline, with no further reduction scheduled to occur under the revised rules.

A company that filed its last quarterly report as an accelerated filer and had an aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates of less than $50 million, as of the last business day of its most recently completed second fiscal quarter, will no longer be considered an accelerated filer, as of the end of its fiscal year, and may begin to file reports on a non-accelerated basis, beginning with Form 10-K annual reports for fiscal years ending on or after December 15, 2005.

SEC Release No. 33-8730A, Aug. 9, 2006 We are extending the compliance date for foreign private issuers that are accelerated filers, but not large accelerated filers, for amendments to Forms 20-F and 40-F that require a foreign private issuer to include in its annual reports an attestation report by the issuer's registered public accounting firm on management's assessment on internal control over financial reporting. The compliance dates are extended as follows: A foreign private issuer that is an accelerated filer, but not a large accelerated filer and that files its annual report on Form 20-F or Form 40-F, must begin to comply with the requirement to provide the auditor's attestation report on internal control over financial reporting in the annual report filed for its first fiscal year ending on or after July 15, 2007.

SEC Release No. 33-8760, Dec. 15, 2006 A non-accelerated filer is not required to provide management's report on internal control over financial reporting until it files an annual report for its first fiscal year ending on or after December 15, 2007. If we have not issued additional guidance for management on how to complete its assessment of internal control over financial reporting in time to be of sufficient assistance in connection with annual reports filed for fiscal years ending on or after December 15, 2007, we will consider whether we should further postpone this date. A non-accelerated filer is not required to file the auditor's attestation report on internal control over financial reporting until it files an annual report for its first fiscal year ending on or after December 15, 2008.

A foreign private issuer that is a large accelerated filer under the Exchange Act Rule 12b2 definition, and that files its annual reports on Form 20F or Form 40F, must begin to comply with the internal control over financial reporting and related requirements in the annual report for its first fiscal year ending on or after July 15, 2006. A foreign private issuer that is an accelerated filer, but not a large accelerated filer, under the definition in Rule 12b-2 of the Exchange Act, and that files its annual report on Form 20-F or Form 40-F, must begin to comply with the requirement to provide the auditor's attestation report on internal control over financial reporting in the annual report filed for its first fiscal year ending on or after July 15, 2007.

SEC Release No. 33-8934, Dec. 15, 2006 Under the amendments, a non-accelerated filer will be required to file the auditor's attestation report on internal control over financial reporting when it files an annual report for a fiscal year ending on or after December 15, 2009.

C Discretionary Accruals Measures

Total Accruals are income before extraordinary items minus cash flow from operations (IBC – OANCF + XIDOC) scaled by previous year assets (AT), where values in excess of $\pm$ 100% censored. Discretionary accruals are estimated as follows. I use the cross-sectional abnormal accruals model first introduced by Jones (1991). Accruals (A_{it}) is (Earnings Before Extraordinary Items (AT) minus Operating Cash Flow from continuing operations (XIDOC – OANCF)). The motivation comes from Hribar and Collins (2002) who find that using the balance sheet approach to test for earnings management can lead to incorrect inference when the the partitioning variable used to indicate earnings management is correlated with mergers, acquisitions or discontinued operations. A_{it} are modeled as:

$$\frac{\mathrm{A}_{it}}{\mathrm{Assets}_{i,t-1}} = b_1\left(\frac{1}{\mathrm{Assets}_{i,t-1}}\right) + b_2\left(\frac{\Delta\mathrm{Sales}_{it}}{\mathrm{Assets}_{i,t-1}}\right) + b_3\left(\frac{\mathrm{PPE}_{it}}{\mathrm{Assets}_{i,t-1}}\right) + \epsilon_{i,t}\ , \qquad \text{(IA.1)}$$

within each two digit SIC code with at least eight companies in the full *Compustat* universe during a year. The regression is estimated for each firm and year excluding the firm from the estimation. *Sales* is net sales (SALE), *Assets* is total assets (TA), and *PPE* is property, plant, and equipment (PPEGT). The estimated coefficients b_1, b_2, and b_3 are used to estimate the non-discretionary level of accruals NDA_{it},

$$\text{NDA}_{it} = \hat{b_1}\left(\frac{1}{\text{Assets}_{i,t-1}}\right) + \hat{b_2}\left(\frac{\Delta\text{Sales}_{it} - \Delta\text{AR}_{it}}{\text{Assets}_{i,t-1}}\right) + \hat{b_3}\left(\frac{\text{PPE}_{it}}{\text{Assets}_{i,t-1}}\right), \tag{IA.2}$$

where ΔAR_{it} is the change in receivables (RECT). This adjustment for receivables is known as the modified Jones model. It is done under the assumption that all increases in receivables are discretionary. Results do not change if I do not adjust for receivables.

Discretionary accruals are defined as

$$\frac{\text{DA}_{it}}{\text{Assets}_{i,t-1}} = \frac{\text{A}_{it}}{\text{Assets}_{i,t-1}} - \text{NDA}_{it}. \tag{IA.3}$$

D Figures and Tables

Table IA.I
Sample Creation Procedure

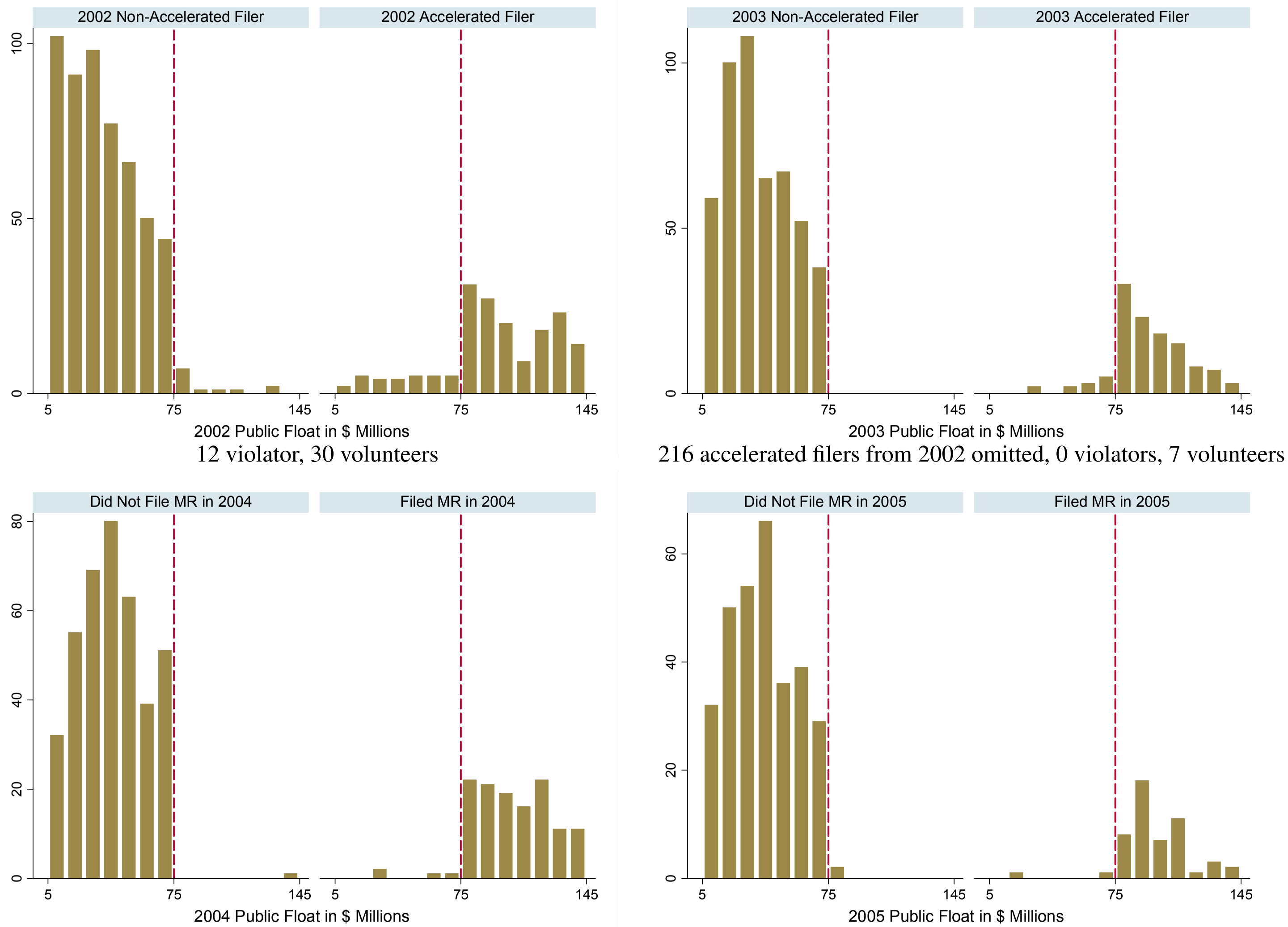
This table presents the sample creation procedure. The sample in subsequent estimations requires that all variables are non-missing.

Sample	Change	Companies
All *CRSP/Compustat Merged Industrial Annual* database companies with fiscal year-ends between 11/2003 and 10/2004		7,331
Companies with market equity between \$30 million and \$330 million	(4689)	2,642
Companies with U.S. incorporation	(199)	2,443
Nonfinancial companies (SIC$<$6000 & SIC$\geq$7000)	(944)	1,499
Companies with public float data for fiscal year 2004 (11/2004 and 10/2005) computed in the end of their second fiscal quarter	(358)	1,141
Companies with 2004 public float between \$50 million and \$100 million	(840)	301

Figure IA.1

How strictly was the SOX section 404 enforcement rule followed?

This figure presents the public float distribution of firms that were not affected by the rule up to the reported year. These firms had public floats of less than $75 million up to the year plotted in each graph and thus were not accelerated filers in the previous year. For these firms being above the $75 million cutoff means that they switch status to accelerated filer. Accelerated filers in years 2004 and 2005 have to file MRs. The graphs plot separately histograms of firms that reported accelerated filer status (2002 and 2003) or filed a MR (2004 and 2005) and the firms that did not report accelerated status (2002 and 2003) or file a MR (2004 and 2005). The four graphs report fiscal years 2002 (11/2002 to 10/2003), 2003 (11/2003 to 10/2004), 2004 (11/2004 to 10/2005), and 2005 (11/2005 to 10/2006). Firms that were not accelerated filers or did not file a MR when their reported public float was above $75 million are referred to as violators, while firms that declared to be accelerated filers or filed a MR when their public float was under $75 million are referred to as volunteers.



12 violator, 30 volunteers

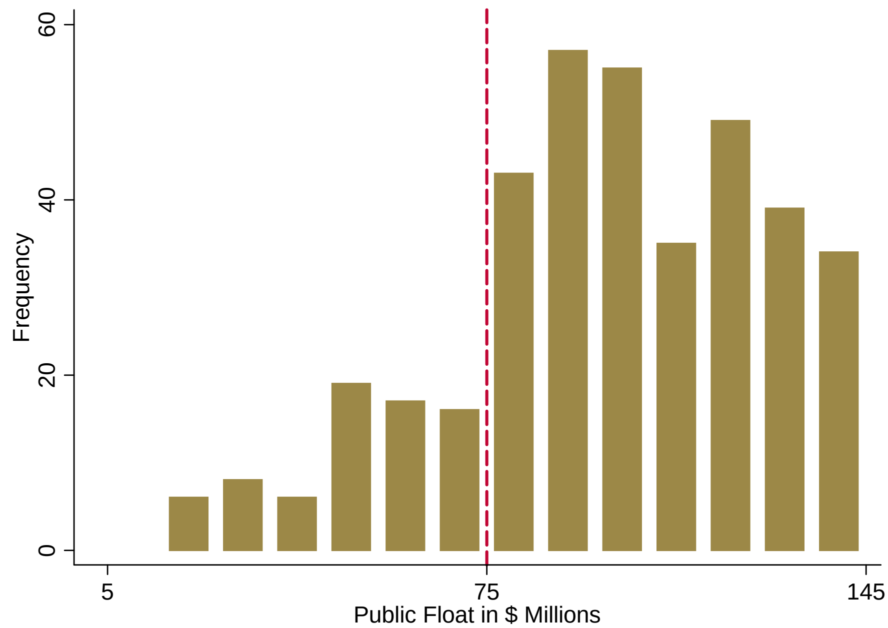
216 accelerated filers from 2002 omitted, 0 violators, 7 volunteers

261 accelerated filers from 2003 omitted, 1 violator, 4 volunteers

327 accelerated filers from 2004 omitted, 2 violators, 1 volunteer

Figure IA.2
Public Float Distributions in Fiscal Year 2004.

Public Float Distribution of firms that filed a MR in 2004.



Public Float Distribution of firms that did not file a MR in 2004.

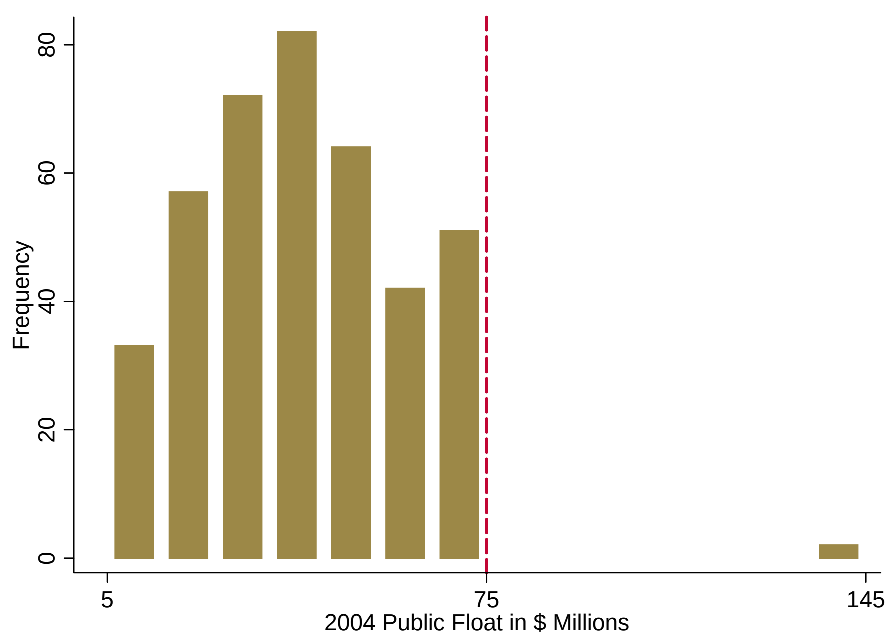


Table IA.II
Descriptive Statistics for U.S. Firms

This table presents the descriptive statistics for all firms with non-missing observations for all variables (except for BE/ME and IPO year). The 2004 BE/ME sample has 261 firms and the 2004 IPO sample has 199 firms. The *2004 Sample* uses all firms that report public float between $50 million and $100 million in 2004. Firms are divided into two groups – companies that filed a MR (*MR*) and companies that did not file a MR (*No-MR*). The (*2004 Sample in 2003*) reports the 2003 fiscal year descriptive statistics for the companies in the *2004 Sample*. The *2003 Sample* uses all firms that report a public float between $50 million and $100 million in 2003. The descriptive statistics are divided into two groups – companies that were accelerated filers (*ACC*) and companies that were not accelerated filers (*No-ACC*). All accelerated filers in 2004 filed a MR. Standard deviations are reported under sample means. The Diff. column reports the difference in means between the two groups with robust t-statistics reported in square brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively. Variable definitions are available in the Appendix of the main article.

		2004 Sample			2004 Sample in 2003			2003 Sample		
Variable	Units	MR	No MR	Diff.	MR	No MR	Diff.	ACC	No ACC	Diff.
Public Float	$ mill	81.41	62.30	19.11	80.09	40.04	40.05	79.28	59.92	19.37
		(13.26)	(7.63)	[14.38]**	(43.83)	(17.44)	[9.09]***	(12.12)	(7.23)	[16.05]***
Market Size	$ mill	135.01	132.29	2.72	130.64	91.85	38.79	157.41	126.17	31.25
		(87.82)	(169.10)	[0.18]	(57.11)	(52.73)	[5.64]***	(66.07)	(65.69)	[4.07]***
Assets	$ mill	163.60	177.48	-13.88	164.72	179.86	-15.14	198.78	165.95	32.83
		(149.84)	(425.72)	[0.39]	(150.28)	(452.16)	[0.39]	(320.14)	(421.31)	[0.77]
Sales	$ mill	220.12	201.74	18.38	219.97	196.70	23.27	218.69	220.36	-1.66
		(303.94)	(403.56)	[0.44]	(323.79)	(390.16)	[0.53]	(317.19)	(454.81)	[0.04]
BE/ME	Ratio	0.63	0.60	0.03	0.62	0.69	-0.07	0.57	0.52	0.05
		(0.44)	(0.39)	[0.50]	(0.40)	(0.46)	[1.29]	(0.40)	(0.38)	[0.97]
Leverage	Ratio	0.15	0.18	-0.03	0.16	0.22	-0.05	0.16	0.15	0.01
		(0.21)	(0.22)	[1.13]	(0.22)	(0.25)	[1.83]*	(0.22)	(0.22)	[0.51]
IPO Year	Year	1995.49	1994.87	0.63	1995.43	1994.88	0.55	1995.74	1995.87	-0.13
		(4.22)	(5.62)	[0.89]	(4.26)	(4.64)	[0.81]	(4.16)	(3.71)	[0.23]
Big Auditor	$ mill	0.816	0.750	0.065	0.879	0.818	0.061	0.909	0.858	0.050
		(0.39)	(0.43)	[1.35]	(0.33)	(0.39)	[1.38]	(0.29)	(0.35)	[1.36]
Number of Business Segments	Integer	1.77	2.12	-0.35	1.76	2.15	-0.38	1.66	1.87	-0.20
		(1.34)	(1.55)	[2.05]**	(1.35)	(1.61)	[2.10]**	(1.32)	(1.39)	[1.30]
Number of Geographic Segments	Integer	1.95	1.88	0.07	2.03	1.97	0.05	1.80	1.87	-0.07
		(1.99)	(1.71)	[0.33]	(1.98)	(2.09)	[0.21]	(1.71)	(2.24)	[0.29]
NASDAQ listed	Y/N	0.726	0.637	0.089	0.720	0.655	0.065	0.749	0.661	0.087
		(0.45)	(0.48)	[1.63]	(0.45)	(0.48)	[1.14]	(0.44)	(0.48)	[1.65]*
Audit Fees	$ mill	0.877	0.444	0.433	0.448	0.336	0.065	0.403	0.362	0.087
		(0.73)	(0.58)	[5.47]***	(0.51)	(0.46)	[1.14]	(0.33)	(0.48)	[1.65]*
Earnings	Ratio	-0.109	-0.060	-0.049	-0.073	-0.012	-0.061	-0.081	-0.076	-0.004
(scaled by assets)		(0.23)	(0.27)	[1.67]*	(0.18)	(0.18)	[2.74]***	(0.22)	(0.20)	[0.18]
Cash Flow from Operations	Ratio	-0.023	-0.007	-0.016	-0.008	0.041	-0.049	0.000	-0.005	0.005
(scaled by assets)		(0.23)	(0.24)	[0.57]	(0.18)	(0.14)	[2.42]**	(0.20)	(0.19)	[0.20]
Accruals	Ratio	-0.085	-0.053	-0.033	-0.065	-0.053	-0.012	-0.081	-0.072	-0.009
(scaled by assets)		(0.14)	(0.12)	[2.09]**	(0.12)	(0.12)	[0.83]	(0.13)	(0.11)	[0.62]
Observations		168	124		157	110		175	127	

Table IA.III
Sectoral Distribution of Firms in U.S. sample

The table reports the Fama-French 12 sector distribution for firms that report a public float between $50 million and $100 million in 2004. The sample is divided into two groups – companies that filed a MR (*MR*) and companies that did not file a MR (*No-MR*).

Industry	MR		No-MR	
	Number	Percentage	Number	Percentage
Consumer NonDurables – Food, Tobacco, Textiles, Apparel, Leather, Toys	8	4.9%	6	5.7%
Durables – Cars, TV's, Furniture, Household Appliances	2	1.2%	4	3.8%
Manufacturing – Machinery, Trucks, Planes, Off Furn, Paper, Com Printing	16	9.9%	11	10.5%
Oil, Gas, and Coal Extraction and Products	4	2.5%	4	3.8%
Chemicals and Allied Products	4	2.5%	2	1.9%
Business Equipment – Computers, Software, and Electronic Equipment	48	29.6%	32	30.5%
Telephone and Television Transmission	2	1.2%	4	3.8%
Utilities	1	0.6%	3	2.9%
Wholesale, Retail, and Some Services (Laundries, Repair Shops)	19	11.7%	15	14.3%
Healthcare, Medical Equipment, and Drugs	27	16.7%	15	14.3%
Finance	0	0.0%	0	0.0%
Other – Mines, Constr, BldMt, Trans, Hotels, Bus Serv, Entertainment	31	19.1%	9	8.6%
Total	162	100.0%	105	100.0%

Table IA.IV
Descriptive Statistics for Foreign Firms

This table presents the descriptive statistics for the foreign firms sample. The samples use all foreign firms with non-missing observations for all variables (except for BE/ME and IPO year). The 2006 BE/ME sample has 137 firms and the 2006 IPO sample has 97 firms. The *2006 Sample* uses all foreign firms with market equity between $175 million and $5,600 million in 2005. Firms are divided into two groups – companies that filed an auditor's attestation of their MR (*AA*) and companies that did not file an auditor's attestation of their MR (*No-AA*). The (*2006 Sample in 2005*) reports the 2005 fiscal year descriptive statistics for the companies in the *2006 Sample*. Standard deviations are reported under sample means. The Diff. column reports the difference in means between the two groups with robust *t*-statistics are reported in square brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively. Variable definitions are available in the Appendix of the main article.

		2006 Sample			2006 Sample in 2005		
Variable	Units	AA	no AA	Diff.	AA	no AA	Diff.
Market Size	$ mill	2263.05	989.52	1273.52	1681.31	747.51	933.80
		(1162.59)	(1003.77)	[7.31]***	(681.53)	(466.90)	[8.91]***
Assets	$ mill	2406.18	1149.92	1256.26	2237.28	1147.97	1089.31
		(1841.20)	(2403.98)	[3.71]***	(1856.01)	(2513.12)	[2.89]***
Sales	$ mill	1712.10	750.27	961.83	1607.51	787.27	820.23
		(1933.69)	(1712.47)	[3.28]***	(1851.48)	(1792.06)	[2.57]**
BE/ME	Ratio	0.58	0.50	0.08	0.62	0.55	0.07
		(0.41)	(0.30)	[1.31]	(0.43)	(0.38)	[0.90]
Leverage	Ratio	0.21	0.17	0.05	0.23	0.17	0.06
		(0.19)	(0.20)	[1.46]	(0.20)	(0.21)	[1.76]*
IPO Year	Year	1996.26	2000.13	-3.87	1995.58	1998.34	-2.76
		(6.15)	(4.30)	[3.77]***	(5.87)	(3.71)	[2.54]**
Big Auditor	$ mill	0.965	0.822	0.143	0.974	0.790	0.185
		(0.19)	(0.39)	[3.03]***	(0.16)	(0.41)	[3.59]***
Number of Business Segments	Integer	2.11	2.01	0.09	2.27	2.05	0.22
		(1.83)	(1.59)	[0.34]	(1.96)	(1.52)	[0.70]
Number of Geographic Segments	Integer	3.32	3.07	0.25	3.40	3.28	0.12
		(2.62)	(2.99)	[0.56]	(2.60)	(3.16)	[0.25]
NASDAQ listed	Y/N	0.212	0.548	-0.336	0.208	0.526	-0.319
		(0.41)	(0.50)	[4.63]***	(0.41)	(0.50)	[4.04]***
Audit Fees	$ mill	2.259	0.869	1.390	1.478	0.719	0.759
		(2.26)	(1.08)	[4.80]***	(1.69)	(0.81)	[3.14]***
Earnings	Ratio	0.068	0.036	0.032	0.035	0.021	0.014
(scaled by assets)		(0.14)	(0.18)	[1.29]	(0.11)	(0.17)	[0.58]
Cash Flow from Operations	Ratio	0.130	0.080	0.050	0.104	0.094	0.010
(scaled by assets)		(0.15)	(0.17)	[1.99]**	(0.10)	(0.13)	[0.51]
Accruals	Ratio	-0.062	-0.044	-0.018	-0.069	-0.073	0.003
(scaled by assets)		(0.07)	(0.09)	[1.39]	(0.08)	(0.10)	[0.22]
Observations		85	73		77	57	

Table IA.V
Audit Fees with Difference-in-Differences Approach for Foreign Firms

This table presents the SOX Section 404 effect on audit fees using a difference-in-differences approach for foreign firms over the 2001 to 2006 period. Both estimations use the 2001 to 2006 observations of foreign incorporated companieswit market equity between $175 and $5,600 million in 2005. The dependent variable is log of *Total Audit Fees* paid in 2004. *(Auditor Opinion on MR) x 2006* is a dummy variable equal to one in 2006 if the company had an auditor opinion about its MR in 2006 and zero otherwise; *Auditor Opinion on MR* is a dummy variable equal to 1 for all years for companies that had an auditor opinion about their MR in 2006; *Audit Fee Change* refers to the implied audit fee change for the mean company in $ thousands. Variable definitions ara available in the Appendix of the main article. The regressions include (not reported here) a constant term. Industry fixed effects are based on the Fama-French 12 sector definitions. Robust *t*-statistics are reported in brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively.

Dependent Variable	Audit Fees	
Estimation	(1)	(2)
(Auditor Opinion on MR) x 2006	0.301**	0.277***
	[2.41]	[3.79]
Auditor Opinion on MR	-0.013	
	[-0.19]	
Lagged Market Size of Equity	0.074***	0.054**
	[3.05]	[2.37]
Log Assets	0.344***	0.551***
	[5.67]	[6.48]
Log Lagged Market Size of Equity	0.137***	-0.036
	[2.68]	[-0.85]
Leverage	0.826***	0.062
	[3.66]	[0.40]
Receivables scaled by Total Assets	1.502***	0.681*
	[6.24]	[1.84]
Big Auditor	0.482***	-0.094
	[4.72]	[-1.10]
Number of Business Segments	0.037**	0.042
	[2.04]	[1.58]
Number of Geographic Segments	0.048***	-0.006
	[3.90]	[-0.39]
Year Fixed Effects	Yes	Yes
Industry Fixed Effects	Yes	No
Firm Fixed Effects	No	Yes
Observations	726	726
R-squared	0.58	0.93
AA magnitude	478.90	440.50

Table IA.VI
Audit Fees Regressions without Potential Evaders

This table presents the SOX Section 404 effect on audit fees excluding firms that potentially evaded compliance. All regressions use OLS estimation. The sample in estimation (1) covers all companies that had a public float between $50 million and $100 million in 2004. The sample in estimation (2) does not use firms that potentially evaded compliance with the rule. These are the firms that were non-accelerated filers in 2003 and that reported a public float just under the $75 million rule in 2004 (with a public float in 2004 between $65 million to $75 million). The dependent variable is the logarithm of *Audit Fees*. *MR* is a dummy variable equal to one if the company filed a MR in 2004. *Market Size of Equity* is measured in billions. The regressions include (not reported here) a constant term. The OLS estimations include linear, quadratic, and cubic terms of *Public Float*, the public float reported in the annual reports. Regressions control for industry fixed effects based on the Fama-French 12 sector definitions. Robust *t*-statistics are reported in brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively.

Dependent Variable	Log Total Audit Fees 2004	
Estimation Type	(1) OLS	(2) OLS
MR in fiscal year 2004	0.744***	0.834***
	[7.39]	[6.32]
Log Sales 2004	0.031	0.026
	[1.09]	[0.83]
Log Assets 2004	0.235***	0.235***
	[3.35]	[3.03]
Log Market Size of Equity 2003	0.050	0.027
	[0.51]	[0.25]
Leverage 2004	0.612***	0.504*
	[2.62]	[1.97]
Receivables scaled by Total Assets 2004	0.086	0.244
	[0.35]	[0.83]
Big Auditor 2004	0.370***	0.343***
	[3.94]	[3.09]
Number of Business Segments 2004	0.040	0.059*
	[1.45]	[1.88]
Number of Geographic Segments 2004	0.070***	0.052*
	[2.91]	[1.93]
Public Float Terms	Yes	Yes
Industry Fixed Effects	Yes	Yes
Observations	281	232
R-squared	0.55	0.54

Table IA.VII
Audit Fees with Difference-in-Differences Approach for U.S. Firms

This table presents the SOX Section 404 effect on audit fees using a difference-in-differences approach for U.S. firms. Estimations (1) uses the 2001, 2002 and 2004, observations of U.S. incorporated companies that had a public float between $50 million and $100 million in 2004. It does not use the 2003 data to account for rule anticipation. Estimation (2) uses the 2001, 2002, 2003, and 2004 observations for the same sample. The dependent variable is the log of *Total Audit Fees* paid in 2004. *MR x 2004* is a dummy variable equal to one in 2004 if the company filed a MR in 2004 and zero otherwise; *MR* is a dummy variable equal to one for all years for companies that filed a MR in 2004. Variable definitions ara available in the Appendix of the main article. The regressions include (not reported here) a constant term. Industry fixed effects are based on the Fama-French 12 sector definitions. Robust *t*-statistics are reported in brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively.

Sample	2001,2002 and 2004	2001-2004
Dependent Variable	Audit Fees	
Estimation	(1)	(2)
MR x 2004	0.590***	0.584***
	[7.11]	[7.75]
MR	0.144**	0.165***
	[2.56]	[3.78]
Lagged Market Size of Equity	0.039**	0.034**
	[2.05]	[2.36]
Log Assets 2004	0.167***	0.195***
	[4.08]	[5.95]
Log Market Size of Equity 2003	0.088***	0.035
	[2.66]	[1.29]
Leverage 2004	0.772***	0.709***
	[6.22]	[6.68]
Receivables scaled by Total Assets 2004	0.138	0.156
	[1.11]	[1.46]
Big Auditor 2004	0.421***	0.412***
	[7.79]	[9.00]
Number of Business Segments 2004	0.035**	0.027**
	[2.27]	[2.09]
Number of Geographic Segments 2004	0.061***	0.062***
	[4.68]	[5.80]
Year Fixed Effects	Yes	Yes
Industry Fixed Effects	Yes	Yes
Observations	794	1133
R-squared	0.62	0.58

Table IA.VIII
Audit Fees In 2003 and 2002.

This table presents audit fee regressions for 2002 and 2003. All regressions use OLS estimation. Estimations (1) to (3) use the sample of all firms with a public float between $50 million and $100 million in the respective year. *MR in 2004 or ACC in 2002 and 2003* is either the *MR* variable for 2004 or the accelerated filer status (*ACC*) for years 2002 and 2003. In 2004 all accelerated filers filed a MR. The goal is to test if the accelerated filer status had an effect on *Audit Fees* in 2002 and 2003. Estimations (4) to (6) report the *MR in 2004* coefficient using the 2004 sample in 2002, 2003, and 2004. The goal is to test if firms that filed a MR in year 2004 had significantly different *Audit Fees* from nonfilers in 2002 and 2003. Estimations (4) to (6) use the sample of all firms with a public float between $50 million and $100 million in 2004. Regressions (4) to (6) report the coefficient from the 2004 MR dummy in 2002, 2003, and 2004. The goal is to test if 2004 MR filers had significantly higher *Audit Fees* in 2002 and 2003. The dependent variable is log of *Total Audit Fees* paid in the relevant year. *MR* is a dummy variable equal to one if the company filed a MR in 2004. Variable definitions ara available in the Appendix of the main article. The regressions include (not reported here) a constant term and linear, quadratic, and cubic terms of *Public Float*. Industry fixed effects are based on the Fama-French 12 sector definitions. Robust *t*-statistics are reported in brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively.

Sample	(A) Different Sample			(B) Constant 2004 Sample		
Estimation Type	(1) OLS	(2) OLS	(3) OLS	(4) OLS	(5) OLS	(6) OLS
Year	2004	2003	2002	2004	2003	2002
MR in 2004 or ACC in 2002 and 2003	0.744***	0.030	-0.153	0.744***	0.227***	0.235***
	[7.39]	[0.31]	[-1.59]	[7.39]	[2.92]	[2.92]
Log Sales 2004	0.031	0.037*	0.055***	0.031	0.050**	0.028
	[1.09]	[1.91]	[2.80]	[1.09]	[2.30]	[0.92]
Log Assets 2004	0.235***	0.278***	0.340***	0.235***	0.240***	0.167***
	[3.35]	[4.71]	[3.96]	[3.35]	[3.63]	[2.64]
Log Market Size of Equity 2003	0.050	-0.045	-0.097	0.050	-0.137**	0.094**
	[0.51]	[-0.74]	[-1.44]	[0.51]	[-2.21]	[2.03]
Leverage 2004	0.612***	0.784***	0.474*	0.612***	0.647***	0.762***
	[2.62]	[3.58]	[1.84]	[2.62]	[2.83]	[4.17]
Receivables scaled by Total Assets 2004	0.086	0.210	0.325	0.086	0.320	0.442**
	[0.35]	[1.12]	[1.35]	[0.35]	[1.43]	[2.45]
Big Auditor 2004	0.370***	0.258**	0.251	0.370***	0.417***	0.438***
	[3.94]	[2.37]	[1.64]	[3.94]	[4.05]	[4.14]
Number of Business Segments 2004	0.040	0.003	-0.016	0.040	0.001	0.042*
	[1.45]	[0.12]	[-0.57]	[1.45]	[0.06]	[1.79]
Number of Geographic Segments 2004	0.070***	0.066***	0.080***	0.070***	0.055***	0.070***
	[2.91]	[3.48]	[2.70]	[2.91]	[2.93]	[3.74]
Public Float Terms	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	281	298	281	281	279	274
R-squared	0.55	0.54	0.55	0.55	0.51	0.53

Table IA.IX
Audit Fees with Placebo Rules

This table tests the robustness of the estimations by applying placebo rules. Estimation (1) reports the *MR based on $125M rule* coefficients. *MR based on $125M rule* is a dummy variable equal to one for companies that would have filed a MR if the three-year treatment rule were based on a cutoff of $125 million. The sample consists of all firms that had a public float between $100 million and $150 million in 2004. Estimation (2) reports the *MR based on $150M rule* coefficients. *MR based on $150M rule* is a dummy variable equal to one for companies that would have filed a MR if the three-year treatment rule were based on a cutoff of $150 million. The sample consists of all firms that had a public float between $125 million and $175 million in 2004. The dependent variable is log of *Total Audit Fees* paid in 2004. *MR* is a dummy variable equal to one if the company filed a MR in 2004. Variable definitions ara available in the Appendix of the main article. The regressions include (not reported here) a constant term and linear, quadratic, and cubic terms of *Public Float*. Industry fixed effects are based on the Fama-French 12 sector definitions. Robust *t*-statistics are reported in brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively.

Sample	$ 125 million rule	$ 150 million rule
Estimation Type	(1) OLS	(2) OLS
MR based on $125M rule	0.004	
	[0.04]	
MR based on $150M rule		0.093
		[0.73]
Log Sales 2004	0.024	0.086**
	[0.73]	[2.04]
Log Assets 2004	0.254***	0.218**
	[3.16]	[2.40]
Log Market Size of Equity 2003	0.168*	0.219*
	[1.76]	[1.75]
Leverage 2004	0.828***	0.821**
	[2.82]	[2.57]
Receivables scaled by Total Assets 2004	-0.335	-0.254
	[-1.13]	[-0.82]
Big Auditor 2004	0.339***	0.358**
	[2.99]	[2.50]
Number of Business Segments 2004	-0.008	0.027
	[-0.26]	[0.75]
Number of Geographic Segments 2004	0.089***	0.076***
	[3.34]	[3.19]
Public Float Terms	Yes	Yes
Industry Fixed Effects	Yes	Yes
Observations	185	150
R-squared	0.55	0.62

Table IA.X
Accruals and Discretionary Accruals with Difference-in-Differences Approach for Foreign Firms

This table reports difference-in-differences accruals estimations for foreign firms. Estimations use the 2001 to 2006 period observations of foreign incorporated companies with market equity between $175 million and $5,600 million in 2005. The dependent variables are *Accruals* (estimations (1) and (3)) and *Discretionary Accruals* (estimations (2) and (4)). *(Auditor Opinion on MR) x 2006* is a dummy variable equal to one in 2006 if the company had an auditor opinion about its MR in 2006 and zero otherwise; *Auditor Opinion on MR* is a dummy variable equal to one for all years for companies that had an auditor opinion about their MR in 2006. Variable definitions ara available in the Appendix of the main article; *Market Size of Equity* is in billions. The regressions include (not reported here) a constant term. Industry fixed effects are based on the Fama-French 12 sector definitions. Robust *t*-statistics are reported in brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively.

Estimation	(1)	(2)	(3)	(4)
Dependent Variable	TA	TA	DTA	DTA
(Auditor Opinion on MR) x 2006	-0.024*	-0.017	-0.017	-0.020
	[-1.84]	[-1.18]	[-1.25]	[-1.37]
Auditor Opinion on MR in 2006	0.011		0.027***	
	[1.62]		[3.37]	
Lagged Market Size of Equity	-0.001	0.005**	-0.001	0.003
	[-0.53]	[2.12]	[-0.21]	[1.02]
Cash Flow from Operations	-0.323***	-0.578***	-0.269***	-0.558***
	[-4.50]	[-8.03]	[-3.42]	[-6.68]
Change in Net Income	0.201***	0.235***	0.189***	0.233***
	[2.84]	[4.10]	[2.78]	[4.01]
Negative Cash Flow	-0.040**	-0.035**	-0.056***	-0.036*
	[-2.35]	[-2.01]	[-3.08]	[-1.90]
Book to Market	-0.006	-0.012*	0.003	-0.009
	[-1.14]	[-1.81]	[0.57]	[-1.30]
Big Auditor	-0.014	0.009	0.000	0.014
	[-0.99]	[0.59]	[0.00]	[0.89]
Year Fixed Effects	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	No	Yes	No
Firm Fixed Effects	No	Yes	No	Yes
Observations	813	813	813	813
MR magnitude	-37.79	-25.96	-27.43	-31.56
R-squared	0.22	0.61	0.13	0.54

Table IA.XI
Accruals and Discretionary Accruals Using Alternative (Placebo) Rules

This table tests the robustness of the accruals estimations by applying placebo rules. Estimations (1) and (2) report the *MR based on $125M rule* coefficients. *MR based on $125M rule* is a dummy variable equal to one for companies that would have filed a MR if the three-year treatment rule were based on a cutoff of $125 million. The sample consists of all firms that had a public float between $100 million and $150 million in 2004. Estimations (3) and (4) report the *MR based on $150M rule* coefficients. *MR based on $150M rule* is a dummy variable equal to one for companies that would have filed a MR if the three-year treatment rule were based on a cutoff of $150 million. The sample consists of all firms that had a public float between $125 million and $175 million in 2004. The dependent variables are *Total Accruals(TA)* and *Discretionary Total Accruals (DTA)*, defined in Appendix C. *MR* is a dummy variable equal to one if the company filed a MR in 2004. Variable definitions ara available in the Appendix of the main article. *Market Size of Equity* is in billions. The regressions include (not reported here) a constant term and linear, quadratic, and cubic terms of *Public Float*. Industry fixed effects are based on the Fama-French 12 sector definitions. Robust *t*-statistics are reported in brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively.

Dependent Variable	TA	DTA	TA	DTA
Estimation	(1)	(2)	(3)	(4)
MR based on $125M rule	0.010	-0.015		
	[0.36]	[-0.61]		
MR based on $150M rule			-0.007	-0.011
			[-0.23]	[-0.40]
Lagged Market Size of Equity	-0.065	-0.017	-0.028	-0.011
	[-0.90]	[-0.27]	[-0.31]	[-0.15]
Change in Net Income 2004	0.354***	0.330***	0.436***	0.372**
	[4.21]	[3.27]	[3.25]	[2.56]
Negative Cash Flow 2004	-0.002	0.020	0.014	0.025
	[-0.06]	[0.68]	[0.39]	[0.81]
Book to Market 2004	0.040	0.054*	0.031	0.036
	[1.53]	[1.80]	[0.89]	[1.13]
Big Auditor 2004	-0.024	-0.025	0.002	0.007
	[-0.99]	[-0.80]	[0.06]	[0.19]
Market Size of Equity 2004	0.088	0.034	0.137	0.113
	[0.40]	[0.16]	[0.59]	[0.49]
Public Float Terms	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	No	Yes	No
Observations	179	179	134	134
R-squared	0.40	0.29	0.48	0.37

Table IA.XII
Accruals and Discretionary Accruals with Difference-in-Differences Approach for U.S. Firms

This table presents the SOX Section 404 effect on accruals using a difference-in-differences approach for U.S. firms. Estimations (1) and (2) use the 2001, 2002, and 2004 observations of U.S. incorporated companies that had a public float between $50 million and $100 million in 2004. It does not use the 2003 data to account for rule anticipation. Estimations (3) and (4) use the 2001, 2002, 2003, and 2004 observations for the same sample. The dependent variables are *Accruals* (estimations (1) and (3)) and *Discretionary Accruals* (estimations (2) and (4)). *MR x 2004* is a dummy variable equal to one in 2004 if the company filed a MR in 2004 and zero otherwise; *MR* is a dummy variable equal to one for all years for companies that filed a MR in 2004;. Variable definitions ara available in the Appendix of the main article; *Market Size of Equity* is in billions. The regressions include (not reported here) a constant term. Industry fixed effects are based on the Fama-French 12 sector definitions. Robust *t*-statistics are reported in brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively.

Sample	2001, 2002 and 2004		2001, 2002, 2003 and 2004	
Estimation	(1)	(2)	(3)	(4)
Dependent Variable	TA	DTA	TA	DTA
MR X 2004	-0.053***	-0.048**	-0.034*	-0.030*
	[-2.62]	[-2.31]	[-1.96]	[-1.67]
MR	0.036**	0.024*	0.016	0.007
	[2.50]	[1.74]	[1.51]	[0.65]
Lagged Market Size of Equity	-0.098**	-0.151***	-0.104**	-0.164***
	[-2.13]	[-4.03]	[-2.40]	[-4.37]
Cash Flow from Operations	0.047	0.048	0.060	0.052
	[0.72]	[0.79]	[1.13]	[1.03]
Change in Net Income	0.068	0.069	0.076*	0.083*
	[1.34]	[1.37]	[1.74]	[1.86]
Negative Cash Flow	0.011	-0.010	0.022	0.005
	[0.61]	[-0.59]	[1.44]	[0.33]
Book to Market	0.004***	0.004***	0.004***	0.004***
	[9.33]	[8.50]	[9.69]	[8.90]
Big Auditor	0.006	0.013	0.008	0.012
	[0.40]	[0.84]	[0.62]	[0.94]
Year Fixed Effects	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	No	Yes	No
Observations	716	716	1021	1021
R-squared	0.12	0.09	0.10	0.09
MR magnitude	-7.49	-6.73	-4.75	-4.23

Table IA.XIII
Accruals and Discretionary Accruals In 2003 and 2002

This table presents accruals regressions for 2002 and 2003. The *Different Sample* (estimations (1) to (6)) panel repeats the 2004 estimation in 2003 and 2002, focusing on the sample of firms in $50 million to $100 million band for the respective years. Estimations (1) to (6) report the *MR in 2004 or ACC in 2002 and 2003* coefficients. This is either the *MR* variable for 2004 or the accelerated filer status (*ACC*) for years 2002 and 2003. In 2004 all accelerated filers filed a MR. The goal is to test if the accelerated filer status had an effect on *Accruals* and *Discretionary Accruals* in 2002 and 2003. In 2003 accelerated filers had to report their annual report 15 days earlier. It reports the coefficients of a MR filing dummy in 2004. The *Constant 2004 Sample* (estimations (7) to (12)) panel repeats the regressions in 2002 and 2003 but using the exact same sample of firms as in 2004. Estimations (7) to (12) report the *MR in 2004* coefficient using the 2004 sample in 2002, 2003 and 2004. The goal is to test if firms that filed MR in year 2004 had significantly different *Accruals* and *Discretionary Accruals* from nonfilers in 2002 and 2003. The dependent variables are *Total Accruals(TA)* and *Discretionary Total Accruals (DTA)*, defined in Appendix C. *MR* is a dummy variable equal to one if the company filed a MR in 2004. Variable definitions ara available in the Appendix of the main article; *Market Size of Equity* is in billions. The regressions include (not reported here) a constant term and linear, quadratic, and cubic terms of *Public Float*. Industry fixed effects are based on the Fama-French 12 sector definitions. Robust *t*-statistics are reported in brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively.

Sample	Different Sample						Constant 2004 Sample					
Estimation	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Dependent Variable	TA	DTA	TA	DTA	TA	DTA	TA	DTA	TA	DTA	TA	DTA
Year	2004	2004	2003	2003	2002	2002	2004	2004	2003	2003	2002	2002
MR in 2004 or ACC in 2002 and 2003	-0.034*	-0.039**	-0.026	-0.026	0.037*	0.020	-0.034*	-0.039**	-0.014	-0.014	0.017	0.005
	[-1.97]	[-2.23]	[-1.54]	[-1.63]	[1.89]	[1.17]	[-1.97]	[-2.23]	[-0.83]	[-0.77]	[0.90]	[0.27]
Lagged Market Size of Equity	-0.191	-0.202	-0.105	-0.173	-0.095*	-0.135**	-0.191	-0.202	-0.130	-0.222	-0.137*	-0.191**
	[-1.58]	[-1.60]	[-0.69]	[-1.19]	[-1.85]	[-2.47]	[-1.58]	[-1.60]	[-0.61]	[-1.04]	[-1.87]	[-2.57]
Cash Flow from Operations	-0.044	-0.069	0.003	0.009	-0.109	-0.076	-0.044	-0.069	-0.015	-0.013	0.073	0.083
	[-0.68]	[-1.06]	[0.04]	[0.16]	[-1.32]	[-0.96]	[-0.68]	[-1.06]	[-0.17]	[-0.16]	[0.46]	[0.61]
Change in Net Income	0.229***	0.219***	0.163***	0.141**	-0.010	-0.023	0.229***	0.219***	0.108	0.121	0.039	0.044
	[3.22]	[3.22]	[2.60]	[2.30]	[-0.53]	[-1.36]	[3.22]	[3.22]	[1.33]	[1.46]	[0.67]	[0.73]
Negative Cash Flow	0.008	-0.016	0.016	0.007	-0.043	-0.048	0.008	-0.016	0.042	0.033	0.014	0.010
	[0.36]	[-0.66]	[0.57]	[0.26]	[-1.51]	[-1.62]	[0.36]	[-0.66]	[1.50]	[1.10]	[0.41]	[0.31]
Book to Market	0.057***	0.044**	0.046***	0.026*	0.000	0.001	0.057***	0.044**	0.034*	0.019	0.016	0.009
	[2.80]	[2.25]	[2.85]	[1.73]	[0.08]	[0.17]	[2.80]	[2.25]	[1.85]	[1.03]	[1.21]	[0.75]
Big Auditor	0.001	0.015	0.034	0.035	0.048	0.050	0.001	0.015	-0.002	-0.003	0.021	0.015
	[0.03]	[0.77]	[1.12]	[1.08]	[1.49]	[1.46]	[0.03]	[0.77]	[-0.06]	[-0.11]	[0.55]	[0.44]
Public Float Terms	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
Observations	251	251	270	270	161	161	251	251	240	240	231	231
R-squared	0.28	0.27	0.11	0.09	0.10	0.15	0.28	0.27	0.12	0.14	0.05	0.05

Table IA.XIV
Accruals and Discretionary Accruals in 2004 Excluding Potential Rule Evaders

This table presents the SOX Section 404 effect on accruals excluding firms that potentially evaded compliance. All regressions use OLS estimation. The sample in estimation (1) covers all companies that had a public float between $50 million and $100 million in 2004. The sample in estimation (2) does not use firms that potentially evaded compliance with the rule. These are the firms that were non-accelerated filers in 2003 and reported a public float just under the $75 million rule in 2004 (with public float in 2004 between $65 to $75 million). The dependent variables are *Total Accruals(TA)* and *Discretionary Total Accruals (DTA)*, defined in Appendix C. *MR* is a dummy variable equal to one if the company filed a MR in 2004. Variable definitions ara available in the Appendix of the main article. *Market Size of Equity* is in billions. The regressions include (not reported here) a constant term and linear, quadratic, and cubic terms of *Public Float*. Industry fixed effects are based on the Fama-French 12 sector definitions. Robust *t*-statistics are reported in brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively.

Dependent Variable	Accruals		Discretionary Accruals	
Estimation Type	(1) OLS	(2) OLS	(3) OLS	(4) OLS
MR in fiscal year 2004	-0.035*	-0.039	-0.039**	-0.051*
	[-1.90]	[-1.37]	[-2.23]	[-1.86]
Cash Flow from Operations 2004	-0.052	-0.068	-0.069	-0.069
	[-0.81]	[-0.95]	[-1.06]	[-0.95]
Change in Net Income 2004	0.213***	0.218***	0.219***	0.218***
	[3.00]	[2.87]	[3.22]	[3.07]
Negative Cash Flow 2004	0.009	0.005	-0.016	-0.023
	[0.41]	[0.19]	[-0.66]	[-0.89]
Book to Market 2004	0.043**	0.046**	0.044**	0.046**
	[2.02]	[2.00]	[2.25]	[2.15]
Big Auditor 2004	-0.006	0.003	0.015	0.027
	[-0.35]	[0.14]	[0.77]	[1.17]
Market Size of Equity 2003	-0.189	-0.198	-0.202	-0.226
	[-1.59]	[-1.41]	[-1.60]	[-1.51]
Public Float Terms	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	No	No
R-squared	0.34	0.35	0.27	0.28
MR magnitude	-4.98	-5.56	-5.46	-7.17

Figure IA.3
Comparing S&P 500 returns to MR filers' and nonfilers' returns.

The graph shows the cumulative three-day unadjusted returns around events 2 and 3 in Table IV of the main text. Event 2 was the WSJ announcement that the SEC will sets new rule aimed at companies' internal controls, published on 5/28/2003, and event 3 was the actual SEC ruling published on 6/5/2003. The graph shows the five-day raw returns for the S&P 500, for MR filers (the equal-weighted portfolio that buys all companies that filed a MR and were in a $50 million to $100 million band in 2004), and non-filers (the equal-weighted portfolio that sells all companies that did not file a MR and were in the same band).

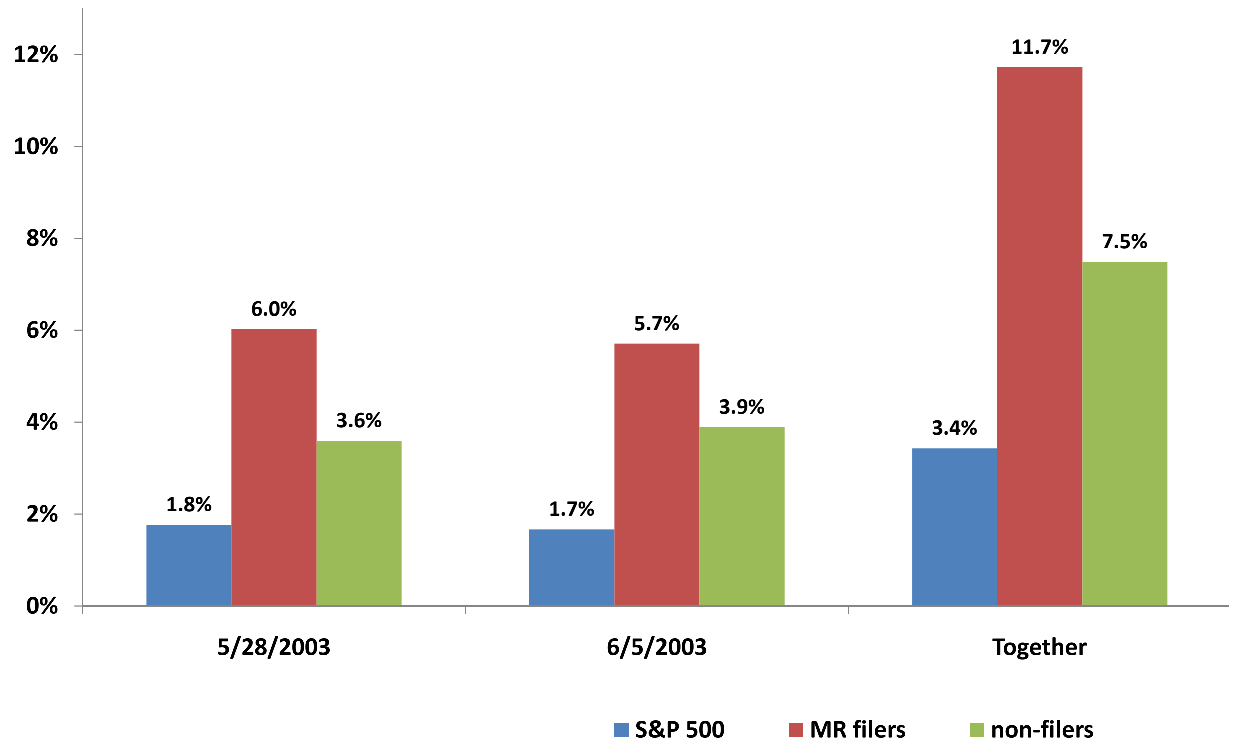


Table IA.XV
Event Study Estimations For Foreign Firms

This table presents the event study estimations for foreign firms. The Hypot. columns report the expected market responses based on the hypothesis that delays in Section 404 compliance increase market value and news of SEC determination to enforce the rule decrease market valuation (+ denotes positive expected reaction, – negative expected reaction, none denotes no expected effect and +/–denotes unclear expected effect). AA filers refers to the equal-weighted portfolio that buys all foreign companies that filed a MR and an auditor's attestation in 2006 and had market equity between $175 million and $5,600 million in 2005. no-AA refers to the equal-weighted portfolio that buys all foreign companies that filed a MR, but did not file an auditor's attestation in 2006 and had market equity between $175 million and $5,600 million in 2005. AA minus no-AA refers to the long-short portfolio. The estimations use a 120-day estimation window immediately before the event window. I estimate the market model $R_{it} = \alpha_i + \beta_{i1} \cdot \text{MKTRF}_t + \beta_{i2} \cdot \text{SMB}_t + \beta_{i3} \cdot \text{HML}_t + \beta_{i4} \cdot \text{UMD}_t + \epsilon_{it},\ E(\epsilon_{it}) = 0,\ \text{var}(\epsilon_{it}) = \sigma_\epsilon^2$ for the 120-day estimation window immediately before the three-day event window, where R_{it} is the portfolio return and MKTRF$_t$, SMB$_t$,HML$_t$, and UMD$_t$ are the return on the market, the Fama-French size, book-to-market, and momentum factors. I use the predicted normal portfolio returns for the event window to calculate cumulative abnormal returns. For large estimation windows, the cumulative abnormal returns are distributed normally with expected value of zero and variance of $3 \cdot \sigma_\epsilon^2$ (MacKinley (1997)). Two-sided z-stats are reported in square brackets. *, **, and *** denote two-sided statistical significance at the 10%, 5%, and 1% level, respectively.

#	Event Date	Event Description [Expected Effect]	AA filers		no-AA		AA minus no-AA	
			Hypot.	Actual	Hypot.	Actual	Hypot.	Actual
(1)	5/28/2003	SEC Press Release No. 2003-66 & WSJ article: "SEC Sets a New Rule Aimed at Companies' Internal Controls" [setting the deadlines, market expected earlier deadline]	+	0.35% [0.32]	+	0.59% [0.40]	+/–	–0.24% [–0.16]
(2)	6/5/2003	SEC Final Rule No. 33-8238: Rule giving one-year delay of Section 404 compliance for accelerated filers and 2 years for non-accelerated filers [setting the deadlines, market expected earlier deadline]	+	1.74% [1.66]*	+	1.20% [0.82]	+/–	0.54% [0.39]
(3)	5/16/2006	SEC Press Release No. 2006-75 & WSJ article: SEC Won't Exempt Small Firms From Controls Rules. [SEC signals resolution to continue the implementation of Section 404]	–	–2.44% [–3.04]***	–	–1.00% [–1.39]	–	–1.43% [–1.86]*
(4)	11/10/2006	SEC Press Release No. 2006-172 & WSJ article: Business Wins Its Battle to Ease A Costly Sarbanes-Oxley Rule [SEC promises guidences that save money]	+	–0.05% [–0.05]	+	1.57% [1.54]	–	–1.62% [–2.22]**

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