

POSTGRADUATE SEMINAR SERIES

Topic Defence Seminar

Topic Title: **Playing it Safe: Undisclosed SEC Investigations and CEO Inside Debt Holdings**

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Abstract : Executive inside debt, such as CEO pensions and deferred compensation, is designed to align executives' interests with creditors by rewarding long-term firm stability. This study examines whether CEOs alter these debt-based incentives when their firm faces non-public regulatory scrutiny. Specifically, we test if an undisclosed SEC investigation, a confidential regulatory probe signaling potential misconduct, prompts CEOs to preemptively reduce their inside debt holdings. By addressing this underexamined context, I shed light on how latent enforcement risks influence managerial incentive decisions.

Preliminarily, I find that CEOs substantially decrease their inside debt holdings when their firm becomes the subject of an undisclosed SEC investigation. This reduction is more pronounced for investigations that are material than less material investigation. I further find an amplified decrease in financially constrained firms, for risk-averse CEOs, and under conditions of elevated business uncertainty. These patterns suggest that executives actively seek to safeguard personal wealth in response to regulatory threats, engaging in a shift in compensation structure that weakens the intended alignment between CEOs and creditors. The findings have important behavioral and governance implications: non-public regulatory scrutiny can reshape the design of executive compensation before any formal or public sanction. By documenting this mechanism through which regulatory pressure alters deferred pay, the study contributes to the literature on executive compensation and regulatory enforcement and enhances our understanding of how oversight influences managerial incentives.

Date : **10 April 2025, Thursday**
Time : **11:00 – 12:30**
Venue : **SEK210, 2/F, Simon & Eleanor Kwok Building**
Language : **English**



*** All are Welcome ***