

How Do Multiple Regulators Regulate? Evidence from Fairness Opinion Providers’ Conflict of Interest Disclosures

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Abstract: Producing and disseminating financial reporting disclosures often involves multiple parties operating under multiple regulators. An important setting in which this occurs is for mergers and acquisitions, where companies disclose potential conflicts of interest related to fairness opinions provided by investment banks. This disclosure process involves two regulators: the Securities and Exchange Commission (SEC), which oversees companies disseminating these disclosures in public filings, and the Financial Industry Regulatory Authority (FINRA), which regulates the investment banks producing the conflict information. Using this dual-regulatory setting, we examine how different enforcement arrangements affect disclosure quality. We find that both regulators are effective when enforcing independently. However, the impact of the dual-regulatory regime depends on which regulator provides incremental oversight. When FINRA begins enforcing transactions previously overseen only by the SEC, disclosure quality improves, as FINRA’s information production expertise enhances the SEC’s dissemination oversight. Conversely, when both regulators are present compared to FINRA alone, disclosure quality decreases, indicating that FINRA inefficiently delegates enforcement tasks to the SEC. Our findings highlight nuances for disclosure outcomes from adding an incremental regulator, providing insights for designing effective multi-regulator disclosure regimes, and demonstrating how overlapping regulatory authority affects financial disclosure quality.

Keywords: Conflict of Interest, Disclosure, Fairness Opinion, Mergers and Acquisitions, Enforcement, FINRA, SEC, Courts, multiple regulators.

JEL Classification: K22, M48, G28, G34, G38.

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1. Introduction

Whether the interaction between different regulatory bodies in the enforcement process enhances or worsens regulatory oversight has long been a subject of debate (Marks and Hooghe 2003, Inman and Rubinfeld 1997). Previous banking studies (Agarwal et al. 2014, Nicoletti 2018, Bischof et al. 2022, Kim and Kim 2023) examine cases where multiple regulators oversee the same regulatee, yielding mixed results. However, financial disclosure often involves a fundamentally different regulatory structure: multi-regulator disclosure regimes where parties with distinct roles (information producers versus disseminators) operate under separate regulators. Despite the prevalence and importance of such multi-regulator disclosure regimes, research on their joint effects remains limited.

We advance such research by studying the interaction of two regulators, focusing on conflict of interest (COI) disclosures related to fairness opinions (FOs) providers in mergers and acquisitions (M&A) involving publicly traded target firms. The setting allows us to examine how disclosure quality is affected by the interaction of two important financial regulators: the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). Investment banks providing fairness opinions possess the most detailed information about their COIs and communicate this to their client firm's board (FINRA requirement). The client firm then includes this information in public filings (SEC requirement for mergers only).

Analyzing how the SEC and FINRA interact in enforcing FO COI disclosures is important because FOs are widely used in M&A transactions to satisfy board fiduciary duties. Although FOs are not legally required in M&A transactions, targets' and/or acquirers' boards of directors often engage third-party investment banks as FO providers to issue them. These opinions typically include financial statement analysis, revenue or earnings projections, and benchmarking to evaluate the fairness of the proposed deal price. FOs have become a standard due diligence tool, particularly following the landmark Delaware case *Smith v. Van Gorkom*, which legitimized their use in board decision-making (Bebchuk and Kahan 1989, Bowers and Latham 2004, Imperatore et al. 2024). Courts recognize FOs as tangible evidence of board diligence, and firms face heightened litigation risk from inadequate diligence (Bowers and Latham 2004,

Tuch 2020). As a result, 80% of target firms and 37% of acquirers obtained FOs between 1994 and 2003 (Kisgen et al. 2009). In our sample from 2000 to 2015, an FO was present in 75.32% of deals, reflecting the continuing widespread usage of FOs in M&As.

FOs can provide incremental information to deal parties, impose constraints on valuation, and discipline deal terms (e.g., DeAngelo 1990, Cain and Dennis 2013, Liu 2020). However, because FO preparation involves significant subjectivity, FOs can be biased and uninformative (e.g., Bebchuk and Kahan 1989), particularly when there are COIs between a client's management and the investment bank providing the opinion. For example, investment banks may tailor valuation techniques or assumptions to support management's preferred transaction price,¹ especially when they have potential COIs with deal parties. These incentives compromise the credibility of FOs and might mislead boards and investors into approving value-destroying deals (Kisgen et al. 2009, Guernsey 2018). Given that much of the COI information is proprietary (e.g., investment banks' personal, financial, and business interests with the client or the counterparty in the M&A) and not easily verifiable by outsiders, regulatory oversight by both the SEC and FINRA plays a critical role in ensuring disclosure credibility. Thus, understanding how the SEC and FINRA interact in mandating and enforcing COI disclosure is important, and our setting provides an institutional environment to evaluate this interaction.

Although both the SEC and FINRA provide regulatory guidance on COI disclosure (see Figure 1 for an illustration of the setting), fundamental differences exist between the two regulators in their roles, enforcement capacity, and regulatory expertise. The SEC, a government agency with stronger enforcement capacity, oversees the dissemination of COI information through public filings such as proxy statements. The SEC does not require FO COI disclosures in all M&A transactions but has long required such disclosures in mergers and deals requiring shareholder votes (e.g., Badawi et al. 2023). The SEC comment letter process is the primary enforcement mechanism for disclosure violations in M&A filings. Research indicates this process improves disclosure compliance (e.g., Bens et al. 2016, Bozanic et al. 2017, Johnston

¹ There are a number of studies discussing the conflicts between managers and shareholders in M&A transactions (Hartzell et al. 2004, Wulf 2004, Fich et al. 2011, Qiu et al. 2014, Imperatore et al. 2024).

and Petacchi 2017, Brown et al. 2018, Cunningham et al. 2017). However, due to the strict timeline of the SEC's review and the complexity of M&A filings (e.g., Johnson et al. 2023), SEC staff may lack the time and resources to thoroughly investigate low-quality COI disclosures.

In contrast, FINRA, a self-regulatory organization (SRO) with relatively limited enforcement capacity, focuses on the production of COI information by requiring investment banks to disclose potential conflicts to their clients. Since late 2007, FINRA has required its members (i.e., investment banks) to disclose COIs for all M&A transactions to a client firm's board when preparing FOs. FINRA conducts routine reviews and enforces all relevant rules, including those related to FO COIs, through its broker-dealer examination program, which evaluates the effectiveness of internal controls in ensuring regulatory compliance. However, as an SRO, FINRA's incentives and enforcement rigor have been questioned (DeMarzo et al. 2005), and the specific scope and depth of its broker examinations are generally unknown to the public.

Given that the SEC and FINRA oversee different entities involved in the same transaction while differing in enforcement strength and regulatory expertise, the effectiveness of their interaction is unclear ex-ante. The SEC brings stronger enforcement capacity but focuses on information dissemination, while FINRA has specialized knowledge of investment banking practices but weaker enforcement authority. We contend that the effectiveness of dual oversight depends on which agency provides incremental oversight to an existing regulatory regime, as this determines whether their different strengths complement or substitute for each other.

When FINRA provides incremental oversight to transactions previously regulated only by the SEC, FINRA's involvement can complement SEC oversight by improving the quality of COI information production, thereby enhancing the overall quality of firms' disclosures. In this scenario, FINRA's specialized expertise in monitoring investment banks strengthens information production, while the SEC ensures proper dissemination through client firms, resulting in higher disclosure quality through a complementary regulatory role.

Conversely, when both regulators are present compared to FINRA-only enforcement, the incremental involvement of the SEC may lead to a substitution effect. FINRA may reduce its enforcement intensity, expecting the SEC to oversee disclosure through client firms, especially given the SEC's stronger regulatory authority.² Given that FINRA focuses on investment banks while the SEC focuses on firms, this implicit delegation may create gaps in oversight, particularly over information production by investment banks, potentially leading to lower disclosure quality compared to the FINRA-only enforcement.

We exploit variation in SEC enforcement due to deal type (i.e., merger vs. tender offer), and change in FINRA oversight depending on the year of the transaction (before vs. after 2007), to analyze COI disclosure qualities under the jurisdiction of zero, one, or two regulators. Before 2007, only mergers faced COI disclosure requirements under SEC enforcement (i.e., SEC-only oversight), whereas tender offers had no such requirements (i.e., no regulatory oversight). After 2007, FINRA required COI disclosures for all transactions, meaning mergers became subject to dual enforcement while tender offers became subject to FINRA-only oversight.

Our empirical strategy examines how COI disclosure quality changes under different types of regulatory oversight. Focusing on a sample of M&A transactions involving publicly traded target firms, we collect data on firms' disclosure of FO COIs in their SEC filings.³ To mitigate concerns that firms with different deal structures may have potentially varying incentives to disclose COIs, we restrict our sample to transactions that include explicit FO COI disclosures in their SEC filings, allowing us to evaluate disclosure quality conditional on the decision to disclose. Additionally, to ensure comparability across transaction types, we apply an entropy balancing procedure to ensure that client firms in tender and merger offers have comparable characteristics. We then manually code the quality of information about the FO

² Prior research (Eaton et al. 2022, Imperatore et al. 2024) shows that client firms' managers influence investment banks' FO valuations, as they are the ones who select the bank responsible for producing the FO. As a result, SEC enforcement can create incentives for client firms to pressure investment banks to enhance COI disclosures, even though the SEC does not directly regulate the COI disclosure production process.

³ We limit our sample to public targets for two main reasons. First, this focus aligns with the SEC's mandate to protect public shareholders and allows us to observe SEC filings where both SEC and FINRA oversight may influence disclosure quality. Second, public company filings provide a consistent setting for measuring disclosure quality across different regulatory regimes.

providers' COIs, including financial, business, and personal relationships, as well as contingent fee arrangements. We define high-quality disclosures as those that provide specific details regarding the nature of the COI.

Using manually collected and coded data on COI disclosure quality, we first show the effectiveness of a single regulator in overseeing COI disclosures. We find an increase in the quality of FO COI disclosures with a single regulator relative to no regulator, demonstrating the efficacy of single regulator oversight.

We next examine the incremental effect of one regulator when added to existing oversight by comparing transactions under single versus dual regulatory regimes. To assess FINRA's incremental effect, we compare cases of SEC-only oversight (i.e., mergers before 2007) with those under joint SEC and FINRA oversight (i.e., mergers after 2007), using the SEC-only regime as the benchmark. This sample allows us to isolate the impact of FINRA as the incremental regulator. We find a positive and statistically significant coefficient on FINRA, consistent with a complementary relation, indicating that FINRA reinforces SEC oversight. To assess the SEC's incremental effect, we compare tender offers under FINRA-only oversight with mergers under joint oversight (both after 2007), using the FINRA-only regime as the benchmark. We find a negative and statistically significant coefficient on SEC, indicating that disclosure quality is lower under joint oversight compared to FINRA-only oversight, suggesting a substitutive relation.

These results are consistent with our hypotheses that the effect of a dual-regulatory regime depends on which agency acts as the incremental regulator. When FINRA enters after the SEC, the SEC's strong enforcement is already in place, and FINRA's oversight of information production and quality can complement and enhance SEC enforcement. In contrast, when the SEC is the incremental regulator, FINRA may reduce its monitoring intensity of investment banks, expecting the SEC to enforce disclosures through its oversight of client firms' SEC filings, especially given the SEC's stronger enforcement authority. Reduced monitoring intensity of investment banks' COI information production by FINRA may not, however, be fully offset by SEC disclosure enforcement.

To substantiate this interpretation, we examine how the strength of the complementary or substitutive relation varies with the effectiveness of SEC oversight. First, we examine the role of SEC

resource constraints. SEC oversight weakens during busy periods due to resource constraints (Gunny and Hermis 2020, Ege et al. 2020, Liu et al. 2024), diminishing both complementarity and substitution effects because the SEC is less able to enhance COI disclosure enforcement or to substitute for FINRA. Second, we test how agency conflict severity affects these relations. SEC monitoring intensifies when agency conflicts are high, such as in management buyout transactions and going-private transactions, where target shareholders face greater risks (Naughton et al. 2018). In such cases, stronger SEC oversight makes the complementary or substitutive relation with FINRA more pronounced. Third, we examine industry characteristics. SEC scrutiny is greater in regulated and litigious industries where external oversight is already high (Heese et al. 2017). We find that in such situations, the SEC's improved monitoring amplifies the interaction effects between SEC and FINRA oversight.

Our paper makes three contributions. First, we contribute to the limited empirical literature on FINRA enforcement effectiveness. Despite FINRA's important role as a major SRO overseeing investment banks, empirical research on its enforcement impact remains scarce. Most existing FINRA research focuses on fraud propensity and repercussions for individual brokers (Dimmock et al. 2018, Egan et al. 2019, Egan et al. 2022) rather than examining FINRA's broader regulatory effectiveness, particularly in disclosure enforcement. Prior literature on financial SRO enforcement regime changes has primarily examined situations where the SRO was the pre-existing regulator (e.g., Anantharaman 2012, Lennox and Pittman 2010, DeFond 2010). Our study provides empirical evidence demonstrating that FINRA enforcement alone significantly improves COI disclosure quality compared to no regulatory oversight, addressing concerns about FINRA's enforcement effectiveness given the opacity of its routine oversight of investment banks (Tuch 2014, Tuch 2020, Edwards 2017).

Second, we develop and test a novel "incremental regulator" framework for understanding multi-regulator interactions. While prior research has examined costs and benefits of overlapping regulatory mandates (e.g., Chen and Kalmenovitz 2024, Kalmenovitz et al. 2025), existing studies typically compare outcomes under single regulator versus dual regulatory oversight without considering how results depend

on which specific regulator is added to an existing regime. In contrast, we show that the effectiveness of dual oversight depends critically on which regulator provides incremental enforcement to an existing regime. When FINRA's specialized information production oversight is added to existing SEC enforcement, disclosure quality improves through complementary regulatory roles. However, when both regulators are present compared to FINRA enforcing alone, disclosure quality decreases as FINRA reduces enforcement intensity, relying on the SEC's stronger authority. The framework reveals that regulatory effectiveness depends not just on having multiple regulators, but also on which agency provides incremental oversight and its relative expertise and enforcement strength in different aspects of the disclosure process. That is, regulatory overlap can lead to either improvements or inefficiencies in disclosure outcomes, depending on the features of the pre-existing regulatory regime and the nature of the incremental regulators' roles (both in terms of enforcement strength and specialization of expertise).

Third, we extend the literature on regulatory interaction effects by providing systematic evidence on the mechanisms driving complementary versus substitutive relations. Whereas prior research documents that regulatory interactions vary with agency and regulatee characteristics (e.g., Agarwal et al. 2014, Nicoletti 2018, Charoenwong et al. 2019, Bischof et al. 2022), we show that interactions between information production-focused and dissemination-focused regulators depend systematically on the strength of the incremental regulator's oversight. Our cross-sectional tests demonstrate that interaction effects vary predictably with SEC resource constraints, agency conflict severity, and industry characteristics. These findings provide evidence on when and how multiple regulators improve disclosure outcomes, with broader implications for other dual oversight settings with similarly structured regulatory responsibilities, such as S-1 registration processes, where the SEC and FINRA coordinate to ensure proper disclosure of underwriter conflicts and terms (FINRA, 2024).

2. Institutional Setting⁴

⁴ We provide an additional detailed institutional background in Appendix A1.

2.1 FO and COIs in FO

Obtaining an FO has become an important part of a target board's M&A due diligence because of the influence of the state courts. In 1985, the Delaware Supreme Court ruled in *Smith v. Van Gorkom* that the board of Trans Union Corporation violated its duty of care when it failed to obtain an FO.⁵ Several subsequent cases established the use of FOs to meet the standard set by this case (Kisgen et al. 2009).⁶ Between 1994 and 2003, 80% of targets and 37% of acquirers obtained FOs (Kisgen et al. 2009). This disparity reflects target boards' greater litigation exposure related to their fiduciary duties in evaluating merger offers. In our sample from 2000 to 2015, fairness opinions were present in 75.32% of all deals, demonstrating the persistent prevalence of FOs in M&A transactions.

The FO contains valuations and financial statement analysis intended to provide insight into what a reasonable or "fair" price might be for a given company. These analyses are conducted to provide boards of directors and investors with an independent and professional opinion on the price to offer or accept in an M&A transaction. Although FOs can be prepared by consultants, CPAs, commercial banks, or appraisers, investment banks are the most common writers, and we verify that they are the only FO providers in our sample. There is considerable flexibility in the creation of FO valuations. Writers must perform an underlying valuation analysis, but there is no consensus as to which technique is the most appropriate.⁷ A weighted combination of multiple techniques is common, but the choice and weight of each technique are subjective. The measurement of key variables in each technique is also inherently subjective.

Given the subjectivity of FOs, it is particularly concerning that investment banks' COIs in these transactions are fairly frequent (Davidoff 2006). The most common conflict arises when the investment

⁵ The court did not rule that a target board needed to acquire a fairness opinion. Rather, it ruled that when evaluating a takeover proposal, boards are required to inform themselves about the corporation's sale value through a well-prepared financial analysis. Delaware statute title 8, section 141(e) states that directors are "fully protected in relying in good faith" on the opinion presented to the company "by any other person as to matters the member reasonably believes are within such other person's professional or expert competence." In *Van Gorkom*, directors claimed that they relied on the chief executive and financial officers, and the judge specified that the full protection offered to directors under section 141(e) applies only to *outside* fairness opinions.

⁶ Section 1203 of the California Corporate Code requires a fairness opinion for tender offers made by certain insiders, which is (to our knowledge) the only time that fairness opinions are required under state law.

⁷ The most common techniques include discounted cash flow, benchmark premiums, break-up value, liquidation analysis, and comparable companies (Davidoff 2006, Imperatore et al. 2024).

bank that gives one of the companies in the merger transaction financial advice is also hired to write the FO, as the fees for financial advice are likely contingent on the deal closing and are often much larger than the fees for writing the FO.⁸ In some fee structures, the FO writer is paid only when they agree that the deal is fair (Davidoff 2006). Furthermore, FO providers may have previous or ongoing business or personal relationships with managers or boards. Sometimes, the FO provider holds stock in the relevant companies and might financially benefit from an unfair deal. Even in the absence of a financial conflict, biases often remain; if advisors are heavily involved in structuring the deal, they are likely to perceive it as fair and may fail to provide investors with a truly independent perspective.

The prevalence of these conflicts may explain the common bias found in FO valuation estimates (Cain and Denis 2013, Shaffer 2024). Some scholars are cynical about the usefulness of FOs, viewing them as skewed and uninformative (e.g., Bebchuk and Kahan 1989). However, Kisgen et al. (2009) provide evidence that fairness opinions contain meaningful information. They find that both the use of an FO and the independence of the opinion writer significantly affect deal outcomes: deals with FOs have different completion probabilities, and the premiums paid vary based on whether the opinion provider has conflicts of interest. Specifically, when opinion providers are more independent (fewer conflicts), deals are more likely to be completed and premiums tend to be lower, suggesting that independent opinions provide more credible valuation constraints. Conversely, when opinion providers have significant conflicts, the disciplining effect on deal terms is weakened. These findings suggest that COI disclosures provide meaningful signals that shape investor decisions.

2.2 SEC Oversight and COI Disclosure Requirements

FOs are typically disclosed by the firm that obtained them. A patchwork of SEC regulations requires COI disclosures for mergers, but not tender offers. For mergers requiring shareholder votes, firms

⁸ Tuch (2014) reports investment banking fees from M&A in 2012 were \$17 billion. MarketWatch reported that in the first three quarters of 2020, investment banks earned \$64 billion from M&A and IPO transactions. Companies that hire FO providers pay the FO fee. The average cost per FO in the 2000s ranged from \$500,000 to \$750,000 (Kisgen et al. 2009, Liu 2020) <https://www.marketwatch.com/story/wall-street-banks-net-64-billion-in-fees-in-bumper-year-for-m-a-and-ipos-11601479432>.

must include material COI information in proxy statements and S-4 registration statements. The SEC rule aims to inform public investors about the financial advice and due diligence conducted by the board of directors in evaluating a potential merger, and to help investors assess the source and reliability of the valuations and opinions provided. COI related to either party in the transaction must be disclosed, as such conflicts could bias the opinion. Appendix A1.1 discusses the history of the SEC FO COI requirements, and Appendix A1.2 discusses the technical requirements for disclosure. Figure 2 summarizes the forms where investors may find FO COI disclosures, depending on the type of M&A transaction and whether the SEC requires it. Figure 3 provides a general timeline of FO activity, highlighting key decisions made by the board and investors throughout the deal process related to FOs.

Enforcement of these FO COI requirements falls under the SEC’s comment letter review process for M&A transactions. The SEC is required to review all M&A filings within 30 days.⁹ These reviews have traditionally been done by the SEC’s division of corporate finance. During these reviews, the SEC confirms that the filing follows SEC disclosure requirements (as mentioned above, not all M&A filings require an FO COI disclosure). If a firm fails to comply with any requirements, the SEC comment letter can encourage compliance, as an M&A transaction cannot be completed until the SEC review is complete. However, some legal scholars have suggested that, because of the sheer amount of material to be reviewed in such a short period of time, the SEC may have taken a “hands-off” position when reviewing proxy and S-4 filings for Item 1015(b) compliance (Davidoff, 2006). To the best of our knowledge, these claims have not been empirically tested.

2.2.1 Transaction Type Differences and Identification Strategy

⁹ Johnson et al. (2023) explain that the SEC reviews all S-4s related to M&A deals, but only selectively reviews proxy statements or other periodic reports related to M&A deals; the selection criteria are not publicly disclosed. Ege et al. (2020) state that all M&A and IPO transactional filings are reviewed by the SEC. The 2016 report by the U.S. Government Accountability Office (GAO) on the SEC’s internal supervisory controls (<https://www.gao.gov/assets/690/680352.pdf>) states that all M&A transactional filings are reviewed. Liu et al. (2024) find that only 31% of the mergers in the Thomson One Banker SDC database from 2005 to 2017 have comment letters; the lack of a comment letter, however, does not prove that the SEC failed to review a filing. Liu et al. (2024) also find that one of the most frequent topics in its sample for SEC comments is the FO and the valuation.

As previously mentioned, SEC disclosure requirements vary based on deal form, creating the regulatory variation that is central to our research design.¹⁰ Tender offers follow a streamlined process where bidders file a Schedule TO when the offer begins, and target firms respond within 10 business days by filing a Schedule 14D-9 (the target's recommendation statement). Critically, the SEC does not require FO COI disclosures for tender offers, meaning these filings are not subject to SEC enforcement regarding COI content. However, FO disclosure has become standard practice following the 2002 *In re Pure Resources* case, which established the precedent that targets should disclose fairness opinions to shareholders (Badawi et al. 2023). This practice is extremely widespread, with Badawi et al. (2023) reporting that 98% of Schedule 14D-9 filings between 1995 and 2019 disclosed that the target had obtained a fairness opinion.

Mergers involve more extensive SEC review requirements. Target firms must file preliminary proxy statements (PREM14A) or other disclosure documents that undergo mandatory SEC review for compliance with disclosure requirements, including COI disclosures. Additionally, in stock mergers, the acquirer must file an S-4 registration statement, which is also subject to SEC review, whereas in cash mergers, the typical acquirer disclosure requirement is an 8-K current report, which is generally not reviewed by the SEC. Only after SEC review is complete, targets file their definitive proxy statements (DEFM14A), which must be distributed to shareholders at least 20 business days before the merger vote. This review process enables the SEC to enforce COI disclosure quality through its comment letter process.

The institutional difference is useful for our identification strategy: tender offers provide transactions where fairness opinions are disclosed but COI content is not subject to SEC enforcement, whereas mergers involve mandatory SEC review of COI disclosures. Combined with the timing of FINRA's

¹⁰ The choice between mergers and tender offers is voluntary and endogenous. Both occur in waves and are pro-cyclical (Rhodes-Kropf and Viswanathan 2004, Martynova and Renneboog 2008, Lukas et al. 2023). Tender offers typically complete faster and involve higher premiums (Offenberg and Pirinsky 2015). While their use as hostile takeovers declined after the early 1990s (Bertrand and Mullainathan 2003, Andrade et al. 2001, Schwert 2000), theory often still views them as inherently hostile (Lukas et al. 2023).

COI disclosure requirements beginning in late 2007, these deal form differences allow us to observe transactions under different regulatory oversight regimes.

2.3 FINRA Oversight and Rule 5150

FINRA is a self-regulatory organization that oversees investment banks and broker-dealers.¹¹ Under FINRA, investment banks providing fairness opinions are required to disclose any conflicts of interest to the client firm's board. This mandatory requirement was created in late 2007 with the passing of Rule 2290, which has since been renamed Rule 5150.¹²

This disclosure requirement operates through a specific process established by the rule. Investment banks typically provide their FO to the firm's board of directors as an oral report or as a letter with an average length of two to four pages. The board is then responsible for reporting the FO and COI disclosures to its shareholders (See Figure 2 for where to find FOs). Investment banks do not have an alternative reporting mechanism for investors to verify that a board of directors has not tampered with or abbreviated the FO.¹³ However, Rule 5150 creates a mechanism to extend culpability to the FO provider in situations where they are complicit in, or the source of, FO-related securities fraud.

2.3.1 How FINRA Oversight Influences Public Disclosure

The mechanism through which FINRA oversight influences firm-level disclosure operates via a specific regulatory channel established by Rule 5150. The rule mandates that an investment bank disclose potential conflicts to its client (i.e., the acquiring or target firm board). If the disclosed COI information is material to the transaction, the firm is legally obligated to disclose it to investors under SEC rules, GAAP, and fiduciary duty principles. This creates a credible and economically meaningful channel through which

¹¹ See Appendix A1.3 for additional discussion of FINRA's organizational structure and authority.

¹² See <https://www.finra.org/rules-guidance/rulebooks/finra-rules/5150#the-rule>.

¹³ The SEC can request all communications between the filer and the FO provider and can ask the FO provider to verify them. Therefore, the SEC could conceivably determine this information if it chooses to investigate.

FINRA's regulation of information production can influence firm-level public disclosures, particularly when FINRA acts as the incremental regulator and the SEC is the incumbent regulator.

Boards that receive material COI information from investment banks face strong incentives to include it in proxy filings, both to fulfill their disclosure obligations and to reduce legal liability risk. In this way, FINRA oversight enhances disclosure quality not by directly mandating transparency to investors, but by improving the precision and credibility of COI information that firms may be compelled to disclose.

3. Hypothesis Development and Literature Review

We examine whether the effectiveness of each regulator's oversight affects COI disclosure quality and study the regulators' potential interactions in overseeing COI disclosures. Although both regulators regulate the same disclosure, each has authority over a different regulatee: the SEC over firm managers who create the filings in which FOs are disseminated to the public, and FINRA over FO providers (see Figure 1). The regulatees need to work jointly to generate informative COI disclosures. FO writers have the most information about their COIs and should communicate this information with their client's board of directors. Managers, with board oversight, then disseminate both the FO and the FO provider's COI information to investors through M&A disclosures filed with the SEC. Each regulator has its strengths and challenges in overseeing FO COI disclosures, and we examine how their interactions affect FO COI disclosure quality outcomes.

3.1 SEC Oversight and Disclosure Quality

The literature has generally found that the SEC comment letter process is associated with higher disclosure quality (e.g., Bens et al. 2016, Bozanic et al. 2017, Johnston and Petacchi 2017, Brown et al. 2018, Cunningham et al. 2019). Ege et al. (2020) view the SEC comment letter process as an enforcement mechanism against potential disclosure violations. Given the literature's strong endorsement of the comment letter process and the fact that the SEC is required to review all M&A transactions, the SEC comment letter process is likely the main source of enforcement for COI disclosures by FO providers (Ege

et al. 2020, Liu et al. 2024, Johnson et al. 2023). Although all M&A filings are reviewed to ensure compliance, only selected filings are required to disclose COIs for FO providers. Thus, we predict that when the SEC requires a registrant involved in an M&A transaction to disclose the COI of its FO providers (rather than the COI being a voluntary disclosure), the quality of the COI disclosure in related filings will be higher.

However, legal scholars have argued that the SEC has historically under-enforced COI disclosures (Davidoff 2006, Herlihy et al. 1992). To our knowledge, these claims have not been empirically tested. There are several reasons why SEC oversight of COI disclosures might have limited impact on disclosure quality. First, SEC staff may lack sufficient time and resources to thoroughly investigate COI disclosures. Prior research documents that SEC resource constraints affect review quality, though these studies examine variations in individual comment letters rather than systematic enforcement failures (e.g., Ege et al. 2020, Gunny and Hermis 2020). Second, the SEC faces significant time pressure, as Johnson et al. (2023) explain that the reviews are expected to be completed within 30 days. Given the length and complexity of M&A filings and the tight 30-day timeline, SEC staff likely must prioritize which issues to address during their review.

3.2 FINRA Oversight and Disclosure Quality

FINRA's regulatory oversight could increase COI disclosure quality for all firms with FOs. FINRA might have an advantage over the SEC in improving COI disclosure quality for several reasons. First, FINRA operates through a different mechanism than the SEC. While the SEC requires firms to include COI disclosures in their filings, FINRA mandates that investment banks produce detailed COI information when providing fairness opinions. This creates an indirect effect on disclosure quality: when investment banks provide comprehensive COI information under FINRA oversight, firms have access to higher-quality information to include in their SEC filings. The SEC might lack the industry-specific expertise to evaluate FO COI disclosures effectively, whereas FINRA's specialized oversight of investment banks, who possess the most complete information about their conflicts with M&A parties, improves both the precision and

credibility of COI information that firms disclose to investors. Second, FINRA regulation is not contingent on merger structure or filing type, but on the membership of the FO provider, providing more consistent oversight across different transaction types.

FINRA, though overseen by the SEC, is a self-regulatory organization (SRO). Theoretical research predicts that SROs tend to under-regulate their members (DeMarzo et al. 2005, Fogarty 1996), though DeMarzo et al. (2005) suggest that SEC oversight can increase SRO regulatory outcomes when under-enforcement occurs. However, Tuch (2014) raises doubts about FINRA's oversight effectiveness in practice. Examining all FINRA enforcement actions between January 2008 and June 2013, Tuch (2014) finds no public censure of investment bankers for merger-related activities, including violations related to COI disclosures. While perfect compliance could explain this absence, Tuch notes that high-profile cases such as *re Del Monte Foods Co.* and *re El Paso Corp.* occurred during this period, suggesting compliance issues likely existed.

An alternative explanation is that Tuch's analysis captures only publicly disclosed sanctions. FINRA acknowledges that it sometimes takes informal enforcement actions that are not made public and are typically less severe than formal sanctions. Additionally, FINRA's most routine compliance mechanism is broker examinations, but no information about which firms are reviewed, examination topics, or identified deficiencies is publicly disclosed.¹⁴ As FINRA is required to disclose only formal enforcement actions, it is difficult to determine the full extent of its enforcement activity.¹⁵ The opaque nature of FINRA enforcement is a key reason we focus on changes in disclosure quality.¹⁶

¹⁴ For an example of the level of specificity regarding the results of the examination of brokers, see <https://www.finra.org/rules-guidance/guidance/reports/2023-finras-examination-and-risk-monitoring-program>.

¹⁵ It is also possible that FINRA may fully delegate enforcement to the SEC. In the *In re Rural Metro* case, the SEC Division of Enforcement fined the FO provider \$2.5 million for its role in proxy statement disclosure violations. (<https://www.sec.gov/newsroom/press-releases/2016-174#:~:text=The%20SEC%20also%20found%20that,and%20supervised%20by%20Timothy%20England.>)

¹⁶ Another potential consideration is regulatory capture, in which regulators get captured by the regulatee and their objective is to please the regulatee (e.g., Stigler 1971, Posner 1974, Peltzman 1976, Becker 1983). While it is institutionally unlikely for the SEC, FINRA might be subject to this concern given that it is funded by broker-dealers. We examine the lobbying activity surrounding the introduction of Rule 5150 and find there were 19 organizations that lobbied FINRA when Rule 5150 was proposed. Of the 19 organization, all FINRA members were against the rule,

Given the above conceptual arguments for and against each regulator's impact on COI disclosure quality, we state the null hypothesis as follows:

H1: Each regulator (SEC and FINRA) has no association with the quality of FO COI disclosure.

3.3 Regulatory Interaction Effects on Disclosure Quality

Although both regulators in our setting share the objective of obtaining clear and complete COI disclosure,¹⁷ each regulator has jurisdiction over a different party involved in the disclosure. The SEC's comment letter process enforces regulation on filers, which are firm managements. FINRA has enforcement authority over the FO provider, but not over the management or the board of directors. Each regulator oversees a different regulatee in the same financial reporting disclosure, and regulatees need to work jointly to provide informative financial reporting disclosure, which makes regulators' interactions and co-existence important for disclosure outcomes. Conditional on regulators effectively enforcing the disclosure rules (*H1*), we examine the interaction effects among the two regulators (if any).

In our setting, dual regulators can have both positive and negative effects on disclosure quality. The presence of FINRA enhances the production of COI information by requiring investment banks to disclose potential COI information to their clients. FINRA regulation likely increases managers' certainty about the FO provider's COI status, as the FO provider faces substantial fines and possible expulsion from the profession for failing to disclose such COI information. Both information production and dissemination are necessary for informative SEC filings and are thus complements. Therefore, regulatory efforts can be complementary: FINRA improves disclosure quality by enhancing information production, while the SEC focuses on the dissemination of that information. When FINRA regulation increases managers' information

while the investor groups such as AFL-CIO Office of Investment and OPERS supported the rule and called for additional rules to prevent FO COIs.

¹⁷ The SEC's desire for high-quality COI disclosures would stem from their mandate to protect minority investors and the efficiency of markets. The Division of Corporate Finance has this objective because it is what is required to be compliant with current securities regulation. FINRA's desire for clear and complete COI disclosures would stem from their desire to protect the perceived ethical standing of the investment banking profession, similar to how the bar association has an incentive to enforce lawyer's COI disclosures to clients to protect the profession.

precision regarding the FO provider's COI, the SEC can more effectively enforce disclosure requirements and thus dual regulation would improve disclosure quality. Alternatively, the introduction of FINRA as a regulator for FO providers could reduce the SEC's attention to FO COI disclosures, given that FINRA specializes in regulating FO providers and the SEC may expect FINRA to take primary responsibility. If so, dual regulation would decrease COI disclosure quality.

Similarly, FINRA may anticipate that the SEC will provide strong oversight of COI disclosures through its review of client firms' filings. As mentioned previously, the SEC's comment letter process is widely regarded as a robust monitoring mechanism, especially given the SEC's prioritization of M&A activity (Johnson et al. 2023). While the comment letter process targets disclosing firms, prior research suggests that managers can influence FO providers, implying that SEC enforcement can indirectly incentivize client firms to pressure investment banks to improve COI disclosures (Eaton et al. 2022, Imperatore et al. 2024). As a result, FINRA may expect the SEC to act as the primary regulator when both regulators are in place. However, when both regulators are present, FINRA may rely on the SEC's oversight of disclosing firms and reduce its own monitoring of FO providers' COI information production. Because the SEC focuses on disclosing firms rather than directly overseeing FO providers, this could result in lower disclosure quality compared to a FINRA-only regime.

The impact of dual oversight on disclosure quality depends on which agency acts as the incremental regulator. When the SEC is the incremental regulator, the substitutive relationship between the two becomes more pronounced. Given the SEC's strength in transparency and enforcement, FINRA may defer certain responsibilities to the SEC, relying on its enforcement capacity. However, this delegation may reduce oversight of information production, potentially compromising COI disclosure quality. In contrast, when FINRA is the incremental regulator, the complementary relation becomes more salient, as FINRA contributes domain-specific expertise to regulating information production, while the SEC focuses on information dissemination.

We formalize our hypotheses about regulatory interaction effects on disclosure quality as follows:

H2A: When FINRA provides incremental oversight to transactions previously overseen only by the SEC, disclosure quality improves due to complementary regulatory roles.

H2B: When both regulators are present compared to FINRA-only oversight, disclosure quality decreases due to substitutive effects in regulatory oversight.

4. Data and measurement

4.1. Sample selection

Table 1 outlines our sample selection. From SDC Platinum, we obtain all M&A transactions announced between January 2000 and December 2015 involving publicly traded U.S. target firms (where acquirers may be public or private). For these 8,350 deals, we examine SEC filings to extract FOs. We use textual analysis with a Python script to examine the following SEC filings for acquirer and target firms: S-4, S-4/A, DEFM14A, DEF14A, DEFR14A, and SC14D9 and arrive at a sample of 6,139 M&A with FOs, consisting of mergers and tender offers. As we describe in detail below, the highly technical nature of COI disclosure precludes automating its collection, and the manual collection process is time-consuming. We thus limit our data collection of COI disclosures to a random sample of deals. To determine the random sample size, we perform a power analysis with the following parameters: i) statistical power equal to 80%; ii) significance level equal to 5%, and iii) expected effect size between 0.1 and 0.5.¹⁸ The results of the power analysis suggest that the (minimum) sample size should lie between 29 and 861 observations. Thus, we select a random sample of 900 observations and further require the observations to be equally distributed before and after 2007 within our sample period from 2000 to 2015.

We obtain data on firm characteristics from COMPUSTAT, information on M&A deal transactions, including advisors, from SDC, and information on the number of SEC filings and SEC

¹⁸ In determining the optimal sample size, researchers specify a null hypothesis and an alternative hypothesis. In the null hypothesis, the effect size is zero as no effect is expected. In the alternative hypothesis, the effect size takes on a specific value (i.e., the minimum detectable effect size). We estimate the minimum detectable effect size on the basis of the pilot study described in section 4.2 considering the mean and standard deviation of COI disclosure in mergers and tender offers.

comment letters from WRDS Suite and Audit Analytics. We check if each of these 900 observations has the control variable information, we require for our regression analyses and drop the 159 observations that do not. Above all, we exclude FOs for which a COI could not be identified.¹⁹ This ensures that our measure of COI disclosure captures differences in disclosure practices rather than differences in the presence of COIs. Finally, we check the remaining 549 observations and confirm that the FO provider is always an investment bank so that the FO provider is subject to FINRA oversight after 2007 and the pre-2007 observations are comparable to the post-2007 observations.

4.2. FO COI disclosure quality

Our analyses rely on a proprietary, hand-collected database of FO COI disclosures and self-constructed disclosure indices. The analysis of textual data and construction of indices related to FO COIs are not trivial tasks. Challenges arise due to several factors, such as: 1) variation in the choice of words used to describe COIs, and 2) significant differences in FO information, even within a single filing type, especially when multiple FO providers are involved.²⁰ These complexities can lead to errors in textual analysis when attempting to identify sentences pertaining to FO COIs. Such features of COI disclosure imply that mechanized linguistic tools, such as automated text analysis software, are not suitable and can lead to noisy results. Therefore, we perform manual coding as it enables a more precise, detailed, and meaning-oriented analysis (Li 2010).

Despite its benefits, meaning-oriented content analysis can suffer from the subjectivity and possible lack of reliability of the coding procedures. We deal with intra- and inter-coder subjectivity issues in several ways. Following Breton and Taffler (2001), we first define the coding procedure and rules. Then, we perform a pilot test during which three co-authors independently apply the coding procedure to a sub-sample of six FOs covering firms of various sizes and in different periods. We discuss the results of the

¹⁹ A COI is unambiguously disclosed in 87.17% of cases. By excluding the remaining cases, we avoid concerns about whether non-disclosure reflects a true absence of COIs or non-compliance with disclosure requirements.

²⁰ In our sample, multiple FOs are present in 6.19% of the cases. Notably, results hold if we exclude these cases.

coding and resolve disagreements. We calculate the agreement ratio to assess reliability. The overall agreement rate is more than 95%, which we consider satisfactory. We then share the coding procedure with twelve coders. The twelve coders go through a selection process based on a pilot test on the same set of deals screened by the three co-authors. Coders with a high percentage of disagreement relative to the co-authors' coding are not considered for the subsequent data collection, which, hence, involves only eight coders.²¹ The coding is performed in three waves, and each wave entails the coding of 300 FOs, 150 before and 150 after 2007. The 300 FOs were subsequently allocated among the eight coders so that every coder was in charge of coding between 37 and 44 FOs for each wave.

To mitigate potential concerns that different deal structures may have varying COI disclosure incentives, we restrict our sample to transactions that include explicit FO COI disclosures in their SEC filings. We calculate our composite measure of COI disclosure quality based on compliance with *SEC Regulation M-A on Fairness Opinion Conflict of Interest Disclosures*. The SEC mandates that companies disclose whether i) the FO provider will receive compensation or any other significant payment that is contingent on the successful completion of the transaction (*COI Contingent Fees*), and ii) the company and FO provider had any material relationships during the past two years (*COI Material Ties*).²²

²¹ We recognize that the quality of COI disclosure can be affected by the intensity of M&A activity in the period before the deal takes place. Specifically, both SEC and FINRA require FO writers to inform investors about the existence of material ties with deal parties in the two years before the deal is announced. If the two years are characterized by a smaller number of M&A activities, COIs due to past ties are less likely to arise with relevant implications for the need and quality of COI disclosure. We alleviate this concern by comparing the time trend in M&A deals with time-series variation in COI disclosure. We fail to find a significant correlation between the two temporal variations, thus reducing the concern that COI disclosure proxies reflect time-series variation in M&A deals.

²² FINRA 5150 rule requests three COI items: *FINRA Contingent Fees*, *FINRA Additional Fees*, and *FINRA Material Ties*. Thus, SEC and FINRA COI disclosure requirements largely overlap, further reinforcing the notion that the SEC and FINRA have overlapping enforcement responsibilities in terms of FO COI disclosure. To confirm this intuition, we use a principal component analysis to assess whether the two COI disclosures reflect a common construct (i.e., COI in FOs). FINRA COI disclosure is measured following the same procedure we used for SEC regulation. Thus, for each FINRA COI item, we allocate a score ranging from one to three. The principal component analysis reveals that the SEC COI disclosure items and FINRA COI disclosure load on one common variable confirming the overlap between SEC and FINRA COI disclosure rules.

Although the SEC requires this information for merger deals, firms have discretion in how comprehensively they comply with these requirements. We use this variation in compliance depth as our proxy for COI disclosure quality. For *COI Contingent Fees*, we assign a score of 3 when the firm provides detailed disclosure including: the dollar amount of the bank's compensation, the fee structure, and sufficient detail to determine the ratio of advisory to opinion fees; a score of 2 if any two of the following are disclosed: dollar amount, fee structure, or advisory-to-opinion fee ratio; and a score of 1 if only one of these is disclosed. For *COI Material Ties*, we assign a score of 3 when the firm provides detailed disclosure including: the nature of prior relationships, future relationship arrangements, and fees from past relationships; a score of 2 if any two of the following are disclosed: nature of prior relationships, future relationship arrangements, or fees from past relationships; and a score of 1 if only one of these is disclosed. Our final measure (*COI_score*) sums both COI item scores and divides by the maximum possible score of six. Thus, our measure captures the extent to which each firm's COI disclosure complies with SEC requirements. We report coding rules in Appendix A2 and examples in Appendix A3.

5. Research design and main results

5.1. Research design

Our empirical strategy is to examine how firms' COI disclosure quality changes under different regulatory regimes. Specifically, we identify four distinct regulatory regimes: (1) when COI disclosure is not subject to SEC or FINRA oversight, (2) when it is subject only to SEC oversight (i.e., SEC-only), (3) when it is subject only to FINRA oversight (i.e., FINRA-only), and (4) when it is overseen by both the SEC and FINRA (i.e., joint SEC-FINRA oversight). These regimes arise from the variation in SEC requirements by deal type and the introduction of FINRA requirements in late 2007, as described in Section 2.

We recognize that mergers and tender offers can differ in characteristics and parties involved, which may influence FO COI disclosure quality. While COI disclosures are not explicitly required for tender offers, firms remain obligated under SEC rules to disclose all material information to shareholders, and face litigation risk for failure to do so. As a result, incentives to disclose material COIs should be similar

across transaction types. Supporting this view, we find comparable COI disclosure rates: 90.1% in tender offers and 86.3% in mergers. This difference is not statistically significant both before and after FINRA enforcement ($p = 0.55$ pre-2007, and $p = 0.63$ post-2007), suggesting that most firms disclose COIs regardless of SEC regulatory requirements. Additionally, we apply entropy balancing to ensure client firms in tender offers and mergers have comparable characteristics.²³ This approach helps isolate the effect of regulatory oversight by minimizing confounding differences between transaction types.²⁴

5.1.1 Standalone Effects of SEC and FINRA

We start our analysis by examining the standalone effects of SEC regulatory enforcement and FINRA enforcement on COI disclosure by estimating the following two regression equations:

$$y_{imt} = \alpha_{imt} + \beta_1 SEC_{im} + State_{im} \times Industry_{im} Fixed\ effects + Year\ trend + \gamma'X_{imt} + \varepsilon \quad (1)$$

$$y_{imt} = \alpha_{imt} + \beta_1 FINRA_t + State_{im} \times Industry_{im} Fixed\ effects + Year\ trend + \gamma'X_{imt} + \varepsilon \quad (2)$$

where i indexes the firm, m indexes the type of M&A transaction (i.e., merger or tender offer), t indexes years, and y is the dependent variable (i.e., firm's COI disclosure quality). We use Eq. (1) to analyze the standalone effect of SEC oversight by including an indicator variable (SEC) that equals one if the client firm is involved in a merger and zero otherwise. In Eq. (2), we study the standalone effect of FINRA oversight by including an indicator variable ($FINRA$) that equals one after the FINRA COI disclosure regulation goes into effect (i.e., post-2007) and zero in the pre-period.

²³ We apply entropy balancing to ensure mergers and tender offers are balanced on client firm performance, book-to-market ratio, presence of a loss, leverage, asset turnover, deal size, deal length, method of payment, premium, industry fixed effects, and whether the deal occurs before or after 2007. We use both first and second moments to better account for distributional differences in covariates. Unlike propensity score matching, entropy balancing does not reduce sample size and allows us to account for distributional differences between treatment and control firms. Nevertheless, our results remain robust when using propensity score matching instead.

²⁴ We include descriptive statistics of deal characteristics for tender offers and mergers before and after 2007 (i.e., before and after FINRA COI regulation introduction) in Appendix B2. We note differences across groups in deal length and method of payment, which appear to be the primary sources of heterogeneity. Regarding firm performance, proxied by ROA, the “no regulator” group (i.e., tender offers before 2007) exhibits the lowest average value. We find no systematic differences across groups for other deal and firm characteristics (e.g., firm size, and leverage).

As we are interested in the standalone effect of SEC and FINRA regulatory oversight on COI disclosure quality, we estimate Eq. (1) using a sample that includes only firms that have no regulatory oversight and firms that are overseen by only the SEC. Similarly, we estimate Eq. (2) using a sample that includes only firms with no regulatory oversight and firms that are overseen solely by FINRA. In Eq. (1), we compare the COI disclosure quality of mergers and tender offers in the pre-2007 period, while in Eq. (2), we compare the COI disclosure quality of tender offers before and after 2007. Thus, in both cases, the benchmark group consists of deals not subject to regulatory oversight. By comparing the COI disclosure quality of deals subject only to SEC (FINRA) oversight with those not subject to any regulation, we can identify the standalone effect of SEC (FINRA) oversight.

In addition to SEC oversight, deal parties are subject to state laws, which may differ in their requirements for mergers and tender offers. Moreover, firms in certain industries (e.g., financial services) may face additional regulatory scrutiny. Therefore, in Eq. (1) and Eq. (2), we include state \times FO client industry fixed effects to account for state-level and industry-specific factors. To account for time dynamics, we also add a trend variable.²⁵

In both equations, we include a vector of control variables shown in prior work to be associated with merger outcomes, which includes client firm and deal-level characteristics. Client-level controls include return on assets (*ROA*), book-to-market ratio (*BTM*), an indicator for whether the firm has an operating loss (*Loss*), leverage (*Lev*), and asset turnover (*Asset Turnover*). Merger-level controls include the natural log of the dollar amount of the deal (*Deal Size*), the number of days from announcement to completion (*Deal Length*) as in Wangerin (2019), and the percentage of cash used for payment (*Percent Cash*). Lastly, we include the natural log of the sales to the enterprise value of the target to capture potential target overvaluation (*Log(S/EV)*). In Eq. (1) standard errors are clustered at the client state of incorporation

²⁵ We use a trend variable rather than year fixed effects to avoid collinearity with the time-based FINRA enforcement variable and to maintain consistency across specifications. Our findings are robust to using year fixed effects instead of the trend variable.

and deal type level to account for the lack of independence due to potential state-determined litigation risk. In Eq. (2) standard errors are clustered at the state and industry level.²⁶

Predictions about the coefficients based on our hypothesis are as follows. In Eq. (1), β_1 measures the standalone effect for the SEC. For H1, we do not make a signed prediction, but if $\beta_1 > 0$, it is consistent with SEC oversight being positively associated with the quality of FO COI disclosures. In Eq. (2), β_1 measures the standalone effect of FINRA. Here, if $\beta_1 > 0$, it is consistent with FINRA regulation being positively associated with the quality of FO COI disclosures.

5.1.2 Incremental Effects of SEC and FINRA Given Joint Oversight

We next examine the incremental effect of SEC and FINRA regulatory oversight on COI disclosure quality by exploiting time-series and cross-sectional variation in regulatory enforcement. Specifically, we test i) the incremental effect of FINRA when the SEC is already in place (H2a), and ii) the incremental effect of the SEC when the deal is subject to FINRA (H2b), by estimating the following regression equation:

$$y_{imt} = \alpha_{imt} + \beta_1 SEC_{im} + \beta_2 FINRA_t + \beta_3 SEC_{im} \times FINRA_t + State_{im} \times Industry_{im} Fixed\ effects + Year\ trend + \gamma' X_{imt} + \varepsilon \quad (3)$$

where i indexes the firm, m indexes the type of M&A transaction (e.g., merger or tender offer), t indexes years, and y is the dependent variable (i.e., firms' COI disclosure quality). To test H2a, examining the incremental effect of FINRA when SEC is the pre-existing regulator, we estimate Eq. (3) focusing on a sample of deals that are either subject to only SEC oversight or are under the joint oversight of the SEC and FINRA. This sample allows us to compare the COI disclosure quality of mergers (that are subject to SEC scrutiny) before and after 2007, when FINRA oversight of COI disclosure was introduced. In this setup,

²⁶ In testing Eq. (2) we limit our sample to tender offers. Hence, clustering at the state-deal type level (used in Eq. 1) is no longer possible. All results remain statistically significant when clustering at the state level.

our benchmark group consists of deals subject to only the SEC, allowing us to isolate the incremental effect of FINRA scrutiny on COI disclosure quality when the SEC is the existing regulator. For H2a, a coefficient on $\beta_3 > 0$ indicates that when the SEC is the pre-existing regulator, the introduction of FINRA improves COI disclosure quality.

To test H2b, which analyzes the incremental effect of SEC oversight with respect to FINRA being the only regulator enforcing COI disclosure, we estimate Eq. (3) using a sample comprising deals subject either to FINRA oversight alone or to joint oversight by both the SEC and FINRA. Specifically, we focus on the post-2007 period (when FINRA oversight is present) and compare the COI disclosure quality of tender offers (regulated solely by FINRA) and mergers (which fall under both FINRA and SEC oversight) to isolate the incremental effect of SEC scrutiny. Thus, in this specification, our benchmark group consists of deals that are subject to only FINRA oversight. By comparing this benchmark group to deals regulated by both FINRA and SEC, we can identify the incremental effect of SEC oversight in the presence of FINRA regulation. For H2b, $\beta_3 < 0$ indicates that when FINRA is the regulator in place, the addition of SEC oversight is associated with lower COI disclosure quality.²⁷

5.2. Descriptive statistics

Table 2 presents the descriptive statistics for the variables of interest. Panel A presents the descriptive statistics for the COI-related dependent variables. By construction, the overall COI disclosure quality score ranges from zero to one. Both the mean and the median are above 0.5, suggesting that, on average, firms provide moderately high-quality FO COI disclosures. Examining the items used to construct the *COI_score*, we find that the mean disclosure quality for material past ties is lower than that for contingent fees.

²⁷ In our specifications, we control for the state of incorporation of client firms, but we do not include additional controls for SEC regional offices. Prior studies (Bozanic et al. 2017) document that SEC reviews are conducted by staff in the industry offices of the Division of Corporation Finance, all of which are located at the SEC's Washington, D.C. headquarters (SEC 2023). Thus, we use industry fixed effects to account for variation across the SEC's industry offices.

For the purpose of our analyses, we assume that COI disclosures are truthful. That is, we assume that firms either choose not to disclose or provide low-quality information rather than deliberately submitting false disclosures. Consistent with this assumption, court cases in which an FO writer is legally proven to have been dishonest are rare.²⁸ Our review of SEC comment letters shows that most requests concern either the inclusion of COI disclosures or additional details about the nature of a COI. SEC enforcement actions against firms for inaccurate COI disclosures are rare.

Finally, Panel B of Table 2 presents descriptive statistics for our variable of interest and the control variables. These data show that 78.9% of the M&A transactions in our sample undergo SEC scrutiny, primarily because they are mergers. In addition, target profits and leverage tend to be low, whereas book-to-market ratios tend to be high. The average percentage of deal value paid in cash is around 80.14%.

5.3. Main results

5.3.1 *The Standalone Effect of Each Regulator*

Turning to the regression results, Panel A of Table 3 reports the standalone effect of SEC oversight on COI disclosure quality for a sample that includes only deals not subject to any regulation or solely under SEC oversight. Column (1) presents results from estimating Eq. (1) with industry and state fixed effects and a year trend, without deal- and firm-level controls. Column (2) uses the same fixed effects with deal- and firm-level controls.²⁹ Column (3) uses state \times industry fixed effects and a year trend with all controls.

In Column (3), the positive coefficient for *SEC* (coef. = 0.158; t-stat = 3.14) suggests that COI disclosure quality is higher when a deal is subject to SEC scrutiny (i.e., mergers). Although the SEC does not directly regulate the producers of COI information (investment banks), its oversight incentivizes firms responsible for COI dissemination to pressure investment banks into producing high-quality disclosures.

²⁸ In the rare cases where we find these, such as in re El Paso Co. or re Del Monte Co., the inaccuracies always present as under-disclosures.

²⁹ We use industry and state fixed effects rather than a more demanding fixed effects structure due to the limited sample size when focusing on deals with no oversight or SEC-only oversight. The less demanding fixed effects structure helps avoid overparameterization concerns.

The magnitude of the coefficient implies that COI disclosure quality in deals subject to SEC regulation is higher by an average of 0.158 compared to deals that are not subject to SEC scrutiny, which corresponds to 6% of a standard deviation of the COI disclosure score.³⁰ The results remain consistent across alternative specifications, with positive and significant coefficients in Column (1) without controls (coef. = 0.106; t-stat = 3.06) and in Column (2) with controls (coef. = 0.128; t-stat = 3.50).

Panel B of Table 3 examines transactions that face either no regulatory oversight or FINRA-only oversight, allowing us to isolate FINRA's standalone effect on COI disclosure quality. Columns (1) and (2) present results from estimating Eq. (2) with state and industry fixed effects and a year trend, without and with deal- and firm-level controls, respectively. Column (3) uses state \times industry fixed effects and a year trend with all controls.

In Column (3), we find a positive coefficient for *FINRA* (coef. = 0.476; t-stat = 2.67), indicating an increase in COI disclosure quality after FINRA mandates investment banks to disclose COI information. The coefficient of 0.476 corresponds to an increase of 12.28% of a standard deviation of the *COI_score*. Results are consistent across specifications, with positive and significant coefficients in Column (1) without controls (coef. = 0.425; t-stat = 2.34) and Column (2) with controls (coef. = 0.423; t-stat = 2.49). The results suggest that regulatees respond to FINRA's requirement for COI disclosure.

FINRA's enforcement operates through a different mechanism than the SEC's oversight. While the SEC requires firms to include COI disclosures in their SEC filings, FINRA mandates that investment banks produce detailed COI information when providing fairness opinions. This creates an indirect effect on disclosure quality: when investment banks are required to provide comprehensive COI information under FINRA oversight, firms have access to higher-quality information to include in their SEC filings. FINRA's direct oversight of investment banks, who possess the most complete information about their conflicts,

³⁰ Given the presence of several fixed effects in our model, we follow Breuer and deHaan (2024) to compute the economic magnitude of our effects. Specifically, we multiply the regression coefficient by the standard deviation of the residualized values of the variable of interest. The residualized values of the variable of interest are obtained by regressing it on the set of control variables and fixed effects included in the model used to test the corresponding hypothesis.

gives it a comparative advantage in ensuring thorough COI information production. Additionally, because this information is material to shareholders' investment decisions, firms face legal and reputational incentives to disclose it accurately.³¹ FINRA oversight thus enhances disclosure quality not by directly mandating transparency to investors, but by improving the precision and credibility of COI information that firms are compelled to disclose.

The results in this section demonstrate that both the SEC and FINRA have positive standalone effects on FO COI disclosure quality. The institutional difference between the regulators explains the magnitude difference in their coefficients. FINRA directly regulates investment banks that produce COI information, requiring them to provide this information to client firms. In contrast, the SEC focuses on ensuring that COI disclosures are included in the SEC filings prepared by client firms. FINRA's direct oversight of information production creates more immediate impact on disclosure quality (12.28% of a standard deviation), while the SEC's influence on COI producers is more indirect (6% of a standard deviation).

These standalone effects provide the baseline for interpreting our interaction analyses in the next section, where we examine how FO COI disclosure quality varies when deals are subject to both regulators.

5.3.2 Results on the Incremental Regulatory Effect

Panel A of Table 4 presents changes in COI disclosure quality when FINRA is introduced, while the SEC is the pre-existing regulator. Columns (1) and (2) present results from estimating Eq. (3) with state and industry fixed effects and a year trend, without and with deal- and firm-level control variables, respectively. Column (3) uses state \times industry fixed effects and a year trend with all controls. Given the sample composition and model specification, the main effects of *SEC* and *FINRA* are subsumed in the intercept.

³¹ We provide supporting empirical evidence consistent with this channel. In particular, we show in supplementary analyses that FINRA's positive effect on COI disclosure quality is more pronounced in settings where firms face greater litigation risk (Table 6 Panel B) or appraisal risk (untabulated), cases in which boards are under stronger external pressure to disclose material information they receive.

In Column (3), we find a positive coefficient on $SEC \times FINRA$ (coef. = 0.295; t-stat = 5.51), indicating that COI disclosure quality improves when FINRA oversight is added to existing SEC oversight. We find similar results in Column (1) without controls (coef. = 0.259; t-stat = 5.54) and Column (2) with controls (coef. = 0.267; t-stat = 5.53). These findings are consistent with the notion that when the SEC is the pre-existing regulator, the introduction of FINRA enhances the quality of COI information.

Panel B of Table 4 examines how COI disclosure quality changes when both FINRA and the SEC are present compared to a regime with only FINRA oversight. Columns (1) and (2) present results from estimating Eq. (3) with state and industry fixed effects and a year trend, without and with deal- and firm-level controls, respectively. Column (3) uses state \times industry fixed effects and a year trend with all controls. Given the sample composition and model specification, the main effects of SEC and $FINRA$ are subsumed in the intercept.

In Column (3), we observe a negative coefficient for $SEC \times FINRA$ (coef. = -0.049; t-stat = -1.71), suggesting that when COI disclosure is subject to both FINRA and SEC oversight, its quality is lower, consistent with a substitutive relation between the two regulatory bodies. We find similar empirical evidence in Column (1) without controls (coef. = -0.037; t-stat = -2.77) and Column (2) with controls (coef. = -0.047; t-stat = -2.83).

To visually display the findings, Figure 4 presents COI disclosure quality in mergers and tender offers during the pre- and post-2007 periods. The blue line represents the effect of FINRA enforcement on COI_score when the client firm is not subject to SEC enforcement, whereas the red line shows the effect when the firm is under SEC oversight. Both lines have an upward slope, suggesting that the COI quality improves when FINRA requires investment banks to produce COI information. Moreover, in the pre-2007 period, when only the SEC is involved, COI disclosure quality is higher in mergers (red point at $FINRA=0$ and $SEC=1$) than in tender offers (blue point at $FINRA=0$ and $SEC=0$). In the post-2007 period, when FINRA enforcement takes effect, the blue line lies above the red line. This pattern implies that the gap between mergers and tender offers narrows as FINRA's involvement improves COI disclosures in tender

offers. Furthermore, it indicates that, compared to the case where FINRA is the sole regulator (blue point at $FINRA=1$ and $SEC=0$), adding SEC oversight has a weaker incremental effect and lower COI quality (red point at $FINRA=1$ and $SEC=1$), consistent with our regression findings.

Taken together, these results suggest that when the SEC and FINRA have overlapping regulatory enforcement, their interactions can be either complementary or substitutive, depending on their respective areas of expertise and which regulator provides incremental oversight.³²

5.4. Cross-sectional tests

The effectiveness of SEC oversight plays an important role in shaping both complementary (where stronger SEC enforcement improves COI disclosure quality) and substitutive (where stronger SEC enforcement weakens COI disclosure quality) relationships between regulators. On one hand, when the SEC is the pre-existing regulator, stronger SEC enforcement improves the accuracy of COI disclosures by ensuring proper dissemination and compliance, reinforcing the complementary relationship. On the other hand, as SEC enforcement strengthens, FINRA may delegate more regulatory responsibilities to the SEC, relying on its enforcement capacity. However, this delegation may lead to reduced oversight of information production, potentially compromising COI disclosure quality and leading to a substitutive relationship. In the next section, we further examine how the effectiveness of SEC oversight influences both complementary and substitutive interactions. Specifically, we exploit heterogeneity in the strength and effectiveness of SEC oversight driven by (i) SEC resource constraints, (ii) the need for target shareholder protection, and (iii) industry-specific characteristics.

5.4.1. SEC resource constraints

Prior studies (Ege et al. 2020, Gunny and Hermis 2020) document that the SEC's review activity is of lower quality when it has to review an abnormally high number of transactional filings (e.g., initial public offerings or acquisitions). In the M&A setting, the SEC's resource constraints imply that not all deals

³² We construct an alternative COI disclosure quality measure incorporating both SEC and FINRA regulatory requirements using principal component analysis. Our main findings remain robust using this comprehensive measure (untabulated).

with disclosure deficiencies will be fully reviewed (Liu et al. 2024). Building on these findings, we contend that if a deal is announced during a period of abnormally high transactional filings (i.e., a “busy period”), the SEC’s enforcement will be less rigorous, thereby weakening the complementary relationship. Moreover, given the SEC’s limited resources during the busy period, FINRA is less likely to rely on SEC oversight, reducing the strength of the substitutive relationship as well. We classify a month as “busy” if the number of transactional filings (S-1, S-4, PREM14A, and SC 13E3, obtained from WRDS SEC Analytics) exceeds the industry-state median. We then re-estimate our Eq. (3) models separately for “busy” and “non-busy” months.³³

Columns (1) and (2) of Table 5 present findings from estimating Eq. (3) during SEC busy and non-busy periods, examining FINRA’s incremental effect when the SEC is the pre-existing regulator. The coefficient on $SEC \times FINRA$ is positive and statistically significant in both columns, but larger during non-busy periods (Column 2). A one-tailed t-test confirms the coefficients differ significantly at the 10% level ($p = 0.09$). Columns (3) and (4) examine the incremental effect of SEC oversight during busy and non-busy periods when FINRA is the sole regulator. Column (3) shows that the coefficient is negative but insignificant during busy periods, while Column (4) shows it is negative and significant during non-busy periods. A one-tailed t-test confirms these coefficients differ significantly at the 5% level ($p = 0.05$). Overall, the results in Table 5 support our conjecture that the strength of SEC enforcement enhances both the complementary and substitutive interactions between the SEC and FINRA.

5.4.2. Target shareholders’ need for protection

A second factor influencing the strength of SEC enforcement is the need for shareholder protection. The SEC increases its monitoring when investors face greater risks and require additional protection (Naughton et al. 2018). M&A transactions are characterized by high information asymmetry and agency

³³ Given the smaller sample sizes in cross-sectional tests, we use state and industry fixed effects (rather than the more demanding state \times industry fixed effects used in main analyses) to ensure sufficient degrees of freedom. Standard errors are clustered at the state-industry level. All results remain statistically significant when clustering at the state level instead.

conflicts between target shareholders and target managers. Specifically, target shareholders face the risk that the target’s management and board may act in the acquirer’s interests rather than their own by underpricing the firm (e.g., Stewart 2023). Moreover, because of their nature and complexity, M&A transactions are particularly susceptible to accounting irregularities and disclosure deficiencies. The SEC review process can help reduce information asymmetry in M&A transactions. Firms’ disclosure amendments in response to comment letters can provide new value-relevant information. Consistent with this notion, prior studies show that SEC comment letters are associated with a higher likelihood of deal completion (Liu et al. 2024) and a lower likelihood of post-deal goodwill impairments or financial restatements (Johnson et al. 2023), likely by improving disclosure quality and mitigating information risk. Therefore, the SEC has stronger incentives to mitigate information asymmetry when agency conflicts between the target’s management and shareholders are more pronounced.

To measure the extent of these agency conflicts, we consider the deal type. We classify management buyouts (MBO) and going-private transactions as “contentious deals.” Both transaction types have historically exhibited a higher likelihood of minority shareholder exploitation and greater exposure to litigation risk (e.g., Bruere and Shaffer 2021). In MBOs, managers have direct financial incentives to minimize the takeover price. Similarly, in going-private transactions, target shareholders typically receive cash payments and are unable to participate in any potential upside of the firm’s value after it goes private. In these transactions, target shareholders are more likely to raise concerns about agency conflicts and claim that the target is undervalued. As a result, the SEC has stronger incentives to scrutinize these contentious deals.

We test this conjecture by comparing the “Contentious Deals” (MBOs and going-private transactions) with “Non-Contentious Deals” (all other mergers). We present the results in Table 6, Panel A. In Columns (1) and (2), we estimate Eq. (3) separately for non-contentious and contentious deals. In both cases, the coefficient on $SEC \times FINRA$ is positive and statistically significant. However, the coefficient is significantly larger in Column (2) for contentious deals, where SEC enforcement is stronger. The

difference in coefficients is statistically significant at the 10% level. We observe similar empirical evidence in Columns (3) and (4), which examine the incremental effect of the SEC with respect to a FINRA-only regime. The coefficient on $SEC \times FINRA$ is negative and statistically significant in both columns, but its magnitude is significantly larger in Column (4) than in Column (3), with the difference in coefficients also statistically significant at the 1% level.

The results in Table 6 Panel A support the interpretation that the introduction of FINRA complements SEC oversight more when target shareholders require stronger protection and when the SEC exerts greater scrutiny to safeguard their interests. Moreover, compared to the case where FINRA acts as the sole regulator, the substitutive relation under joint oversight becomes more pronounced as SEC oversight strengthens, with FINRA increasingly relying on SEC enforcement.

5.4.3. Industry heterogeneity

Lastly, we exploit the variation in SEC regulatory oversight across industries. Specifically, firms in regulated sectors (i.e., financial and healthcare industries) and industries with high litigation risk are subject to heightened scrutiny from regulators, investors, and auditors (Heese et al. 2017). Therefore, we expect SEC oversight to be stronger if the target and/or the acquirer operate in regulated and highly litigious industries compared to unregulated and less litigious ones. To test this conjecture, we separately examine deals in biotech (2833–36, 8731–34), computer (3570–77, 7370–74), electronics (3670–74), or retail (5200–5961), and regulated industries (i.e., financial and healthcare), on the one hand, and other industries, on the other hand.

We report the results in Table 6 Panel B. Columns (1) to (2) present the results from estimating Eq. (3) across the two subsamples. In Column (1), which corresponds to industries with high litigation risk, the coefficient on $SEC \times FINRA$ is significantly positive. Instead, the coefficient on $SEC \times FINRA$ is positive and insignificant in Column (2), related to other industries. The coefficients in Columns (1) and (2) are statistically different at the 10% level. In contrast, when we consider the substitutive relationship in

Columns (3) and (4), we observe that the coefficient on $SEC \times FINRA$ is significantly negative in Column (3), while it is positive and insignificant in Column (4). The coefficients in Columns (3) and (4) are statistically different at 5% level.

Taken together, these results suggest that the complementary and substitutive relationship between SEC and FINRA varies across industries, depending on the strength of SEC oversight. In sectors more exposed to SEC scrutiny, either due to high litigation risk, FINRA's oversight of information production is more likely to complement the SEC's monitoring of information dissemination. Moreover, in these industries, strong SEC oversight implies that FINRA is more inclined to rely on the SEC in its monitoring efforts, thereby leading to a greater reduction in COI disclosure quality.

5.5. Robustness tests

In this section, we examine the robustness of our findings. First, in our main analyses, we include both target-sought and acquirer-sought FOs. In untabulated analyses, we re-estimate our regressions using only target-sought FOs. Target-sought FOs represent the vast majority of FOs in our sample (92.90%) in line with prior research (e.g., Kisgen et al. 2009, Imperatore et al. 2024). Our empirical evidence remains consistent in these untabulated tests limited to target-sought FOs.

Moreover, we re-estimate our regressions using alternative fixed effects structures. In the main analyses, we use state fixed effects, industry fixed effects, and state \times industry fixed effects. In untabulated additional analyses, we use the following alternative specifications: (i) only state fixed effects; (ii) industry fixed effects with alternative industry classification (1-digit SIC rather than 2-digit SIC); (iii) state \times year fixed effects; (iv) client industry \times year fixed effects; and (v) the inclusion of additional control variables per Stewart (2023) (i.e., standard deviation of ROA, deal premium, and an indicator indicating whether the target firm can seek other bids after the announcement date of the merger). Our results are robust to these alternative specifications.

Additionally, to assess whether our joint regulator result for FINRA is driven by the timing of the regulation, we replace the *FINRA* indicator with two time-period indicators: *Y2008_2011* (an indicator variable equal to one if the deal is announced in 2008, 2009, 2010 or 2011, and zero otherwise); and *Y2012_2015* (an indicator variable equal to one if the deal is announced between 2012 and 2015, and zero otherwise). We find, in an untabulated test, that the negative relation is present in both sub-periods. A formal test shows that the difference between the coefficients on *Y2008_2011* and *Y2012_2015* is not statistically significant. Our results also remain robust when excluding the financial crisis years (2008 and 2009).

Next, we separately examine disclosure quality for material past ties and contingent fees. Compensation arrangements involve specific dollar amounts and contract terms, making compensation-related COIs more objectively verifiable than relationship-based COIs, which may require more subjective assessments of materiality. We report results from estimating Eqs. (1), (2), and (3) in Table 7, with Panel A presenting results for material ties and Panel B for contingent fees.³⁴ In Panel A, we observe positive and significant standalone effects for both SEC and FINRA in Columns (1) and (2). When we examine joint effects in Columns (3) and (4), we find that the incremental effect of FINRA is positive and significant, while the incremental effect of SEC is negative and significant. Panel B shows similar patterns: positive and significant standalone effects for both regulators in Columns (1) and (2), and in Columns (3) and (4), FINRA's incremental effect is positive and significant while the SEC's incremental effect is negative and significant. These consistent findings across both COI types mitigate concerns that our results depend on the subjective nature of different conflict classifications.

6. Conclusion

³⁴ In both panels, we restrict the sample to observations where the examined conflict type is present, while controlling for the presence of the other conflict type. Panel A focuses on material past ties (controlling for contingent fees), while Panel B focuses on contingent fees (controlling for material past ties).

We study SEC and FINRA oversight effectiveness in enforcing the quality of COI disclosures in fairness opinions included in SEC filings related to M&A activity. Both regulators oversee COI disclosures, but they differ in regulatory expertise and enforcement strength. The SEC, a government agency with strong enforcement capacity, focuses on the dissemination of COI information through public filings such as proxy statements. In contrast, FINRA, an SRO with more limited enforcement authority, regulates the production of COI information by requiring investment banks to disclose potential conflicts to their clients.

The trade-off between expertise and enforcement strength makes the joint effect of dual oversight nuanced. We find that the nature of their interaction depends on which agency acts as the incremental regulator. When FINRA enters after the SEC, its oversight complements the SEC's enforcement by enhancing the quality of information production, resulting in improved COI disclosure quality. In contrast, when the SEC is the incremental regulator, FINRA may defer to the SEC's stronger enforcement, leading to a decline in COI disclosure quality.

Although we focus on the FO COI disclosure setting, the incentives and the relative strengths of the two regulators should remain consistent and generalizable for other financial reporting disclosures regulated by either or both of the SEC and FINRA. This generalizability is helpful given that the SEC works with FINRA to establish sufficient disclosure of the underwriting terms and conflicts in S-1 filings (FINRA 2024). More broadly, we view our paper's findings as providing insights for the regulatory design of financial reporting disclosures, especially when different regulatees must work jointly to provide an informative financial reporting disclosure or when disclosures have negative implications.

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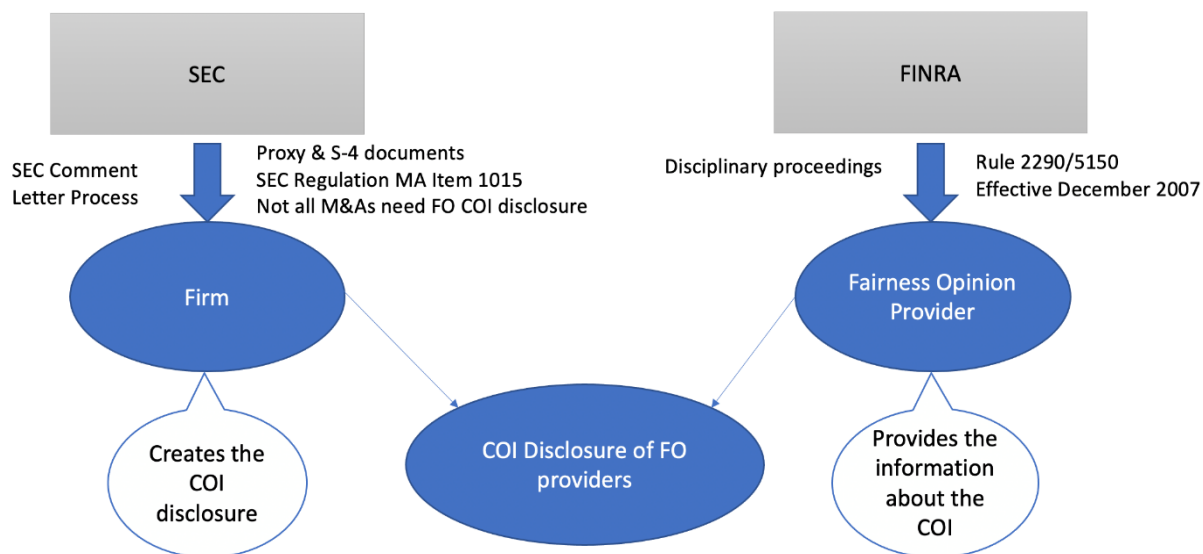
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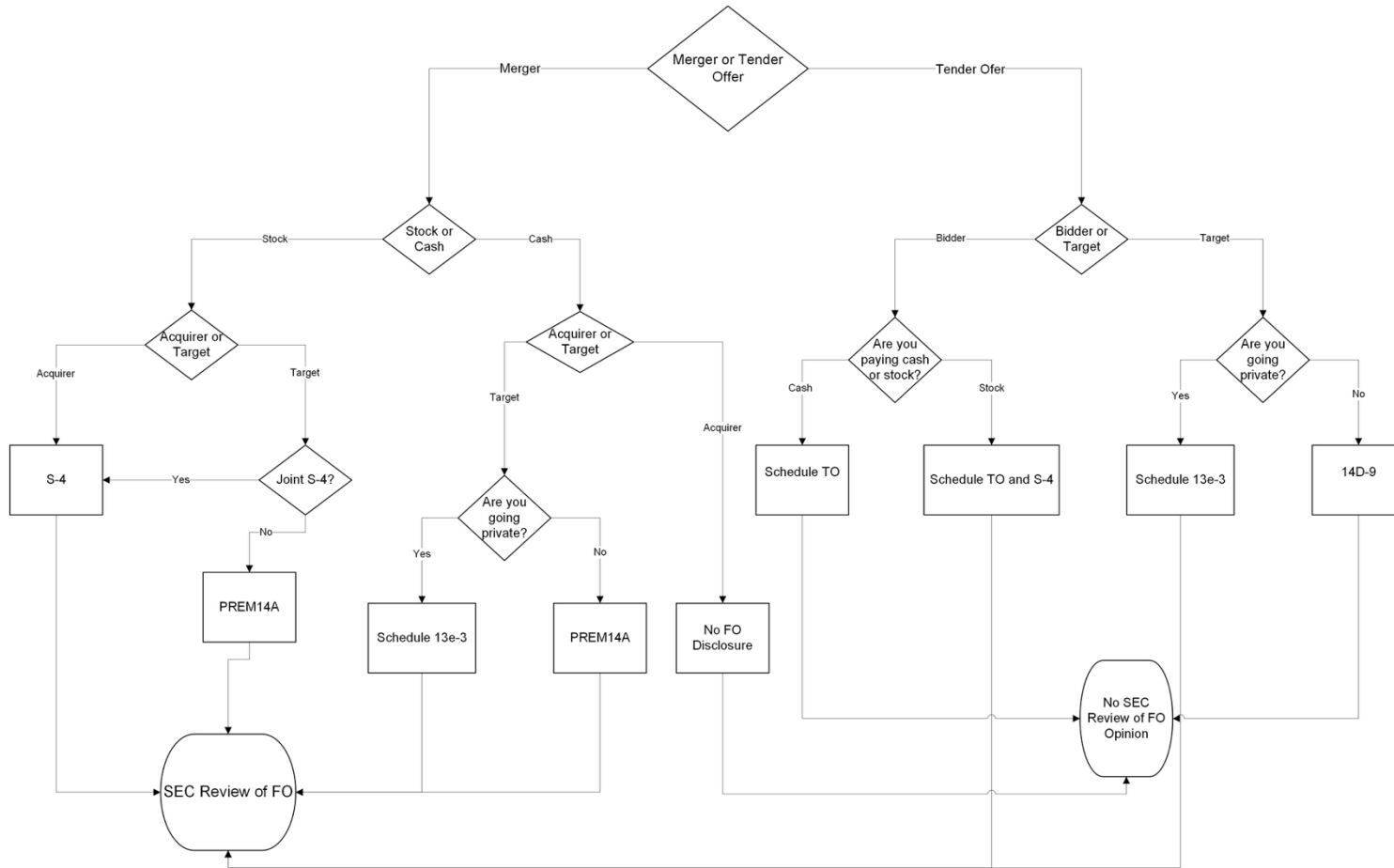
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Figure 1: Regulator and Regulatee Pairs



Notes: Figure 1 shows the relationship in our setting between different regulators and regulatees. Although both regulators oversee the same disclosure, each has authority over a different regulatee. The SEC has authority over the firm managers who create the filings, and FINRA has authority over the FO providers. These regulatees need to coordinate with each other to generate informative COI disclosures. For instance, FO writers have the most information about their own COIs with a company (i.e., information production) and should communicate this information with the board of directors, who contract with an advisor that can write the FO. Managers, with the oversight of their board of directors, disseminate COI information to the public. For information on which documents would contain the disseminated COI information, see Figure 2.

Figure 2: Where Would You Find the Fairness Opinion?



Notes: This figure shows the documents where FO and FO COI can be found based on who received the FO and the structure of the M&A activity.

Figure 3: Decision Timeline

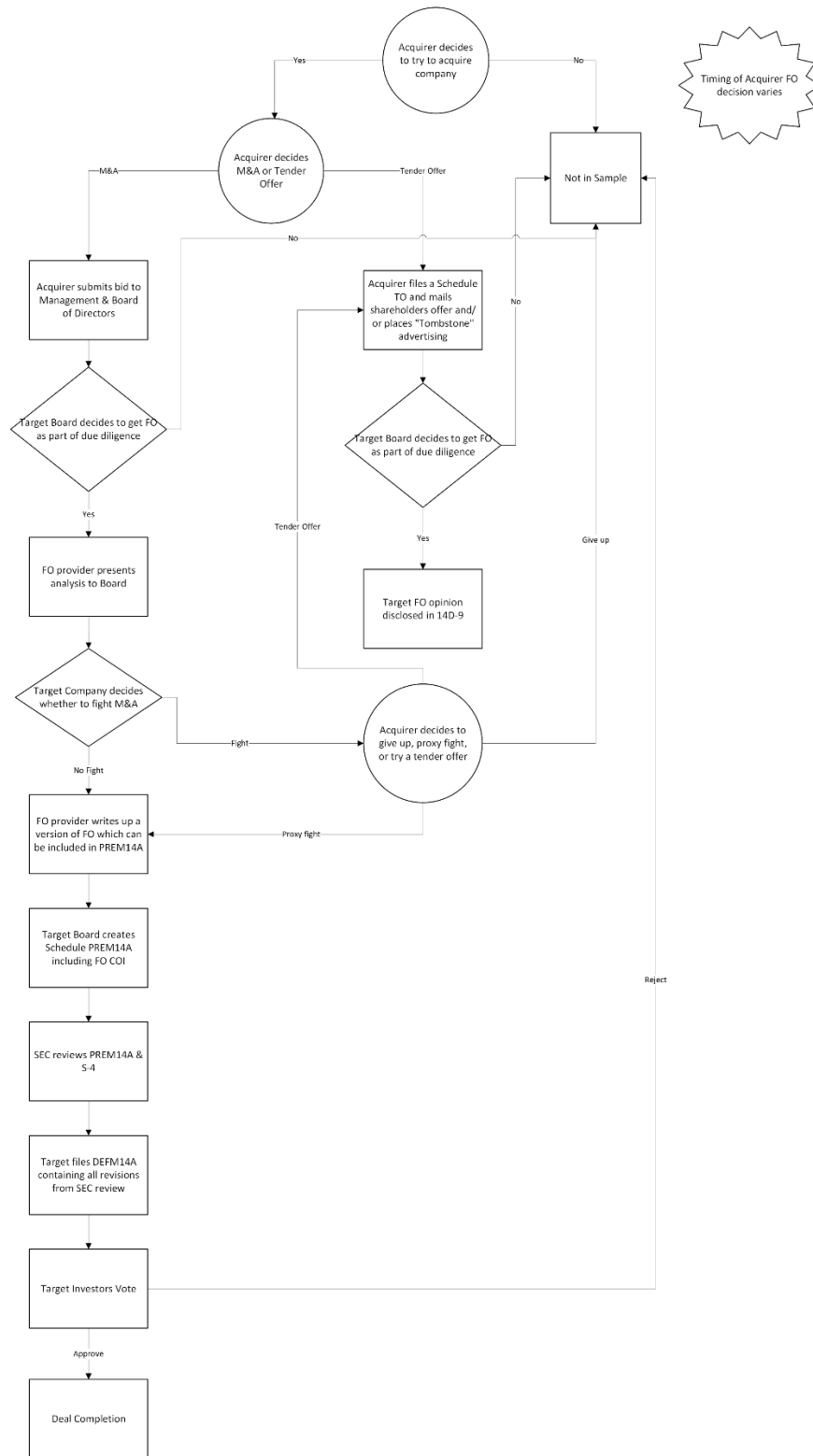
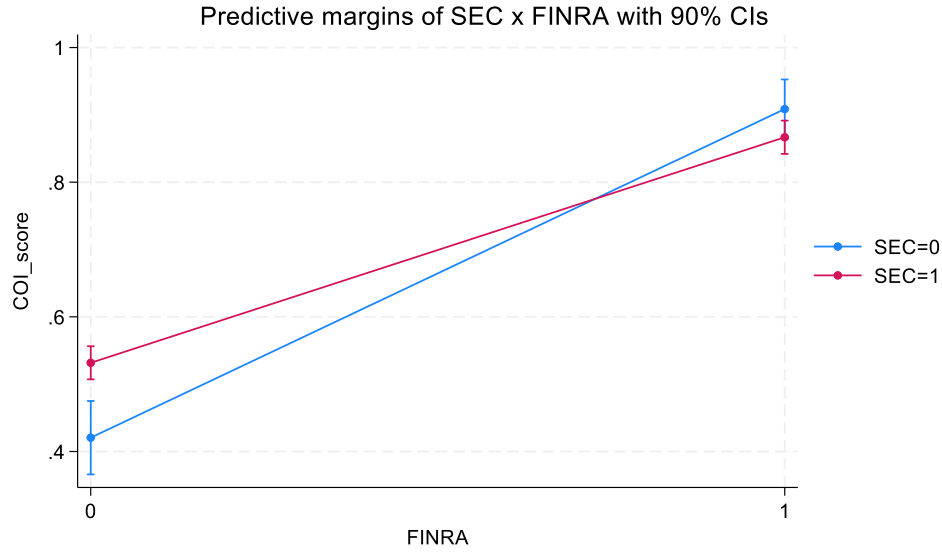


Figure 3 (Continued)

Notes: This figure shows a generalized timeline of events within a merger from the target's perspective including decisions related to the acquisition of an FO. Diamond shaped boxes imply that a decision needs to be made, while square boxes imply required sequencing of events.

Figure 4: Examining the regulatory effects of the SEC and FINRA on FO COI disclosure



This figure provides a visual representation of COI disclosure quality in mergers and tender offers before and after 2007 (i.e., before and after the introduction of FINRA enforcement). The y-axis represents the predicted values of FO COI disclosure quality from estimation of the following regression equation:

$$y_{imt} = \alpha_{imt} + \beta_1 SEC_{im} + \beta_2 FINRA_t + \beta_3 SEC_{im} \times FINRA_t + State_{im} \times Industry_{im} \text{ Fixed effects} + Year \text{ trend} + \gamma' X_{imt} + \varepsilon$$

where i indexes the firm, m indexes the type of M&A transaction (e.g., merger or tender offer), t indexes years, and y is the dependent variable (i.e., firms' FO COI disclosure quality). The coefficients on the main effects of SEC and $FINRA$ capture the effect of the SEC and FINRA as individual regulators, while the interaction term $SEC \times FINRA$ measures the incremental effect of a two-regulator regime relative to a one-regulator regime. Deal- and firm-level controls are added as in Eq. (1). Moreover, we include state \times two-digit SIC industry fixed effects and a time-trend variable. The regression equation has been estimated in the sample of 549 deals announced between 2000 and 2015 for which a FO was identified. The blue line captures the effect of FINRA oversight on COI disclosure quality when the SEC is not present. In contrast, the red line captures the effect of FINRA oversight when the deal is also exposed to SEC scrutiny.

Appendix A1: Additional Detailed Institutional Background

A1.1 Historical Development of SEC Requirements

The SEC's requirements for fairness opinion COI disclosures developed through a patchwork of regulations over several decades. In 1979, the SEC's Rule 13e-3 required issuers in going-private transactions to make a statement to unaffiliated securities holders on whether the transaction is fair, to disclose any fairness opinions prepared by third parties, and to communicate the conflicts of interest for any external party rendering a fairness opinion. In 1986, the SEC adopted similar rules for proxy documents and for the S-4 registration statements (Proxy Rules-Comprehensive Review Exchange Act Release No. 34-23789, which was issued on Nov. 10, 1986, and which created § 229.1015 (Item 1015)). An S-4 needs to be filed for stock-based transactions, and proxy documents need to be filed whenever the shareholders have to vote to approve the merger, which includes all targets of mergers (but not tender offers) and acquirers who issue more than 20% of their stock in the deal. The SEC has never required fairness opinions or fairness opinion COI disclosures for cash offers in required Schedule TO (Tender Offer) and 14D-9 filings.

A1.2 SEC Technical Disclosure Requirements

The SEC rules specify detailed requirements for what constitutes adequate COI disclosure. The SEC rules for fairness opinion COI disclosure are that the filer must “describe any material relationship [with the fairness opinion provider or any fairness opinion provider affiliate/representative] that existed during the past two years or is mutually understood to be contemplated and any compensation received or to be received as a result of the relationship” (§ 229.1015(b)(4)).

The SEC also requires the filer to disclose if any compensation is contingent on the completion of the merger, and to “quantify, including cases in which the fee is zero, any compensation received or to be received” over the last two years, including but not limited to transaction-related compensation (Question and Answer 217.01 of the Division of Corporation Finance's Compliance and Disclosure Interpretations for Going Private Transactions, Exchange Act Rule 13e-3 and Schedule 13E-3, 2009). Fairness opinion compensation, transaction fees, and any other unrelated compensation are all expected to be listed separately in the disclosure.

A1.3 FINRA Organizational Structure and Authority

FINRA is a self-regulating association comprised of (and funded by) broker-dealers with experience operating under SEC oversight. FINRA can be seen as a specialized regulator for capital market participants, able to impose rules that are better tailored to specific industry needs because of FINRA's close industry ties, expertise, and technical knowledge. Broker-dealers and investment banks must register with FINRA as a member or as an associated person, and are thereby subject to FINRA's rules. FINRA enforces compliance with its own rules, with the Exchange Act, and with other related rules. FINRA uses two common disciplinary procedures to impose sanctions: a complaint alleging the violation of a rule, and the initiation of a matter (without an associated complaint). FINRA has the ability to fine, suspend, or expel members from practicing in the profession.

A1.4 Rule 5150 Development Timeline

Rule 5150 was initially written by the NASD in 2004, but was not fully approved and enacted until 2007. The long delay appears to have been caused by the nature of the approval process. Rule changes for self-regulatory organizations must go through a comment period at their own organization and at the SEC. The NASD amended the rule three times because of comments and a fourth time when NASD became FINRA. The delay, however, helps separate any endogenous events or changes in the profession that might have inspired the initial proposal in 2004 from its eventual implementation in 2007.

A1.5 Examples of COI Disclosure Failures

Given that some COI information involves proprietary business relationships that investment banks might prefer to keep confidential, regulatory enforcement plays an important role in ensuring complete disclosure. Several high-profile cases illustrate the types of conflicts that may go undisclosed without proper oversight.

In *re El Paso Co.*, the fairness opinion provider, Goldman Sachs, did not tell the board nor disclose to investors that the lead advisor working on the fairness opinion personally owned approximately \$340,000 of the acquirer's stock. This personal financial interest created a clear conflict that could have influenced the advisor's assessment of transaction fairness.

In *re Del Monte* and in *re Rural Metro Corporation*, the fairness opinion provider did not disclose to their client, the target's board, that if the transaction were completed they would provide financing to the acquirer, for a considerable fee. These undisclosed financing arrangements represented significant future business opportunities that could have incentivized favorable fairness assessments regardless of actual transaction terms.

These cases demonstrate the importance of comprehensive COI disclosure requirements and active regulatory enforcement to ensure that boards and investors receive complete information about potential conflicts that may compromise the independence and reliability of fairness opinion assessments.

Appendix A2

Instructions to Research Assistants for the Identification of Conflict of Interest Disclosures

| | |
|---|--|
| <i>COI_Material_Ties - SEC COI Disclosure Item B Point 4)</i> <i>"Describe any material relationship that existed during the past two years or is mutually understood to be contemplated"</i> | <p>Score capturing the extent to which the firm "Describe any material relationship that existed during the past two years or is mutually understood to be contemplated".</p> <p>The maximum score of 3 is provided when the firm the firm provides a detailed description of COI disclosing the presence of bank's prior relationship in a detailed way, bank's prior relationship past fees paid and bank's future relationships.</p> <p>A score of 2 is granted if the firm provides a general description of the COI due to past relations and discloses two out of the following information: presence of bank's prior relationship in a detailed way, bank's prior relationship past fees paid and bank's future relationships.</p> <p>A score of 1 is granted if the firm provides a general description of the COI due to past relations and disclose one out of the following information: presence of bank's prior relationship in a detailed way, bank's prior relationship past fees paid and bank's future relationships.</p> |
| <i>COI_Contingent_Fees - SEC COI Disclosure Item B Point 4) bis</i> <i>"Describe any compensation received or to be received as a result of the relationship between: (i) The outside party, its affiliates, and/or unaffiliated representative; and (ii) The subject company or its affiliates"</i> | <p>Score capturing the extent to which the firm "Describe any compensation received or to be received as a result of the relationship between: (i) The outside party, its affiliates, and/or unaffiliated representative; and (ii) The subject company or its affiliates". Score capturing "if the member has acted as a financial advisor to any party to the transaction that is the subject of the fairness opinion, and, if applicable, that it will receive compensation that is contingent upon the successful completion of the transaction, for rendering the fairness opinion and/or serving as an advisor". It ranges from 0 to 3.</p> <p>Maximum score (3) is provided when the firm provides a detailed disclosure of COI disclosing the bank's compensation arrangement dollar amount, structure, and enough information to determine the ratio of advisory and opinion fees (all present)</p> <p>A score of 2 is granted if the firm provides a general description of the COI due to fees and discloses two out of the following information: the bank's compensation arrangement dollar amount, structure, and enough information to determine the ratio of advisory and opinion fees.</p> <p>A score of 1 is granted if the firm provides a general description of the COI due to fees and discloses one out of the following information: the bank's compensation arrangement dollar amount, structure, and enough information to determine the ratio of advisory and opinion fees (generic disclosure).</p> |

Appendix A3

Example of Conflict of Interest Disclosures

Companies: Salary.com

Fairness Opinion Writer: Stifel Nicolaus Weisel (SNW)

Year: 2010

COI_Material_Ties=3

COI_Contingent_Fees=3

Link: <https://www.sec.gov/Archives/edgar/data/1105360/000119312510204018/dsc14d9.htm>

The Company retained SNW to act as its exclusive financial advisor in connection with the possible sale of the Company. On August 31, 2010, SNW delivered to the Company Board its oral opinion that, as of that date, the consideration to be received in the Offer and Merger, taken together, by the holders (other than by Parent and its affiliates) of Shares was fair, from a financial point of view, to such holders. SNW later delivered its written opinion dated August 31, 2010, confirming its oral opinion.

The Company determined the consideration that the holders of Shares would receive in the Offer and Merger through negotiations with Parent. The Company did not impose any limitations on SNW with respect to the investigations made or procedures followed in rendering its opinion. Further, the Company did not request the advice of SNW with respect to alternatives to the transaction, and SNW did not advise the Company with respect to alternatives to the transaction or the Company's underlying decision to proceed with or effect the transaction.

The Company has agreed to pay SNW a fee of \$375,000 upon delivery of SNW's opinion, and an aggregate fee currently estimated to be approximately \$1.3 million, which is contingent on the completion of the Offer and the Merger (against which the \$375,000 fee for SNW's opinion is creditable). The Company Board was aware of this fee structure and took it into account in considering the SNW opinion and in approving the Offer and the Merger. Further, the Company has agreed to reimburse SNW for its reasonable out-of-pocket expenses and to indemnify SNW, its affiliates, and their respective partners, directors, officers, agents, consultants, employees and controlling persons against specific liabilities, including liabilities under the federal securities laws.

In the ordinary course of its business, SNW actively trades the equity securities of Salary.com and of Parent for its own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in these securities. SNW also acted as underwriter in connection with public offerings of Salary.com's securities and has performed various investment banking services for the Company, including as an advisor in connection with the acquisition of the Company's former enterprise payroll business subsidiary, Genesys Software Systems, Inc. ("Genesys"). The Company currently has an outstanding balance of \$271,538, which is reflected on the Company's most recent balance sheet, for unpaid fees owed to SNW for services it rendered in connection with the Company's acquisition of Genesys. It is expected that this obligation will be paid by the Company prior to or upon the completion of the Offer and Merger.

Companies: Illinois Acquisition Corporation & Illuminet

Fairness Opinion Writer: Robertson Stephens

Year: 2001

COI_Material_Ties=1

COI_Contingent_Fees=1

Link: <https://www.sec.gov/Archives/edgar/data/1002119/000101287001502522/ddefm14a.txt>

Illuminet's engagement letter with Robertson Stephens provides that, for its services, Robertson Stephens is entitled to receive a fee for delivering its opinion, whether or not the opinion is favorable, as well as an additional fee for its financial advisory and investment banking services contingent upon consummation of the merger. Illuminet has also agreed to reimburse Robertson Stephens for its out-of-pocket expenses and to indemnify and hold harmless Robertson Stephens and its affiliates and any other person, director, employee or agent of Robertson Stephens or any of its affiliates, or any person controlling Robertson Stephens or its affiliates, for certain losses, claims, damages, expenses and liabilities relating to or arising out of services provided by Robertson Stephens as financial advisor to Illuminet. The terms of the fee arrangements with Robertson Stephens, which Illuminet and Robertson Stephens believe are customary in transactions of this nature, were negotiated at arm's length between Illuminet and Robertson Stephens, and the Illuminet board of directors was aware of these fee arrangements.

Robertson Stephens was retained based on Robertson Stephens' experience as a financial advisor in connection with mergers and acquisitions and in securities valuations generally, as well as Robertson Stephens' investment banking relationship and familiarity with Illuminet. Robertson Stephens has provided financial advisory services to Illuminet from time to time. In the ordinary course of business, Robertson Stephens may actively trade the securities of Illuminet and VeriSign for its own account and for the account of its customers and, accordingly, may at any time hold a long or short position in these securities.

Robertson Stephens is an internationally recognized investment banking firm. As part of its investment banking business, Robertson Stephens is frequently engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of securities, private placements and other purposes.

Companies: Bio-Logic Systems Corp. & Natus Medical Incorporated

Fairness Opinion Writer: Dresner

Year: 2006

COI Material Ties: 1

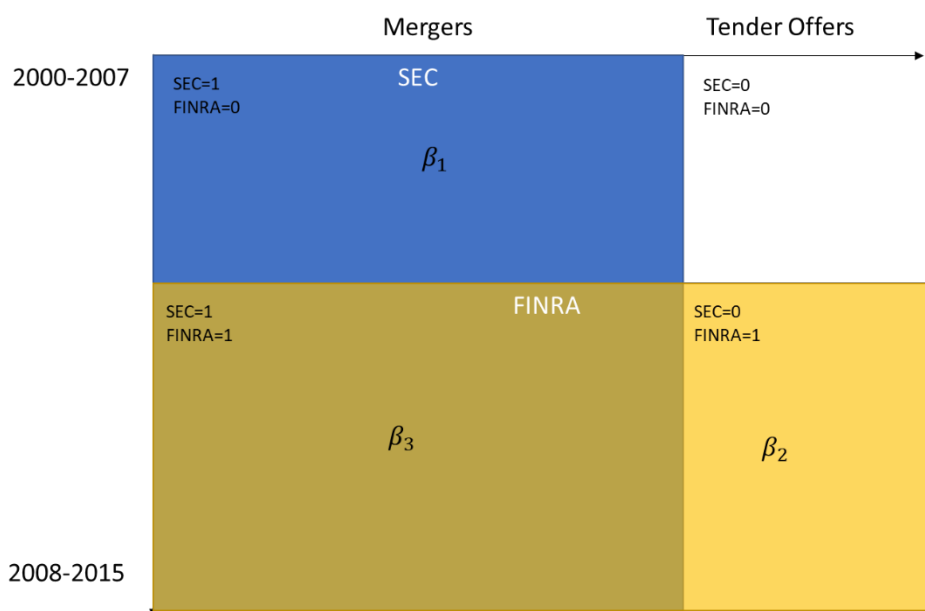
COI Compensation: 3

Link: <https://www.sec.gov/Archives/edgar/data/355007/000119312505227145/ddefm14a.htm>

Opinion of Our Financial Advisor

We engaged Dresner in late June 2005 to act as our financial advisor in connection with a potential merger or sale of all or part of our business, based on its qualifications and expertise in providing financial advice to middle-market companies and its reputation as a nationally recognized investment banking firm. Dresner, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with merger transactions and other types of strategic combinations and acquisitions. In particular, Dresner specializes in raising capital, mergers and acquisitions advisory services and valuation advisory services. Dresner is familiar with us, having provided certain financial advisory services to us and our board of directors from time to time, including having acted as financial advisor to us in connection with our consideration of business acquisitions and other strategic transactions. Our engagement letter with Dresner, which was executed on September 30, 2005 and memorialized our prior understanding with Dresner, provides that we will pay Dresner fees at a rate ranging from \$175 to \$400 an hour for all services performed by Dresner at the request of us or our board of directors. Under the terms of the engagement letter, a fee of \$250,000 was also due to Dresner upon rendering its opinion letter regarding the fairness of the consideration to be paid in the transaction. In addition, the engagement letter further provides for reimbursement of reasonable out-of-pocket expenses incurred by Dresner in connection with its engagement and for indemnification of Dresner and certain related persons against certain liabilities arising out of its engagement.

Appendix B1



$$y_{imt} = \alpha_{imt} + \beta_1 SEC_{im} + \beta_2 FINRA_t + \beta_3 SEC_{im} \times FINRA_t + State_{im} \times Industry_{im} \text{ Fixed effects} + Year \text{ trend} + \gamma'X_{imt} + \varepsilon$$

Note: This figure shows the empirical variation in the paper. For the SEC, there is no time variation, but we do have variation in the types of M&As that are subject to SEC regulation. For FINRA, we have a timing variation.

Appendix B2

Deal characteristics in the four regulatory regimes

Panel A. Descriptive statistics of control variables for “No regulator” regime (tender offers before 2007)

| Variable | N | Mean | SD | Min | p25 | p50 | p75 | Max |
|-----------------------|----|--------|--------|---------|--------|---------|---------|---------|
| <i>ROA</i> | 54 | -0.239 | 1.575 | -11.533 | -0.096 | 0.015 | 0.053 | 0.340 |
| <i>BTM</i> | 54 | 0.732 | 0.326 | 0.168 | 0.504 | 0.699 | 0.954 | 1.393 |
| <i>Loss</i> | 54 | 0.444 | 0.502 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 |
| <i>Lev</i> | 54 | 0.270 | 0.269 | 0.000 | 0.039 | 0.243 | 0.378 | 1.126 |
| <i>Asset Turnover</i> | 54 | 1.243 | 0.982 | 0.035 | 0.559 | 1.016 | 1.469 | 4.803 |
| <i>Deal Size</i> | 54 | 5.432 | 1.615 | 2.644 | 4.198 | 5.429 | 6.620 | 8.549 |
| <i>Deal Length</i> | 54 | 84.130 | 61.912 | 0.000 | 45.000 | 58.500 | 109.000 | 331.000 |
| <i>Percent Cash</i> | 54 | 82.331 | 32.687 | 0.000 | 78.260 | 100.000 | 100.000 | 100.000 |
| <i>Log (S/EV)</i> | 54 | 0.995 | 0.803 | 0.017 | 0.395 | 0.744 | 1.452 | 3.352 |

Panel B. Descriptive statistics of control variables for “Only SEC” regime (mergers before 2007)

| Variable | N | Mean | SD | Min | p25 | p50 | p75 | Max |
|-----------------------|-----|---------|--------|--------|--------|---------|---------|---------|
| <i>ROA</i> | 257 | -0.017 | 0.181 | -1.550 | -0.009 | 0.020 | 0.058 | 0.278 |
| <i>BTM</i> | 257 | 0.770 | 0.316 | 0.168 | 0.569 | 0.784 | 0.952 | 1.884 |
| <i>Loss</i> | 257 | 0.307 | 0.462 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 |
| <i>Lev</i> | 257 | 0.210 | 0.226 | 0.000 | 0.005 | 0.167 | 0.333 | 1.126 |
| <i>Asset Turnover</i> | 257 | 0.977 | 0.902 | 0.051 | 0.339 | 0.732 | 1.399 | 4.803 |
| <i>Deal Size</i> | 257 | 5.838 | 1.845 | 0.554 | 4.646 | 5.922 | 7.116 | 10.913 |
| <i>Deal Length</i> | 257 | 108.093 | 70.901 | 0.000 | 70.000 | 94.000 | 140.000 | 513.000 |
| <i>Percent Cash</i> | 257 | 81.354 | 33.917 | 0.000 | 77.610 | 100.000 | 100.000 | 100.000 |
| <i>Log (S/EV)</i> | 257 | 0.824 | 0.696 | -0.476 | 0.331 | 0.637 | 1.129 | 3.601 |

Panel C. Descriptive statistics of control variables for “Only FINRA” regime (tender offers after 2007)

| Variable | N | Mean | SD | Min | p25 | p50 | p75 | Max |
|-----------------------|----|--------|--------|--------|---------|---------|---------|---------|
| <i>ROA</i> | 62 | -0.063 | 0.214 | -0.940 | -0.167 | 0.019 | 0.060 | 0.200 |
| <i>BTM</i> | 62 | 0.713 | 0.288 | 0.174 | 0.508 | 0.688 | 0.949 | 1.382 |
| <i>Loss</i> | 62 | 0.468 | 0.503 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 |
| <i>Lev</i> | 62 | 0.162 | 0.209 | 0.000 | 0.000 | 0.083 | 0.272 | 0.876 |
| <i>Asset Turnover</i> | 62 | 1.120 | 0.669 | 0.035 | 0.603 | 0.990 | 1.424 | 3.444 |
| <i>Deal Size</i> | 62 | 6.168 | 1.499 | 2.865 | 5.056 | 6.068 | 7.252 | 9.123 |
| <i>Deal Length</i> | 62 | 56.145 | 43.286 | 0.000 | 39.000 | 44.000 | 56.000 | 306.000 |
| <i>Percent Cash</i> | 62 | 96.358 | 15.644 | 0.000 | 100.000 | 100.000 | 100.000 | 100.000 |
| <i>Log (S/EV)</i> | 62 | 0.884 | 0.587 | 0.002 | 0.517 | 0.755 | 1.124 | 3.101 |

Panel D. Descriptive statistics of control variables for “SEC + FINRA” regime (mergers after 2007)

| Variable | N | Mean | SD | Min | p25 | p50 | p75 | Max |
|-----------------------|-----|---------|--------|--------|--------|---------|---------|---------|
| <i>ROA</i> | 176 | -0.021 | 0.176 | -1.088 | -0.030 | 0.016 | 0.051 | 0.286 |
| <i>BTM</i> | 176 | 0.770 | 0.280 | 0.225 | 0.559 | 0.785 | 0.992 | 1.906 |
| <i>Loss</i> | 176 | 0.341 | 0.475 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 |
| <i>Lev</i> | 176 | 0.226 | 0.224 | 0.000 | 0.012 | 0.156 | 0.396 | 0.959 |
| <i>Asset Turnover</i> | 176 | 0.975 | 0.922 | 0.035 | 0.351 | 0.733 | 1.292 | 4.803 |
| <i>Deal Size</i> | 176 | 6.254 | 1.781 | 2.235 | 5.146 | 6.088 | 7.532 | 10.927 |
| <i>Deal Length</i> | 176 | 116.568 | 79.333 | 0.000 | 68.500 | 99.000 | 156.000 | 358.000 |
| <i>Percent Cash</i> | 176 | 71.985 | 40.292 | 0.000 | 34.240 | 100.000 | 100.000 | 100.000 |
| <i>Log (S/EV)</i> | 176 | 0.911 | 0.773 | 0.000 | 0.379 | 0.697 | 1.204 | 3.601 |

Appendix C

Variables' Definition

| Dependent Variables | Definition |
|---------------------------------|---|
| <i>COI_score</i> | The sum of SEC Item B point 4 (<i>COI Material Ties</i>) and SEC Item B point 4bis (<i>COI Contingent Fees</i>), divided by the maximum value of the score (6) |
| Independent Variables | Definition |
| <i>FINRA</i> | An indicator variable equal to one if the deal has been announced after 2007, and zero otherwise |
| <i>SEC</i> | An indicator variable equal to one in the case of a merger and zero in the case of a tender offer. |
| <i>SEC Resource Constraints</i> | The year-month sum of the following filings: S-1, S-4, PREM14A and SC 13E3. The filings have been taken from WRDS SEC Analytics and we merged the year-month of the filing date in SEC with the year-month of the deal announced. |
| <i>Contentious deal</i> | An indicator variable equal to one if the deal is an MBO or going private transaction and zero otherwise. |
| Control Variables | Definition |
| <i>ROA</i> | The ratio of the client firm's income before extraordinary items to total assets for the fiscal year before the merger announcement. |
| <i>BTM</i> | The ratio of the client firm's book value of assets to the market value of assets for the fiscal year before the merger announcement, where the market value of assets is defined as the book value of assets plus the market value of equity minus the book value of equity. |
| <i>Loss</i> | An indicator variable equal to one if the client firm's net income is negative for the fiscal year before the merger announcement, and zero otherwise. |
| <i>Lev</i> | The client firm's total current and long-term debt scaled by total assets, for the fiscal year before the merger announcement. |
| <i>Asset Turnover</i> | The ratio of the client firm's total sales to total assets for the fiscal year before the merger announcement. |
| <i>Deal Size</i> | The natural log of the value of the merger transaction measured at the announcement date of the merger. |
| <i>Deal Length</i> | The number of days between the merger announcement date and completion date. |
| <i>Percent Cash</i> | The percentage of the overall merger consideration consisting of cash, per SDC. |
| <i>Log(S/EV)</i> | Natural log of the sales to the enterprise value of the target. |

Table 1. Sample selection

This table shows the steps to obtain the final set of deals (i.e., mergers and tender offers) used throughout the analysis.

Sample:

| | |
|--|--------------|
| SDC mergers and tender offers with U.S. acquirer and U.S. public target (2000-2015) | 8,350 |
| Less: Mergers and tender offers unable to identify a FO | <u>2,211</u> |
| SDC mergers and tender offers with U.S. acquirer and U.S. public target and a FO available | 6,139 |
| Less: Elimination of observations not randomly selected for FO extraction | <u>5,239</u> |
| Random subset of mergers and tender offers with FOs available selected for FO extraction | 900 |
| Less: FOs for clients with missing data required for control variables | 159 |
| Less: FOs for which we could not unambiguously identify the presence of a conflict of interest | 175 |
| Less: deals for which a matching could not be identified | 9 |
| <hr/> Final Sample | <hr/> 549 |

Table 2: Summary statistics

This table presents summary statistics for the sample of FOs for deals announced during the period 2000-2015. Panel A shows the summary statistics of the COI disclosure score and its components. Panel B provides summary statistics of the characteristics of deals and target firms.

Panel A. Descriptive statistics of SEC COI disclosure scores

| Variable | N | Mean | SD | p25 | p50 | p75 |
|----------------------------|-----|-------|-------|-------|-------|-------|
| <i>COI score</i> | 549 | 0.630 | 0.238 | 0.500 | 0.667 | 0.833 |
| <i>COI Material Ties</i> | 549 | 1.630 | 0.996 | 1.000 | 2.000 | 2.000 |
| <i>COI Contingent Fees</i> | 549 | 2.151 | 0.905 | 2.000 | 2.000 | 3.000 |

Panel B. Descriptive statistics of independent variables and control variables

| Variable | N | Mean | SD | p25 | p50 | p75 |
|-----------------------|-----|---------|--------|--------|---------|---------|
| <i>SEC</i> | 549 | 0.789 | 0.409 | 1.000 | 1.000 | 1.000 |
| <i>ROA</i> | 549 | -0.045 | 0.524 | -0.029 | 0.017 | 0.057 |
| <i>BTM</i> | 549 | 0.760 | 0.303 | 0.552 | 0.762 | 0.965 |
| <i>Loss</i> | 549 | 0.350 | 0.477 | 0.000 | 0.000 | 1.000 |
| <i>Lev</i> | 549 | 0.216 | 0.229 | 0.006 | 0.152 | 0.348 |
| <i>Asset Turnover</i> | 549 | 1.019 | 0.896 | 0.406 | 0.783 | 1.410 |
| <i>Deal Size</i> | 549 | 5.969 | 1.781 | 4.773 | 5.976 | 7.163 |
| <i>Deal Length</i> | 549 | 102.587 | 72.747 | 56.000 | 87.000 | 136.000 |
| <i>Percent Cash</i> | 549 | 80.141 | 35.195 | 73.400 | 100.000 | 100.000 |
| <i>Log (S/EV)</i> | 549 | 0.875 | 0.722 | 0.368 | 0.681 | 1.171 |

Table 3. The standalone effects of the SEC and FINRA regulation on FO COI disclosure quality

Panel A. Standalone effect of the SEC

This table presents the results from examining the standalone effect of the SEC on COI disclosure in FO valuations. The sample includes a random subset of 549 deals with FOs announced between 2000 and 2015 for which COI disclosure was manually coded. The independent variable in all columns is *SEC*. All variables are defined in Appendix C. In Columns 1 and 2, we include state and industry fixed effects and a year trend. In Column 3 we include state \times two-digit SIC code industry fixed effects and a year trend. Columns 1 - 3 show the results for a sample that includes only deals not subject to any regulation or solely under SEC oversight, without and with deal-level and firm-level control variables, respectively. A constant term is included in all regressions, but not reported. The t-statistics are reported in parentheses below coefficient estimates and are calculated based on standard errors clustered at the state-deal type level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed *t*-test.

| Dependent variable: | | <i>COI score</i> | <i>COI score</i> | <i>COI score</i> |
|----------------------------|-------------|----------------------------|----------------------------|----------------------------|
| Sample: | | <i>SEC vs No regulator</i> | <i>SEC vs No regulator</i> | <i>SEC vs No regulator</i> |
| | Pr. Sign | (1) | (2) | (3) |
| <i>SEC</i> | ? | 0.106*** (3.06) | 0.128*** (3.50) | 0.158*** (3.14) |
| <i>ROA</i> | | | 0.105* (1.89) | 0.060 (1.42) |
| <i>BTM</i> | | | 0.030 (1.03) | -0.002 (-0.10) |
| <i>Loss</i> | | | 0.021 (0.66) | -0.006 (-0.28) |
| <i>Lev</i> | | | 0.121 (1.38) | 0.188*** (3.01) |
| <i>Asset Turnover</i> | | | 0.040 (0.95) | 0.001 (0.03) |
| <i>Deal Size</i> | | | 0.001 (0.19) | 0.004 (0.78) |
| <i>Deal Length</i> | | | -0.000 (-0.77) | 0.000 (0.82) |
| <i>Percent Cash</i> | | | 0.001** (2.03) | 0.001*** (2.98) |
| <i>Log (S/EV)</i> | | | -0.006 (-0.12) | 0.034 (0.82) |
| State FE | | Yes | Yes | No |
| Industry FE | | Yes | Yes | No |
| State \times Industry FE | | No | No | Yes |
| Year trend | | Yes | Yes | Yes |
| Observations | | 311 | 311 | 311 |
| R-squared | | 0.517 | 0.541 | 0.694 |

Panel B. Standalone effect of FINRA

This table presents the results from examining the standalone effect of FINRA on COI disclosure in FO valuations. The sample includes a random subset of 549 deals with FOs announced between 2000 and 2015 for which COI disclosure was manually coded. The independent variable in all columns is *FINRA*. All variables are defined in Appendix C. In Columns 1 and 2, we include state fixed effects, two-digit SIC code industry fixed effects, and a time-trend variable. In Column 3, we include state \times two-digit SIC code industry fixed effects, and a time-trend variable. Columns 1-3 show the results for a sample that includes only deals not subject to any regulation or solely under FINRA oversight, without and with deal-level and firm-level control variables, respectively. A constant term is included in all regressions but not reported. The t-statistics are reported in parentheses below coefficient estimates and are calculated based on standard errors clustered at the state-industry level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed *t*-test.

| Dependent variable: | | <i>COI score</i> <i>FINRA vs No</i> <i>regulator</i> | <i>COI score</i> <i>FINRA vs No</i> <i>regulator</i> | <i>COI score</i> <i>FINRA vs No</i> <i>regulator</i> |
|----------------------------|----------|--|--|--|
| Sample: | Pr. Sign | (1) | (2) | (3) |
| <i>FINRA</i> | ? | 0.425** (2.34) | 0.423** (2.49) | 0.476*** (2.67) |
| <i>ROA</i> | | | 0.083 (0.55) | 0.124 (0.54) |
| <i>BTM</i> | | | 0.256*** (2.78) | 0.179** (2.06) |
| <i>Loss</i> | | | -0.032 (-0.57) | -0.043 (-0.70) |
| <i>Lev</i> | | | 0.143 (1.41) | 0.182*** (2.92) |
| <i>Asset Turnover</i> | | | 0.305*** (5.80) | 0.267*** (4.37) |
| <i>Deal Size</i> | | | -0.019 (-0.74) | -0.028 (-1.01) |
| <i>Deal Length</i> | | | 0.000 (0.36) | 0.000 (0.34) |
| <i>Percent Cash</i> | | | 0.001 (0.78) | 0.001 (0.81) |
| <i>Log (S/EV)</i> | | | -0.193*** (-2.84) | -0.150 (-1.62) |
| State FE | | Yes | Yes | No |
| Industry FE | | Yes | Yes | No |
| State \times Industry FE | | No | No | Yes |
| Year trend | | Yes | Yes | Yes |
| Observations | | 116 | 116 | 116 |
| R-squared | | 0.908 | 0.959 | 0.967 |

Table 4. The joint effect of SEC and FINRA regulation on FO COI disclosure quality

Panel A. The incremental effect of FINRA regulation on FO COI disclosure quality

This table presents the results from examining the incremental effect of FINRA on COI disclosure in FO valuations when SEC is the regulator in place. The sample includes a random subset of 549 deals with FOs announced between 2000 and 2015 for which COI disclosure was manually coded. The sample includes only deals solely under SEC oversight or under joint oversight. The independent variable in all columns is $SEC \times FINRA$. All variables are defined in Appendix C. The specification in Column 1 includes state and two-digit SIC code industry fixed effects and a time-trend variable. In Column 2, deal-level and firm-level controls are added. The specification in Column 3 includes state \times two-digit SIC code industry fixed effects and a time-trend variable. A constant term is included in all regressions, but not reported. The t-statistics are reported in parentheses below coefficient estimates and are calculated based on clustered at the state-industry level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed t -test.

| Dependent variable: | | <i>COI score</i> | <i>COI score</i> | <i>COI score</i> |
|----------------------------------|----------|---------------------------|---------------------------|-------------------------|
| Sample: | | <i>SEC- only + (SEC +</i> | <i>SEC- only + (SEC +</i> | <i>SEC- only + (SEC</i> |
| | Pr. Sign | <i>FINRA)</i> | <i>FINRA)</i> | <i>+ FINRA)</i> |
| | | (1) | (2) | (3) |
| <i>SEC</i> \times <i>FINRA</i> | ? | 0.259*** (5.54) | 0.267*** (5.53) | 0.295*** (5.51) |
| <i>ROA</i> | | | -0.049 (-0.63) | -0.049 (-0.68) |
| <i>BTM</i> | | | 0.008 (0.12) | 0.000 (0.01) |
| <i>Loss</i> | | | 0.039 (0.96) | 0.031 (0.72) |
| <i>Lev</i> | | | -0.014 (-0.20) | 0.032 (0.43) |
| <i>Asset Turnover</i> | | | -0.011 (-0.52) | -0.038** (-1.99) |
| <i>Deal Size</i> | | | 0.013 (1.31) | 0.006 (0.59) |
| <i>Deal Length</i> | | | -0.000 (-0.66) | 0.000 (0.03) |
| <i>Percent Cash</i> | | | 0.000 (0.89) | 0.000 (0.62) |
| <i>Log (S/EV)</i> | | | -0.001 (-0.04) | -0.003 (-0.08) |
| State FE | | Yes | Yes | No |
| Industry FE | | Yes | Yes | No |
| State \times Industry FE | | No | No | Yes |
| Year trend | | Yes | Yes | Yes |
| Observations | | 433 | 433 | 433 |
| R-squared | | 0.282 | 0.294 | 0.494 |

Panel B. The incremental effect of SEC regulation on FO COI disclosure quality

This table presents the results from examining the incremental effect of the SEC on COI disclosure in FO valuations when FINRA is the pre-existing regulator. The sample includes a random subset of 549 deals with FOs announced between 2000 and 2015 for which COI disclosure was manually coded. The sample includes only deals solely under FINRA oversight or under joint oversight with FOs. The independent variable in all columns is $SEC \times FINRA$. All variables are defined in Appendix C. The specification in Column 1 includes state and two-digit SIC code industry fixed effects and a time-trend variable. In Column 2, deal-level and firm-level controls are added. The specification in Column 3 includes state \times two-digit SIC code industry fixed effects and a time-trend variable. The t-statistics are reported in parentheses below coefficient estimates and are calculated based on clustered at the state-deal type level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed *t*-test.

| Dependent variable: | | <i>COI score</i> | <i>COI score</i> | <i>COI score</i> |
|--------------------------------------|----------|---|---|---|
| Sample: | | <i>FINRA-only +</i> <i>(SEC+FINRA)</i> | <i>FINRA-only +</i> <i>(SEC+FINRA)</i> | <i>FINRA-only +</i> <i>(SEC+FINRA)</i> |
| | Pr. Sign | (1) | (2) | (3) |
| <i>SEC \times FINRA</i> | ? | -0.037*** (-2.77) | -0.047*** (-2.83) | -0.049* (-1.71) |
| <i>ROA</i> | | | -0.231* (-2.00) | -0.283*** (-3.49) |
| <i>BTM</i> | | | -0.000 (-0.00) | -0.014 (-0.14) |
| <i>Loss</i> | | | 0.004 (0.11) | 0.010 (0.26) |
| <i>Lev</i> | | | 0.077 (0.39) | 0.077 (0.32) |
| <i>Asset Turnover</i> | | | 0.035 (0.66) | 0.057 (0.81) |
| <i>Deal Size</i> | | | 0.029 (1.44) | 0.031 (1.49) |
| <i>Deal Length</i> | | | -0.000 (-0.03) | 0.000 (0.09) |
| <i>Percent Cash</i> | | | -0.001* (-1.90) | -0.002*** (-3.42) |
| <i>Log (S/EV)</i> | | | -0.015 (-1.23) | -0.019** (-2.08) |
| State FE | | Yes | Yes | No |
| Industry FE | | Yes | Yes | No |
| State \times Industry FE | | No | No | Yes |
| Year trend | | Yes | Yes | Yes |
| Observations | | 238 | 238 | 238 |
| R-squared | | 0.532 | 0.577 | 0.673 |

Table 5. The moderating role of SEC resource constraints

This table presents the results from examining the role of SEC resource constraints on the joint effect of SEC and FINRA regulation on FO COI disclosure quality. The sample is based on a random subset of 549 deals with FOs announced between 2000 and 2015 for which COI disclosure was manually coded. Deals with High SEC Resource Constraints (Low SEC Resource Constraints) are defined as those announced in a month when the total number of filings the SEC has to review is above the industry-state median. All variables are defined in Appendix C. All specifications include state and two-digit SIC code industry fixed effects, and a time-trend variable. Deal-level and firm-level controls are included in all columns. In Columns 1-2, the sample includes only deals solely under SEC oversight or under joint oversight, and the independent variable is $SEC \times FINRA$. In Columns 3-4, the sample includes only deals solely under FINRA oversight or under joint oversight, and the independent variable is $SEC \times FINRA$. A constant term is included in all regressions, but not reported. The t-statistics are reported in parentheses below coefficient estimates and are calculated based on standard errors clustered at the state-industry level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed t-test.

| Dependent variable: | <i>COI score</i> | | <i>COI score</i> | |
|-------------------------------------|---------------------------------|---------------------|---------------------------------|----------------------|
| | <i>SEC-only + (SEC + FINRA)</i> | | <i>FINRA-only + (SEC+FINRA)</i> | |
| Sample: | | | | |
| Grouping: | High SEC Constraints | Low SEC Constraints | High SEC Constraints | Low SEC Constraints |
| | (1) | (2) | (3) | (4) |
| <i>SEC × FINRA</i> | 0.254*** (3.54) | 0.402*** (4.88) | -0.023 (-0.39) | -0.149** (-3.07) |
| <i>ROA</i> | -0.067 (-0.47) | -0.053 (-0.60) | -0.193** (-2.19) | -0.523*** (-7.18) |
| <i>BTM</i> | 0.027 (0.28) | 0.030 (0.36) | -0.206 (-1.25) | 0.134* (2.03) |
| <i>Loss</i> | 0.063 (1.20) | -0.062 (-1.24) | 0.003 (0.03) | 0.009 (0.13) |
| <i>Lev</i> | 0.051 (0.46) | -0.171 (-1.25) | 0.080 (0.82) | 0.032 (0.40) |
| <i>Asset Turnover</i> | 0.016 (0.45) | -0.024 (-1.16) | 0.024 (0.37) | 0.052 (1.04) |
| <i>Deal Size</i> | 0.020 (1.44) | -0.010 (-0.66) | 0.027 (1.05) | 0.068*** (3.74) |
| <i>Deal Length</i> | 0.000 (0.79) | -0.000 (-0.73) | 0.000 (0.56) | -0.000 (-0.54) |
| <i>Percent Cash</i> | 0.001* (1.67) | -0.001 (-1.06) | -0.000 (-0.01) | -0.001** (-2.51) |
| <i>Log (S/EV)</i> | -0.037 (-0.87) | -0.083* (-1.82) | 0.035 (0.51) | 0.029 (1.63) |
| P-value for difference coefficients | 0.09 | | 0.05 | |
| State FE | Yes | Yes | Yes | Yes |
| Industry FE | Yes | Yes | Yes | Yes |
| Year trend | Yes | Yes | Yes | Yes |
| Observations | 261 | 120 | 134 | 58 |
| R-squared | 0.333 | 0.418 | 0.549 | 0.827 |

Table 6. The moderating role of the need for shareholders' protection

Panel A. The moderating role of deal type

This table presents the results from examining the moderating role of shareholders' need for protection on the joint effect of SEC and FINRA regulation for COI disclosure in FO valuations. The sample is based on a random subset of 549 deals with FOs announced between 2000 and 2015 for which COI disclosure was manually coded. In this Panel, we define the need for shareholders' protection based on deal type. Contentious deals (No Contentious Deal) are defined as MBOs and going-private transactions (all other deals). All variables are defined in Appendix C. All specifications include state and two-digit SIC code industry fixed effects, and a time-trend variable. Deal-level and firm-level controls are included in all columns. In Columns 1-2, the sample includes only deals solely under SEC oversight or under joint oversight, and the independent variable is $SEC \times FINRA$. In Columns 3-4, the sample includes only deals solely under FINRA oversight or under joint oversight, and the independent variable is $SEC \times FINRA$. A constant term is included in all regressions, but not reported. The t-statistics are reported in parentheses below coefficient estimates and are calculated based on standard errors clustered at the state-industry level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed t-test.

| Dependent variable: | <i>COI score</i> | | <i>COI score</i> | |
|-------------------------------------|---------------------------------|----------------------|---------------------------------|----------------------|
| | <i>SEC-only + (SEC + FINRA)</i> | | <i>FINRA-only + (SEC+FINRA)</i> | |
| Sample: | | | | |
| Grouping: | No Contentious Deal | Yes Contentious Deal | No Contentious Deal | Yes Contentious Deal |
| | (1) | (2) | (3) | (4) |
| <i>SEC × FINRA</i> | 0.202*** (3.45) | 0.406*** (3.47) | -0.074* (-1.77) | -0.310*** (-5.07) |
| <i>ROA</i> | -0.079 (-0.71) | -0.102 (-0.72) | -0.303*** (-2.75) | -0.242 (-1.36) |
| <i>BTM</i> | 0.105 (1.23) | -0.155 (-1.42) | 0.068 (0.69) | -0.009 (-0.20) |
| <i>Loss</i> | 0.076 (1.42) | -0.096 (-1.00) | -0.019 (-0.32) | 0.159 (0.89) |
| <i>Lev</i> | 0.000 (0.00) | -0.205 (-1.25) | 0.132 (1.51) | 0.183 (0.55) |
| <i>Asset Turnover</i> | 0.032 (0.77) | -0.094** (-2.01) | 0.119 (1.63) | -0.061 (-1.25) |
| <i>Deal Size</i> | 0.024* (1.87) | 0.007 (0.37) | 0.036** (2.40) | -0.006 (-0.07) |
| <i>Deal Length</i> | 0.000 (0.00) | -0.000 (-0.89) | 0.000 (0.11) | 0.003* (2.05) |
| <i>Percent Cash</i> | 0.000 (0.39) | 0.000 (0.21) | -0.001 (-1.15) | 0.001 (0.23) |
| <i>Log (S/EV)</i> | -0.037 (-1.08) | 0.100** (2.18) | -0.040 (-0.94) | 0.029 (0.21) |
| P-value for difference coefficients | 0.06 | | <0.01 | |
| State FE | Yes | Yes | Yes | Yes |
| Industry FE | Yes | Yes | Yes | Yes |
| Year trend | Yes | Yes | Yes | Yes |
| Observations | 286 | 147 | 173 | 65 |
| R-squared | 0.335 | 0.578 | 0.629 | 0.941 |

Panel B. Industry Heterogeneity

This table presents the results from exploiting industry heterogeneity in the joint effect of SEC and FINRA regulation on COI disclosure in FO valuations. The sample is based on a random subset of 549 deals with FOs announced between 2000 and 2015 for which COI disclosure was manually coded. We compare deals where the target and/or the acquirer operate in biotech (2833–36, 8731–34), computer (3570–77, 7370–74), electronics (3670–74), or retail (5200–5961), and regulated industries (i.e., financial and healthcare), with deals in other industries. All variables are defined in Appendix C. All specifications include state and target-acquirer industry fixed effects, and a time-trend variable. Deal-level and firm-level controls are included in all columns. In Columns 1-2, the sample includes only deals solely under SEC oversight or under joint oversight, and the independent variable is $SEC \times FINRA$. In Columns 3-4, the sample includes only deals solely under FINRA oversight or under joint oversight, and the independent variable is $SEC \times FINRA$. A constant term is included in all regressions, but not reported. The t-statistics are reported in parentheses below coefficient estimates and are calculated based on standard errors clustered at the state-industry level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed *t*-test.

| Dependent variable: | <i>COI score</i> | | <i>COI score</i> | |
|-------------------------------------|---------------------------------|-------------------|---------------------------------|----------------------|
| | <i>SEC-only + (SEC + FINRA)</i> | | <i>FINRA-only + (SEC+FINRA)</i> | |
| Sample: | Deals with high | | Deals with high | |
| Grouping: | litigation risk | Other | litigation risk | Other |
| | (1) | (2) | (3) | (4) |
| <i>SEC × FINRA</i> | 0.305*** (6.58) | 0.099 (0.81) | -0.118*** (-3.29) | 0.180 (1.24) |
| <i>ROA</i> | 0.063 (1.07) | -0.225 (-0.96) | -0.184 (-1.55) | -0.094 (-0.54) |
| <i>BTM</i> | 0.014 (0.21) | -0.257 (-1.22) | 0.150 (1.59) | -0.331 (-1.65) |
| <i>Loss</i> | 0.068** (2.23) | 0.012 (0.08) | 0.006 (0.11) | -0.193** (-2.89) |
| <i>Lev</i> | -0.048 (-0.77) | 0.150 (0.60) | 0.010 (0.10) | -0.385* (-1.87) |
| <i>Asset Turnover</i> | -0.016 (-0.89) | 0.012 (0.18) | 0.007 (0.18) | -0.230 (-1.75) |
| <i>Deal Size</i> | 0.007 (0.49) | 0.015 (0.63) | 0.046*** (2.70) | -0.033 (-1.11) |
| <i>Deal Length</i> | -0.000 (-0.03) | 0.000 (0.08) | 0.000 (0.11) | -0.000 (-0.33) |
| <i>Percent Cash</i> | 0.000 (0.29) | -0.000 (-0.31) | -0.001 (-1.24) | -0.003*** (-3.74) |
| <i>Log (S/EV)</i> | 0.007 (0.34) | -0.014 (-0.11) | 0.033 (1.16) | 0.112 (0.57) |
| P-value for difference coefficients | 0.06 | | 0.02 | |
| State FE | Yes | Yes | Yes | Yes |
| Industry FE | Yes | Yes | Yes | Yes |
| Year trend | Yes | Yes | Yes | Yes |
| Observations | 358 | 74 | 165 | 42 |
| R-squared | 0.391 | 0.566 | 0.586 | 0.894 |

Table 7. Robustness tests**Panel A. COI relative to Material Ties**

This table presents the results from examining the standalone and joint effects of SEC and FINRA on COI disclosure in FO valuations using sub-components of the overall COI disclosure score. The dependent variable is the disclosure score relative to material ties. The sample includes a random subset of 549 deals with FOs announced between 2000 and 2015 for which COI disclosure was manually coded. All variables are defined in Appendix C. The specification in Columns 1-4 includes state \times two-digit SIC code industry fixed effects and a year trend. In all columns, deal-level and firm-level controls are included. We limit the sample to observations with conflict of interest relative to past ties controlling for the existence of conflict of interest relative to contingent fees. A constant term is included in all regressions, but not reported. The t-statistics are reported in parentheses below coefficient estimates and are calculated based on standard errors clustered at the state-industry level state-deal type level, except for Column 4 where the standard errors are clustered at the state-deal type level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed *t*-test.

| Dependent variable: | | <i>COI Material Ties</i> | | | |
|--------------------------------------|----------|--------------------------------|----------------------------------|-------------------------------------|-------------------------------------|
| Sample: | | <i>SEC vs No regulator</i> | <i>FINRA vs No regulator</i> | <i>SEC-only + (SEC + FINRA)</i> | <i>FINRA-only + (SEC+FINRA)</i> |
| | Pr. Sign | (1) | (2) | (3) | (4) |
| <i>SEC</i> | ? | 0.891*** (6.44) | | | |
| <i>FINRA</i> | ? | | 2.680*** (3.56) | | |
| <i>SEC \times FINRA</i> | ? | | | 0.556*** (2.67) | -0.260*** (-3.20) |
| Controls | | Yes | Yes | Yes | Yes |
| State \times Industry FE | | Yes | Yes | Yes | Yes |
| Year trend | | Yes | Yes | Yes | Yes |
| Observations | | 233 | 91 | 314 | 172 |
| R-squared | | 0.695 | 0.970 | 0.557 | 0.777 |

Panel B. COI relative to Contingent Fees

This table presents the results from examining the standalone and joint effects of SEC and FINRA on COI disclosure in FO valuations using sub-components of the overall COI disclosure score. The dependent variable is the disclosure score relative to contingent fees. The sample includes a random subset of 549 deals with FOs announced between 2000 and 2015 for which COI disclosure was manually coded. All variables are defined in Appendix C. The specification in Columns 1-4 includes state \times two-digit SIC code industry fixed effects and a year trend. In all columns, deal-level and firm-level controls are included. We only consider observations with conflict of interest relative to contingent fees controlling for the existence of conflict of interest relative to past ties. A constant term is included in all regressions, but not reported. The t-statistics are reported in parentheses below coefficient estimates and are calculated based on standard errors clustered at the state-deal type level, except for Column 2 and 3 where the standard errors are clustered at the state-industry level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed *t*-test.

| Dependent variable: | | <i>COI Contingent Fees</i> | | | |
|--------------------------------------|----------|----------------------------|------------------------------|---------------------------------|---------------------------------|
| Sample: | Pr. Sign | <i>SEC vs No regulator</i> | <i>FINRA vs No regulator</i> | <i>SEC-only + (SEC + FINRA)</i> | <i>FINRA-only + (SEC+FINRA)</i> |
| | | (1) | (2) | (3) | (4) |
| <i>SEC</i> | ? | 0.288** (2.07) | | | |
| <i>FINRA</i> | ? | | 1.150** (2.47) | | |
| <i>SEC \times FINRA</i> | ? | | | 1.561*** (7.12) | -0.089*** (-3.12) |
| Controls | | Yes | Yes | Yes | Yes |
| State \times Industry FE | | Yes | Yes | Yes | Yes |
| Year trend | | Yes | Yes | Yes | Yes |
| Observations | | 271 | 106 | 385 | 219 |
| R-squared | | 0.742 | 0.969 | 0.509 | 0.643 |