Mutual fund portfolio disclosures and portfolio firms' earnings management

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Abstract

Does mutual fund portfolio disclosure change the earnings management of portfolio firms? Utilizing a major regulation requiring fund to disclose portfolio holding at a higher frequency, we find that mutual funds' portfolio firms shift from discretionary accrual-based earnings management (DAC) to real earnings management (REM) following the regulation change. Further cross-sectional tests reveal that treated firms held by funds with more concentrated portfolios experience more significant changes in real earnings management behavior. Notably, the increases in REM are more pronounced in firms with greater information asymmetry, lower financial leverage and higher profitability. Our findings underscore significant spillover effects of this mandatory portfolio regulation on portfolio firms. While the higher reporting frequency enhances transparency, it also exposes the persistence of manipulation in the earnings management practices of portfolio firms.