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## Accounting Research Workshop (ARW)

We thank the Center for Advanced Management Studies (CAMS) for the generous support.

**Speaker:** Professor Hervé Stolowy

**University:** Professor of Accounting, HEC, Paris

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**Subject:** "Is short-selling always a disciplining mechanism? Evidence from earnings management after being shorted publicly"

### Abstract

Unlike passive short sellers, activist short sellers explain publicly the reasons for shorting a stock through the dissemination of one or a series of negative research reports about a firm. We examine whether target firms subject to activist short sellers' campaigns engage in earnings management in the period following the dissemination of short sellers' theses. Firms exposed by activist short sellers could either attempt to artificially increase earnings to signal strong performance and restore investors' positive views about the company. Alternatively, exposed firms could avoid or reduce earnings management in the face of increased scrutiny from market participants and regulators. Using more than 900 activist short sellers' campaigns from 2010 to 2017, we find that target firms exhibit more positive income-increasing discretionary accruals in the four quarters following the release of activist short sellers' reports relative to non-target firms matched by market value of equity or levels of pre-campaign accruals. The economic magnitude of such quarterly income-increasing earnings management by target firms is approximately 0.8% of lagged total assets. This effect is stronger for campaigns focusing on market-based allegations, for campaigns for which the short seller discloses a large expected price decline, and when the target firm organizes a conference call. We also find that investors see through target firms' attempt to increase reported earnings through abnormal accruals.

**We thank Hervé Stolowy for the great opportunity to learn more about activist short sellers and wish him and his co-authors success with the paper!**

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