

2025 SBA-GSIM Colloquium

Does Stock Liquidity Influence Non-GAAP Reporting? Evidence from a Natural Experiment

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Abstract

We investigate how stock liquidity influences managers' non-GAAP earnings metrics by leveraging the SEC's Tick Size Pilot Program (TSPP), a plausibly exogenous shock that reduced stock liquidity for randomly selected firms. Using a difference-in-differences design, we find little or no evidence that affected firms reduce their likelihood of disclosing non-GAAP metrics, distinguishing non-GAAP reporting from other forms of voluntary disclosure, where prior research shows significant declines. However, we find a significant decline in the quality of non-GAAP exclusions, particularly in other exclusions, such as amortization and stock option expenses. This decline is more pronounced among affected firms with a reduction in discretionary accruals and weaker governance following the TSPP. Our results suggest that the TSPP shifts managerial focus from GAAP accrual-based earnings management toward non-GAAP reporting, consistent with a substitution effect between earnings management and non-GAAP reporting when stock liquidity decreases.

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