Jumping Ship:
Undisclosed SEC Investigations and Quiet CEO Turnover

Eric R. Holzman
Assistant Professor
Indiana University

Jaesik Kim
Ph.D. Student
Indiana University

Brian P. Miller
Professor
Indiana University

Joseph H. Schroeder
Professor
Indiana University

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Abstract

Prior research finds that the public revelation of misconduct leads to severe career penalties for managers, raising an interesting question about whether managers can avoid career penalties by leaving their employer before accusations become public. We exploit the private nature of SEC investigations to examine this question. We find that the likelihood of CEO quiet turnover is positively related to the presence of an undisclosed SEC investigation, but not to disclosed SEC investigations. Additionally, we find no difference in the future rehire rates between those turned over CEOs whose firms are under an investigation that is not disclosed and peers at non-investigated firms, suggesting that there is no evidence of career penalties for managers at firms with undisclosed investigations. Last, we find that hiring a privately investigated CEO increases the subsequent employer's likelihood of being investigated by the SEC.

Keywords: SEC Investigations, CEO Turnover, CEO Reputation

1. Introduction

Obtaining the rank of CEO is a significant accomplishment for one's career as it comes with access to lucrative compensation packages, publicity, and even status in the upper echelons of society. Given these benefits, it is crucial for managers to protect their reputation from being associated with any type of misconduct. Avoiding involvement with misconduct is not surprising given prior research finds that implicated and non-implicated managers experience severe career consequences after the public revelation of financial misconduct or an ongoing SEC investigation.[1] Consequently, CEOs have the incentive to manage their careers in such a way as to avoid the public revelation of reputation-damaging events to ensure their careers continue to be viable. This study examines whether CEOs can avoid career penalties by quietly (or voluntarily) leaving their employer before accusations of financial misconduct become public.

We focus on SEC formal investigations, which are a key regulatory tool to maintain orderly and efficient capital markets. The SEC staff investigates a target firm to examine the possibility of securities law violations. These investigations are serious and can have material consequences as they are often conducted using subpoenas which compel document production and testimony from the target firm and executives. They can also lead to the issuance of Wells Notice and enforcement actions (Holzman et al. 2024). Because of the serious nature of these investigations, one of the hallmarks of the SEC's investigative process is its policy to keep investigations confidential to protect the reputation of the registrants and their employees. As such, this policy provides a setting where managers are aware that an assertion of misconduct is possible, whereas the general investing public and other possible employers do not know an investigation is under way unless it is voluntarily disclosed by management. We predict an increase in CEO's quietly

[1] Desai et al. (2006) and Karpoff et al. (2008) document turnover after financial misconduct and Solomon and Soltes (2021) and Blackburne and Quinn (2023) provide evidence of turnover after an SEC investigation is disclosed.

leaving when an investigation starts as executives can seek new employment before misconduct allegations become public.

Recent research suggests that each year many firms are subject to private investigations by the SEC. For example, Blackburne et al. (2021) estimate that during their sample period, in an average year, approximately 11% of public companies are actively under formal investigation by the SEC. Further, their study indicates that 19% of firms publicly disclose an investigation at the onset, and only 45% are eventually disclosed by the conclusion. These statistics suggest that many CEOs face an increased risk of losing their jobs, and risk additional reputational penalties, if news of an ongoing investigation comes to light.

Both CEOs and the firms may benefit from allowing the CEO to leave quietly. In particular, CEOs may elect to quietly leave their current position and seek new employment before news of an investigation is disclosed by the firm or through public charges filed by the SEC in order to maintain their reputation and career options. Evidence consistent with this would help at least partially explain why unforced CEO turnover rates have been noted to be higher than expected based on known public information at the time of the turnover in recent literature (Kaplan and Minton 2012; Jenter and Lewellen 2021). Additionally, it is worth noting that it may also be in firms' best interest to allow CEOs to leave quietly so as to not draw undue external scrutiny given the ongoing undisclosed SEC investigation.

We begin our analysis by examining the likelihood of subsequent CEO turnover when there is an SEC investigation. It is important to ensure that a comparison has similar characteristics in terms of timing, SEC investigation likelihood, and industry. As such, we construct a matched pair sample of firms that are under SEC investigation (treatment) and firms that are not under SEC investigation (control) that share similar SEC investigation likelihood scores (Holzman et

al. 2024), industry membership, and the same calendar year-quarter. Further, the use of a matched sample enables us to compare turnover using the same turnover window as the investigated firm. Using this matched sample, we confirm findings from prior literature that the initiation of a formal SEC investigation is associated with a higher likelihood of CEO turnover for both disclosed and undisclosed SEC investigations. However, it is unclear from these basic turnover tests whether the CEOs were forced out or left quietly.

In contrast to prior literature that has largely focused on forced turnover as a key governance mechanism that disciplines CEOs and repairs reputational damage, our focus is on quiet (or voluntary) turnovers. These non-forced turnovers have been largely ignored in the prior literature. Our interest is in quiet turnovers, where the CEO exits the firm in a manner that doesn't draw suspicion that the CEO was forced out. As such, we rely on a dataset from Peters and Wagner (2014) that identifies forced turnover using the criteria from Parrino (1997). As described in more detail later in the manuscript, the turnovers classified as forced would draw substantial attention to the involuntary departure of the CEO through press releases indicating that either: 1) the CEO was fired, retirement announcements where there was an immediate departure, or 2) that the CEO left the firm at an age before 60 without a good rationale (e.g., poor health or accepting another position). In contrast, to the public nature of these forced departures, the remaining departures are much less likely to draw public attention, and as such we label these departures as quiet turnovers.[2]

[2] It is worth noting that prior literature uses the same methodology and refers to unforced turnover as voluntary. However, in practice many of these unforced turnovers could be coordinated between the CEO and firm as to not draw attention to the CEO exiting the firm for cause. As such, we believe that the proxy for unforced turnover may more appropriately be viewed as quiet turnover, where there isn't a lot of publicity indicating that the CEO was terminated. Consistent with this notion of quiet turnover, we provide evidence in Appendix B that there is no significant market response to these quiet turnovers and that there is less press coverage of these turnovers relative to forced turnovers. Given these factors, going forward we use the terminology of quiet turnover as we believe it better captures the research question of interest.

Consistent with CEOs that are the subject of an undisclosed investigation trying to avoid potential reputational penalties before news of the investigation comes to light, we find that the likelihood of CEO quietly departing is positively related to the presence of an undisclosed SEC investigation but not publicly disclosed SEC investigations.[3] Interestingly, we find these results are largely concentrated in the first six months or so after the initial opening of the investigation. Given that SEC investigations tend to last several years, this evidence suggests that some CEOs promptly and quietly exit once an investigation is opened.

Next, we examine whether the SEC investigation impacts CEOs' ability to obtain future employment. Our evidence suggests in cases where the investigation is disclosed, CEOs have a reduced likelihood of finding a job in the future relative to CEOs that did not experience SEC investigations. In sharp contrast, in cases where the investigations are not disclosed we fail to find any difference between the likelihood of CEOs being rehired compared to a set of peers at non-investigated firms. We also examine whether being associated with an SEC investigation impacts the quality of future employment opportunities.[4] We find that even when another firm rehires the CEO of a firm investigated by the SEC that has been disclosed the quality of that subsequent employment is lower. In contrast to the CEOs associated with disclosed investigations, we find no evidence of lower quality subsequent employment for those CEOs working at firms with an undisclosed SEC investigation. Combined, these results suggest that

[3] In additional analyses, we attempt to mitigate potential concerns that investigation severity may impact our primary inferences around the relationship between undisclosed investigations and quiet CEO turnover. In particular, firms may be more likely to disclose investigations and fire CEOs when investigations are more severe. To address this concern, we limit disclosing firms to only those investigations where the public disclosure was driven by a party external to the firm (i.e., FOIA request denials). Our results on quiet turnover in cases where there were no disclosures are quantitatively similar when we focus the analyses on these arguably more exogenous public disclosures of the investigation.

[4] We examine four quality-related measures: (1) whether the CEO gets rehired to a public or private firm; (2) whether the CEO gets rehired to a comparable position (i.e., CEO, Chairman, President); (3) whether the CEO gets rehired to a firm of bigger size; (4) whether the CEO gets rehired with a higher compensation.

CEOs who exit their firms before an SEC investigation is publicly disclosed do not suffer career penalties compared to a sample of peers who were not investigated by the SEC.

Further, we examine whether suspicions of misconduct follow employees to their new employer. This could be due to either these managers continuing to cut corners in a way that catches the eye of SEC investigators and/or the SEC continuing to scrutinize these CEOs even though they are in new positions. In particular, although investigated CEOs may be able to avoid career penalties due to secrecy surrounding the investigation process, the SEC is the one party aware of the investigated issues. Interestingly, compared to a sample of rehired CEOs not previously subject to an SEC investigation, we find that hiring a privately investigated CEO in a comparable position (i.e., CEO, Chairman, President) increases the subsequent employer's likelihood of being investigated by the SEC by approximately 15.9%.[5] Given that regulatory investigations likely impose high costs on firms, these findings should caution future employers to increase their vetting of external executive candidates.

In supplemental analysis, we provide further insights into how the SEC responds to CEO departures during an ongoing investigation. Specifically, we examine whether CEO departures are related to SEC investigation outcomes. Given prior research that the SEC is a constrained regulator, they do not have the capacity to investigate every case (Bonsall et al. 2024; Kedia and Rajgopal 2011). As such, a quick and quiet exit by a CEO may allow the SEC the option to drop the investigation as the SEC's concerns regarding misconduct were associated with the CEO and were alleviated once they left. In contrast, in cases where the CEO was forced out the SEC may need to conduct a full and in-depth investigation to not appear negligent given the increased visibility resulting from the forced CEO dismissal announcement. Consistent with the notion that

[5] Our results are consistent with private communications we had with SEC staff members that they often observe that CEO misconduct at one firm appears to carryover to misconduct at their future employer.

the SEC drops their investigation after the CEO quietly leaves the firm, we find a positive association between the quiet exit of a CEO and the likelihood of a short SEC investigation.

Our study contributes to several streams of research. First, we contribute to the literature that examines the consequences of secrecy in the SEC investigation process. Blackburne et al. (2021) show that corporate insiders exploit the undisclosed nature of investigations for personal gain by selling their shares in the investigated firm before the public becomes aware of misconduct allegations. Our study extends this research by showing that some CEOs also exploit the secret nature of the SEC investigation to leave the firm before disclosure to preserve their future career prospects. Additionally, our findings show that future employers that perhaps unknowingly employ these previously investigated CEOs experience an increased risk of future SEC investigation, which is likely costly to these firms and their shareholders. This hidden risk is important to spotlight given that the proportion of external CEO hires has steadily increased over the past decades (Frydman 2007; Murphy and Zábojník 2004). Furthermore, these findings are important as SEC investigations are meant to bring about positive outcomes, but the secrecy of the program, may allow suspicious executives to continue in their career path.

Second, we contribute to the literature on the consequences of alleged misconduct for CEO careers (e.g., Blackburne and Quinn 2023; Desai et al. 2006; Karpoff et al. 2008; Solomon and Soltes 2021). While several studies have examined whether managers are *forced* out after misconduct allegations become public, our findings suggest that given the high career penalties faced due to misconduct revelation, CEOs may voluntarily choose to leave a firm quietly before the public revelation of alleged misconduct.

Third, prior research has noted that contrasted with forced CEO turnover, voluntary (or quiet) CEO turnover rates are higher than expected based on publicly available information at the time

(Kaplan and Minton 2012; Jenter and Lewellen 2021). Our evidence helps at least partially reconcile this puzzle. In particular, given that a significant number of firms are subject to investigation and that over the majority of their lives, these investigations are undisclosed, our evidence helps provide a possible reason why unforced CEO turnover rates are higher than expected based on publicly available information. More broadly, our evidence suggests that managers' private information set may exceed that of the market leading them to leave quietly leave before this information comes to light.

2. Background and Research Questions

2.1. Background

The impacts of financial misconduct and financial misrepresentation (e.g., restatements) have been widely examined. When financial reporting issues occur, firms often suffer from reputational damage, increased litigation risk, and regulatory scrutiny (e.g., Palmrose and Scholz 2004; Skinner 1994). Consequently, the board takes corrective actions, such as firing the top management to repair the damage (e.g., Agrawal and Cooper 2017; Hennes et al. 2008; Karpoff et al. 2008). Hennes et al. (2008) find that after accounting irregularities the turnover rate of 49% (64%) for CEOs (CFOs) of restating firms in the 13 months surrounding the restatements. Land (2010) shows significant associations between the severity of earnings restatement measures and the probability of CEO turnover. Efendi et al. (2013) document forced turnover rate of 36% among those executives publicly shown to engage in options backdating. This external monitoring mechanism is consistent with managers being disciplined for violating financial reporting standards or securities law (Fama 1980).

Another set of studies documents higher turnover rates and related labor market penalties that follow the public revelation of misconduct. For example, Desai et al. (2006) show that in addition to 60% of restating firms experiencing a turnover of at least one top manager within 24

months after the restatements examined, the displaced managers suffer poorer subsequent employment prospects. Similarly, Hazarika et al. (2012) find a positive relation between the likelihood of forced CEO turnover and earnings management and provide evidence of negative career consequences for CEOs forced out of their jobs due to earnings management. More recent research documents evidence of contagion in career penalties for those managers of firms where misconduct is publicly revealed but the manager is not directly implicated (Condie et al. 2023).

We note that most research in this area has largely examined firms where the *public* revelation or allegation of misreporting has occurred (e.g., restatements, enforcement actions, etc.). Accordingly, given public, regulator, and prospective employer awareness of the misconduct, these prior findings suggest that career and reputational penalties do occur consistent with theory which predicts ex-post settling up for those alleged to have engaged in misconduct (Fama 1980). However, in our setting, the suspected misconduct investigated by the SEC is not announced by the SEC prior to the filing of formal charges, which often takes years (e.g., Holzman et al. 2024; Bonsall et al. 2024). Recent research has found that managers take advantage of the secrecy surrounding these investigations to offload shares of firm stock before the public becomes aware of the misconduct allegations (Blackburne et al. 2021). Although managers appear to be able to profit off their private information regarding SEC investigations, it is less clear whether they will be able to escape the reputational penalties often associated with these investigations.

2.2. Research Questions

Prior studies show how managers are forced out of their jobs when financial misconduct is discovered and subsequently suffer from reputational penalties in future job prospects. However, it is important to note that these studies focus on analyzing corrective actions taken after the

disclosure of financial misconduct. In other words, relatively little is known about how managers behave before misconduct is revealed to the public.[6] The under-researched question of management behavior ex-ante to the revelation of financial misconduct is important, considering that managers not only possess private information regarding the financial misconduct but are also capable of anticipating the negative consequences that may follow. If managers decide to eschew potential penalties by leaving the firm in advance, exploiting their informational advantage, this may lead to different implications for the functioning of external monitoring mechanisms (i.e., managerial labor market penalties) compared to that of prior studies.

To examine whether managers quietly leave the firm in advance to avoid potential penalties, we utilize SEC investigations as the setting. SEC investigations serve as a major deterrent to firms from violating financial reporting standards and securities law. The SEC staff investigates a target firm to examine the possibility of fraud and recommends enforcement actions if needed. These investigations often involve subpoenas which require document production and testimony from the target firm and executives. Further, investigations can lead to the issuance of Wells Notices and enforcement actions (Holzman et al. 2024).

The SEC has a long-standing policy to keep the investigative process confidential to protect the reputation of the registrants and their staff. Also, the registrants are not required to disclose the fact of being investigated. These characteristics of the SEC investigation provide a unique setting where an ongoing investigation is not revealed to the public, and only the corporate insiders are aware of the event unless the firm decides to disclose the investigation. In this setting, managers gain an informational advantage over other stakeholders. Exploiting the informational advantage, managers can decide to quietly leave the firm in advance to avoid

[6] Relatedly, Fahlenbrach et al. (2017) provide evidence related to independent directors, where they appear to depart firms in anticipation of future adverse events (e.g., restatements).

various penalties that may follow. This leads to our first research question of whether quiet manager turnover is positively associated with undisclosed SEC investigations.

Next, we also study whether the existence of an undisclosed investigation impacts the subsequent employment opportunities of managers who left the firm under investigation. Prior studies document poorer career prospects for managers, following the revelation of financial misconduct (Harizaka et al. 2012; Desai et al. 2006). However, if managers leave the firm in advance of the disclosure of an investigation, it is possible that they can enter the job market with a clean track record due to the confidential nature of the SEC investigation.

Despite managers having incentives to leave prior to the public revelation of the investigation, it is not altogether clear that they will be able to escape before news is leaked to future employers. On the one hand, former employers may be reluctant to provide investigation-related information to subsequent hiring firms as doing so could violate state labor laws or induce litigation. Further, managers and their former employers have incentives to agree not to disclose investigation related information to avoid damaging their respective reputations in the labor market (Gillan et al. 2009). This suggests that these managers may be able to compete with other competitors on equal playing grounds as labor market participants are unaware of ongoing investigations.

On the other hand, it is possible that news about the investigation gets leaked to potential future employers. For instance, prior research on board interlocks finds that corporate investment, tax, and disclosure policies are influenced by private communication through board social networks (e.g., Brown 2011; Cai and Sevilir 2012; Cai et al. 2014). Further, executive search consultants may help uncover news about undisclosed investigations. This tension leads to our second research question of whether managers who decide to leave an investigated firm

before the public disclosure of an investigation are able to find future employment opportunities that are similar to other CEOs who did not experience investigations.

Last, we investigate whether hiring a privately investigated CEO increases the subsequent employer's likelihood of being investigated by the SEC. As previously discussed, the SEC's increased focus on these newly hired CEOs could stem from managers continuing to act in ways that catch the eye of SEC investigators and/or the SEC continuing to scrutinize these particular CEOs based on their actions at their previous company. Given that the SEC is a constrained regulator and only selectively investigates targets where they believe the likelihood of regulatory noncompliance is high (Holzman et al. 2024), we expect that their concern about the possible misconduct of a CEO may be a relevant factor in the SEC's evaluation of whether to open an investigation at their new employer. However, recent research finds that executives who experienced adverse accounting-related events in the past tend to improve reporting quality in the future (Kubick and Li 2023), suggesting that there may not be a need for further SEC scrutiny. Given this tension, our third research question is whether firms that hire CEOs of privately investigated firms are at a higher risk of being subject to an SEC investigation in the future.

3. SEC Investigations and CEO Turnover

Our first research question examines whether CEO turnover is associated with SEC investigations, where we are primarily interested in the relation between CEO quiet turnover around undisclosed investigations. As such, we follow definitions used in prior studies to identify CEO quiet (versus forced) turnover and undisclosed (versus disclosed) investigations. We elaborate on the definitions in the following section as we rely on these measures in several of our empirical tests.

3.1. Key Data Items

3.1.1. SEC Investigations- Disclosed versus Undisclosed

One of the key challenges that historically researchers faced when proxying for investigatory activity by the SEC was that only a subset of investigations, which were investigations that proceeded to enforcement actions or those that were voluntarily disclosed by the firms, were observable. This was due to the SEC's long-standing policy to keep the investigative process confidential to protect the reputation of those involved. To overcome this challenge, we use the new database of formal SEC investigations that provides the universe of investigations.

Through Freedom of Information Act (FOIA) request, we obtained the same dataset of formal SEC investigations as Blackburne et al. (2021). This data contains detailed information on all formal SEC investigations that have closed between January 1, 2000, and August 2, 2017. The data provides information such as the name of the company or issue investigated, as well as the opening and closing dates of the investigation.

From the universe of SEC investigations, it is important to differentiate disclosed versus undisclosed SEC investigations, as our predictions rely on whether the public or the labor market participants know about SEC investigations. First, we follow the procedure laid out by Blackburne et al. (2021) to identify investigations that the firms have voluntarily disclosed. Specifically, we search firm EDGAR filings, press releases, and media articles for evidence of the investigation. We also cross-reference our data with the Blackburne et al. (2021) data on disclosed investigations.

Further, we identify investigations that were subject to FOIA request denials as public signals of disclosed investigations. Coleman et al. (2021) show that publicly disclosed FOIA request denials predict a substantial number of ongoing SEC investigations. Among the nine exemptions that permit government agencies to deny FOIA requests, Exemption 7(A) allows federal

agencies to deny disclosure of information that could interfere with enforcement proceedings. The authors show that these 7(A) FOIA Exemptions provide a public signal that there is an ongoing SEC investigation. Since these 7(A) exemptions suggest that there is a high likelihood that there is an ongoing investigation we identify ongoing investigations with these denials as a disclosed investigation.[7] Therefore, we define undisclosed investigations as those that were not voluntarily disclosed or subject to FOIA request denials.

3.1.2. CEO Turnovers- Forced and Quiet

Recall that our goal is to distinguish the forced turnovers based on whether there was substantial attention to the involuntary departure of the CEO or not. To do so, we rely on the database of forced CEO turnovers (Peters and Wagner 2014) to define CEO forced and quiet turnover based on a procedure consistent with Parrino (1997). More precisely, CEO departures are deemed to be forced where the related press reports state that the CEO was fired, forced out, or retired/resigned due to policy differences or board pressure. Further, in cases when press articles that report that the CEO is retiring but the company does not announce the retirement date at least six months before departure are likely to draw attention to the notion that the departure was likely involuntary. Finally, turnovers of CEOs below the age of 60 are also likely to bring scrutiny and as such are also classified as forced if the articles do not report the reason to be death, poor health, or acceptance of another position. We classify all other observations as quiet turnovers.[8,9]

[7] The FOIA Exemption 7 allows the SEC to deny "records or information compiled for law enforcement purposes, to the extent that the production of those records (A) could reasonably be expected to interfere with enforcement proceedings" (p. 5, SEC 2021). We thank Braiden Coleman for sharing this 7(A) Exemption data.
[8] We note that Parrino's (1997) classification procedure identifies CEO deaths as non-forced turnover. For completeness we include all observations in our primary analyses. It is worth noting, that there is one death in our sample, and that the empirical results are qualitatively similar after removing this observation (untabulated).
[9] Our additional analyses suggests that these turnovers are indeed quiet. In particular, we find no statistically significant market reaction for quiet turnovers. This is in contrast to our finding a negative announcement returns for CEOs that were forced out during disclosed investigations. In addition, we find that quiet CEO turnover

3.1.3. CEO Turnover Windows

We define CEO turnover in two alternative windows (i.e., 6 months and 12 months) to examine the CEOs' departure decisions after the investigation's initiation. Specifically, we begin the turnover window 2 months prior to the beginning date of the formal investigation to 4 months and 10 months after the beginning date of the investigation. We include 2 months prior to the beginning date of the formal investigation because most are preceded by an informal investigation (matter under inquiry or a "MUI"), which is approximately 60 days in length (Holzman et al. 2024). During the MUI period, the SEC staff often contact the company to request additional information (Holzman et al. 2024), suggesting that CEOs can become aware of an investigation during this MUI period. To account for this fact, we begin our turnover window 2 months prior to the beginning date of the investigation, which is also consistent with Blackburne and Quinn (2023).

3.2. Sample Selection and Descriptive Statistics

3.2.1. Sample Selection- Matching on Investigation Likelihood Score

First, we examine CEO turnovers around SEC investigations relative to non-investigated firms. Obviously, this sort of analysis is challenging due to selection bias stemming from the fact that SEC investigations are not randomly assigned (e.g., Holzman et al. 2024; Kedia and Rajgopal 2011). To mitigate this concern, we use a matching method to select a control group (i.e., non-investigated firms) that has a similar likelihood of investigation to the treatment group (i.e., investigated firms). Specifically, we select a sample of non-investigated firms based on the timing, industry, and likelihood of SEC investigation (Holzman et al., 2024). One major

announcements of firms being privately investigated are associated with relatively lower levels of media coverage, in terms of number of published articles. We discuss these tests further in Section 6.2. and tabulated them in Appendix B.1.

advantage of our matching approach is that it allows us to examine the same CEO turnover windows for investigations and the matched non-investigations.

To estimate the investigation likelihood for our matched sample of firms, we rely on recent a study by Holzman et al. (2024). This study introduced various determinants of an SEC investigation such as the firm's likelihood for regulatory noncompliance, the degree of private sector scrutiny, and the presence of public trigger events in addition to basic firm factors such as size, leverage, and performance. Based on these variables, the authors estimated the likelihood score of becoming subject to SEC investigation in the next quarter. Because the investigations dataset, described in Section 3.1.1, includes only closed cases, it is likely to be incomplete in later periods. Accordingly, Holzman et al. (2024) only examine investigations opened on or before December 31, 2013, because the average investigation length (i.e., the number of dates between the opening and closing investigation dates) is approximately 3.5 years. Because we rely on their measure of investigation likelihood for our matching procedure, we limit our analyses to the 2000 to 2013 time frame.

We select investigations that opened between 2000 and 2013 with a valid gvkey match. Further, we deal with overlapping investigations by selecting the earlier of the overlapping investigations. This is to reduce the potential measurement error that could arise where subsequent CEOs that were not responsible for the initiation of the investigation turnover for unrelated reasons. We select the first quarter when the investigation occurred for the investigated firms and identify the investigation likelihood score from the previous quarter as that is the data the SEC would have used to make their decision to investigate. We then find a matched non-investigated firm-quarter in the same industry (i.e., 2-digit SIC code) with the closest

investigation likelihood score of that previous quarter.[10] We require the investigation and the matched non-investigation pair to both have non-missing control variables, resulting in 1,261 investigations and matched 1,261 non-investigations as reported in Table 1.[11]

To define CEO turnovers, we construct a comprehensive sample of turnovers from 2000 to 2013, to match the coverage of the investigation dataset, using the ExecuComp dataset and various datasets used in recent studies (Ertimur et al. 2018; Gentry et al. 2021). Further, we also collect turnover dates to determine the turnover window. To do this, we collect and manually verify the CEO departure dates. Specifically, we prioritize using the data points of ExecuComp and Ertimur et al. (2018) in identifying the CEO departure date. If there were missing data points in ExecuComp, we used the dates in Ertimur et al. (2018). If there were missing data points in both ExecuComp and Ertimur et al. (2018), we used the dates in Gentry et al. (2021).[12] Based on this dataset, we define CEO turnovers in two different windows: (1) six months (*CEO_Turnover_6m*) and (2) 12 months (*CEO_Turnover_12m*) around the beginning date of the investigations and the matched non-investigations.

3.2.2. Descriptive Statistics

Table 2 provides descriptive statistics and univariate tests across investigations and matched non-investigations, where *SEC_INV* is a dummy variable set to one for investigations, and zero for matched non-investigations. We begin by comparing the investigation likelihood score for the investigated and non-investigated firms. We find no statistical difference between the two groups, suggesting that the matching procedure successfully identified the treatment and control

[10] We match based on a one-to-one match, without replacement within a caliper range of 3 percent.
[11] We use Compustat and CRSP to calculate variables related to firm characteristics. We use BoardEx and ExecuComp to calculate variables related to governance characteristics.
[12] Further, if there were discrepancies in the CEO departure date between the three datasets that were less than 7 days, we first used the Ertimur et al. (2018) data points, then ExecuComp, and then Gentry et al. (2021). For discrepancies that were more than 7 days, we hand-verified the dates by searching regulatory filings such as 10-K, 8-K, and proxy statements on EDGAR and press releases.

groups similarly likely to be investigated by the SEC.

In terms of the likelihood of CEO turnover, the univariate results show that investigated firms have a higher likelihood of CEO turnover than the non-investigated firms for both turnover windows (i.e., 6 months and 12 months). Regarding firm characteristics, investigated firms are larger in size, have a lower book-to-market ratio, worse performers, as shown by lower market returns, and have larger return volatility, relative to non-investigated firms. Consequently, controlling for these variables is important in our empirical examination.

3.3. Research Design and Empirical Results

3.3.1. Empirical Results – Combined CEO Turnover

We begin the analysis of our first prediction regarding how SEC investigations affect the likelihood of CEO turnover with the following linear regression model:

$$\textit{CEO\_Turnover\_6m (12m)} = \beta_0 + \beta_1\, \textit{SEC\_INV} + \beta_2\, \textit{Governance controls} + \beta_3\, \textit{Firm controls} + \text{Industry Fixed Effects} + \text{Year Fixed Effects} + \varepsilon \quad (1),$$

where *CEO_Turnover_6m (12m)* is a dummy variable set to one if CEO turnover happened between two months prior to the beginning of the investigation to four (ten) months after the beginning of the investigation, and zero otherwise.

The primary variable of interest is *SEC_INV,* a dummy variable set to one for investigated firms, and zero for non-investigated firms. Further, we also define *DIS_SEC_INV,* which is a dummy variable set to one if the firm voluntarily disclosed an investigation or becomes subject to a FOIA request denial, as described in Section 3.1.1., and zero otherwise, and *UNDIS_SEC_INV,* which is a dummy variable set to one if the firm is under investigation but has not voluntarily disclosed an investigation or becomes subject to a FOIA request denial, and

zero otherwise.[13]

We include controls related to governance characteristics such as board size, board independence, and Chairman/CEO duality that have been documented to influence CEO turnover (Jensen, 1993; Yermack, 1996). Based on differences in firm characteristics shown in Table 2 across the treatment and control groups, we also include variables related to firm size, performance, and volatility of firm operations. Lastly, we include industry and year fixed effects and cluster standard errors by firm. All variables are defined in Appendix A.

We begin by examining overall turnover rates, where we do not distinguish between forced and quiet turnovers. We present the results of estimating equation (1) in Table 3 Panel A. Columns (1) – (4) all document positive associations between SEC investigations and the likelihood of CEO turnover. These results are consistent with the findings of prior studies (Blackburne and Quinn, 2023; Solomon and Soltes, 2021) and are meant to serve as a baseline for the analyses reported in Panels B and C.

In particular, the results in Columns (1) and (3) of Panel A both show that CEO turnover is statistically higher for firms involved in an SEC investigation for both the 6 and 12 month windows. When we distinguish whether investigations were disclosed or not, Column (2) shows that both disclosed and undisclosed investigations have a positive association with CEO turnover for the six-month window and with statistical significance. Further, the F-test of *DIS_SEC_INV* and *UNDIS_SEC_INV* show no statistical differences between these two independent variables. Interestingly, Column (4) shows a drop in statistical significance for undisclosed investigations, suggesting that many of the CEO turnovers happen within six months from the beginning of the investigations that are not disclosed.

[13] In the selected sample, the proportion of disclosed investigation (*DIS_SEC_INV*) accounts for 36.1% of the investigations, which is quantitatively similar with that of the data presented in Blackburne et al. (2021).

3.3.2. Empirical Results – Forced and Quiet CEO Turnover

We next present the results of estimating a modified equation (1), where CEO forced or quiet turnover is the dependent variable in Table 3 Panel B and Panel C. Specifically, we define *CEO_Forced_6m (12m)* as a dummy variable set to one if CEO forced turnover happened between two months before the beginning of the investigation and four (ten) months after the beginning of the investigation, and zero otherwise. To measure quiet turnover, we use all turnover observations not defined as forced. In particular, we define *CEO_Quiet_6m (12m)* as a dummy variable set to one if CEO quiet (i.e., not forced) turnover happened between two months before the beginning of the investigation and four (ten) months after the beginning of the investigation, and zero otherwise.[14]

We begin by observing the impact of all SEC investigations on CEO quiet turnover. Table 3 Panel B Columns (1) and (3) show no association between SEC investigations and CEO quiet turnover. However, when we separate between disclosed and undisclosed SEC investigations, we find that quiet turnover is more likely when the SEC investigation has not been disclosed.[15] For instance, Columns (2) and (4) show a positive association with statistical significance between undisclosed investigation and CEO quiet turnover. Interestingly, the positive association attenuates as we extend the turnover window to 12 months. The F-test of the coefficients estimated on disclosed and undisclosed investigations shows that these independent variables are statistically different for the six-month window in Column (2). Combined, these results suggest that CEOs subject to an undisclosed investigation are more likely to leave their employer quietly

[14] Due to the variation in the number of forced and quiet turnovers in different windows, the number of observations for columns in Table 3 Panel B and Panel C varies.

[15] While our matching procedure attempts to rule out the effects of public trigger events such as restatements and lawsuits, as a robustness test, we re-estimate equation (1) after removing undisclosed investigations that were preceded by restatements or lawsuits in the previous quarter and their matched non-investigations from the sample. The results are quantitatively similar (untabulated).

and that this happens relatively quickly.[16]

For completeness, we also show the forced turnover activity around SEC disclosed and undisclosed investigations. In Table 3 Panel C, Columns (1) and (3) show that CEO forced turnover and SEC investigations are positively associated with statistical significance for both turnover windows. Interestingly, Columns (2) and (4) further show that disclosed investigations drive this positive association. The F-test results show that the coefficients on disclosed and undisclosed investigations are statistically different across both turnover windows. This suggests that when an SEC investigation is disclosed the CEO is more likely to be forced out of office.

In sum, the evidence in Table 3 suggests that CEOs are more likely to quietly leave when the SEC investigation is undisclosed. In contrast, when the investigation has been disclosed the CEO is more likely to be forced out. We examine the implication of these turnovers for CEOs' future careers depending on whether the investigation was publicly known in the next section.

4. SEC Investigations and CEO Subsequent Employment

Next, we examine how CEO departures during ongoing investigations impact their future career prospects. Prior research suggests that implicated (e.g., Hennes et al. 2008, Desai et al. 2006) and non-implicated (Condie et al. 2023) executives in known misconduct cases experience significant reductions in future career prospects. However, little is known about whether the labor market can discern whether a CEO's turnover is related to the suspicion of misconduct. We try to fill this gap by examining whether CEOs that leave office during undisclosed investigations experience career penalties considering the private nature of the investigation.

[16] A potential concern is the possibility that the severity of the SEC investigation may influence both whether the firm discloses the investigation and forces out the CEO. To mitigate this concern, in additional analyses discussed in Section 6.3. and tabulated in Appendix B.2. we examine only those investigations where the public disclosure was driven by a party external to the firm (i.e., FOIA request denials). We find that our results on quiet turnover in cases where there were no disclosures are quantitatively similar when we focus the analyses on these arguably more exogenous public disclosures of the investigation.

4.1. Sample Selection and Descriptive Statistics

4.1.1. Sample Selection

Since our focus in this section is examining the probability of CEOs getting a new job, we use an expanded sample, which consists of all CEO turnovers from 2000 to 2013, to the investigation sample used in the previous tests. This allows us to compare our sample of CEO departures that turned over during an SEC investigation to a large set of other CEOs seeking employment. Our sample selection begins with the full CEO departure sample from 2000 to 2013, consisting of 4,191 observations. We select the treatment group of CEOs that left office during SEC investigations (i.e., the CEO's departure date lies between 2 months prior to the opening and the closing date of a formal SEC investigation) and the control group of CEOs that turned over but did not experience an SEC investigation. It is worth noting that we remove potential observations where the CEOs either departed before the beginning of the investigations or stayed in office even though they were investigated by the SEC to focus on turnovers that happened during an ongoing investigation. We also removed observations that had missing control variables and singleton observations.[17] This results in 2,325 CEO observations, as summarized in Table 4.

To measure the probability of rehire, we define *CEO_Rehired,* which is a dummy variable set to one if the CEO succeeds in getting a new job regardless of the title in a different firm within 3 years after the CEO left the office.[18] Specifically, we use ExecuComp and BoardEx to identify whether the CEO appears in the dataset after the CEO departure date in a different firm. If multiple observations were identified for a CEO, we use the observation nearest to the year the

[17] We use ExecuComp to calculate variables related to CEO characteristics. We use Compustat and CRSP to calculate variables related to firm characteristics.

[18] While we chose 3 years to examine relatively recent subsequent employments, the results are consistent when we change this period to 4 or 5 years for the following empirical tests.

CEO left office.

4.1.2. Descriptive Statistics

Table 5 Panel A provides descriptive statistics and univariate tests across CEOs that left office during investigations (*TO_DUR_ INV=1*) and those that did not experience investigation and left office (*TO_DUR_ INV=0*) of our full sample (2,325 observations). The univariate results show no difference in the likelihood of finding a new job between the two groups suggesting that there is no evidence of a penalty from the SEC investigation. Regarding CEO characteristics, CEOs that left office during investigations tend to be younger. Further, CEOs who leave during investigations worked in a larger firm but had poorer stock market performance than those who left but did not experience investigations.

4.2.Research Design and Empirical Results

4.2.1. Empirical Results- Likelihood of Rehire

Next, we examine the impact of SEC investigation on the likelihood of CEOs being rehired by estimating the following linear regression model:

$$CEO\_rehired = \beta_0 + \beta_1\ TO\_DUR\_INV + \beta_2\ CEO\ controls + \beta_3\ Firm\ controls + \text{Industry Fixed Effects} + \text{Year Fixed Effects} + \varepsilon \quad (2),$$

where *CEO_rehired* is a dummy variable set to one if the CEO succeeds in getting a new job regardless of the title in a different firm within 3 years, and zero otherwise. The variable of interest is *TO_DUR_INV,* a dummy variable set to one if the CEO left office during an ongoing investigation and zero if the CEO did not experience investigation and left office.

As in our previous analyses, we split *TO_DUR_INV* variable into those CEOs that turned over during disclosed (*TO_DUR_DIS_INV)* and undisclosed SEC investigations (*TO_DUR_UNDIS_INV)*. Further, we include control variables related to CEO characteristics such as age and tenure, following the controls employed in Desai et al. (2006), and firm control

variables consistent with equation (1). Lastly, we include industry and year fixed effects, and calculate heteroskedasticity robust standard errors.

We present the results of estimating equation (2) in Table 5 Panel B. Column (1) shows that, on average, when CEOs leave office during an investigation they are less likely to succeed in getting a new job. However, when we distinguish between disclosed and undisclosed investigations, we find that only the coefficient of *TO_DUR_DIS_INV* is positive and statistically significant, suggesting that CEOs of disclosed investigations have a hard time finding a new position. However, we find no evidence that CEOs involved in undisclosed investigations have a reduced likelihood of finding new employment.[19] The F-test result shows a statistically significant difference between the *TO_DUR_DIS_INV* and *TO_DUR_UNDIS_INV*, which suggests that CEOs of disclosed investigations face larger future job market penalties relative to CEOs of undisclosed investigations.[20]

4.2.2.Empirical Results- Rehire Quality

We next present the results of estimating a modified equation (2), where rehire quality measures are the dependent variables in Table 5 Panel C. In particular, we examine four rehire quality related dependent variables: (1) *Rehire Quality_public*; (2) *Rehire Quality_title*; (3) *Rehire Quality_size;* (4) *Rehire Quality_salary.*[21] *Rehire Quality_public* is a nominal variable that is set to two if the rehiring firm is a public firm, one if the rehiring firm is a private firm, and zero if there is no rehire. *Rehire Quality_title* is a nominal variable that is set to two if the CEO

[19] Similar to above, as a robustness test, we re-estimate equation (2) after removing CEO observations that left office during undisclosed investigations that were preceded by restatements or lawsuits in the previous quarter. The results are quantitatively similar (untabulated).

[20] In untabulated analysis we re-run the results from Table 5 Panel B and Panel C after dropping all forced turnovers. We find that in this remaining sample of quiet turnovers our results remain quantitatively similar.

[21] We gather data from ExecuComp and BoardEx to define these variables. We also hand-collect data from regulatory filings such as proxy statements and 10-Ks. However, certain data points related to firm size or compensation for private firms remain missing. As a result, there are differences in the number of observations in the columns of Table 5 Panel C.

succeeded in getting a comparable position (i.e., CEO, Chairman, President), following Desai et al. (2006), one if the CEO succeeded in getting rehired but not in a comparable position, and zero if there is no rehire. *Rehire Quality_size* is a nominal variable that is set to two if the rehiring firm's size is bigger than the former firm, one if the rehiring firm's size is smaller or equal to the former firm, and zero if there is no rehire. *Rehire Quality_salary* is a nominal variable that is set to two if the CEO's compensation at the rehiring firm is bigger than that at the former firm, one if the compensation at the rehiring firm is smaller or equal to that at the former firm, and zero if there is no rehire.

We present the results in Table 5 Panel C. The results are similar to that of Table 5 Panel B, where the CEOs that left office during disclosed investigations get penalized in terms of finding a new job with poorer quality, but there is no significant evidence of similar penalties for CEOs involved in undisclosed SEC investigations. Specifically, CEOs of previously disclosed investigations are less likely to be rehired in a public firm or a firm of comparable size. Also, these CEOs are less likely to be rehired in a comparable position or with a comparable salary. These results suggest that CEOs who left office during disclosed investigations face reputational penalties that negatively impact the quality of their subsequent employment. In contrast, there is no evidence that CEOs who left office during undisclosed investigations face these negative impacts on the quality of their new job. Interestingly, Column (6) suggests that future career prospects even improve for CEOs who left office during undisclosed investigations in terms of the size of the rehiring firm. Combined, the results suggest that due to the private nature of undisclosed investigations there is no evidence that CEOs that depart during these investigations face significant career penalties.

5. CEO Subsequent Employment and Future Outcomes

In our final primary analysis, we examine whether firms that hire CEOs who left office during undisclosed investigations are at risk of a potentially negative outcome in terms of being investigated by the SEC.

5.1. Sample Selection

To provide evidence on this question, we select a sample of CEOs that succeeded in getting a new job after turnover. Our focus is on a comparison of the treatment firms that rehired CEOs that left office during private investigations with the control firms that rehired CEOs that did not experience SEC investigations. As such, for this analysis, we remove observations where the firms rehired CEOs that left office during disclosed investigations. We begin by selecting the CEOs that succeeded in getting a new job at a comparable position (i.e., CEO, Chairman, President). We include this restriction to limit our sample to CEOs who are in a position to potentially change the new firms' policies and practices. We require the rehiring firms of these CEOs to have a valid gvkey, resulting in 246 firms. Lastly, we select the (-2, +2) year window where year 0 is the year the CEO is rehired at a new firm to compare the likelihood of SEC investigation of the post period ([+1, +2] year window) relative to the pre period ([-2, -1] year window) and require non-missing control variables.[22, 23]

5.2. Research Design and Empirical Results

We examine the likelihood of future SEC investigations by estimating the following difference-in-difference regression model:

$$Begin\_INV = \beta_0 + \beta_1 REHIRE\_UNDIS\_INV + \beta_2 Post + \beta_3 REHIRE\_UNDIS\_INV * Post + \beta_4 Firm\ controls + \text{Industry Fixed Effects} + \text{Year Fixed Effects} + \varepsilon. \quad (3),$$

[22] We chose 2 years to provide sufficient time for any changes in firm policy induced by the rehired CEO to materialize. The results are consistent when using 3 or 4 years.
[23] We remove year 0 from the sample as there is variation in the timing of the CEO rehiring within the year.

where *Begin_INV* is a dummy variable set to one for firm-years when an SEC investigation started, and zero otherwise. *REHIRE_UNDIS_INV* is a dummy variable set to one if the firm rehired a CEO who left office during an undisclosed SEC investigation, and zero if the firm rehired a CEO who left office but did not experience SEC investigations. *Post* is a dummy variable set to one for (+1, +2) years after the CEO got rehired at year 0, and zero otherwise. We include firm control variables, consistent with equation (1). We also include industry and year fixed effects and cluster standard errors by firm.

We present the results of equation (3) in Table 6. The results show that firms that hire CEOs that left office during undisclosed investigations are more likely to experience a new SEC investigation after hiring those CEOs. In Column (2), we also find that these results are robust with the inclusion of firm fixed effects. These results are consistent with our prediction that the potentially tainted CEOs that were able to escape reputational penalties by leaving the office during undisclosed investigations are associated with a negative spillover effect (i.e., a higher likelihood of a new SEC investigation to the rehiring firm). In an economic sense, we find that hiring a privately investigated CEO in a comparable position (i.e., CEO, Chairman, President) increases the subsequent employer's likelihood of being investigated by the SEC by approximately 15.9%. This is a material increase in investigation risk, approximately 144.5% higher compared to the unconditional likelihood of being investigated of 11% (Blackburne et al. 2021). Given that regulatory investigations likely impose high costs on firms, these findings highlight an important risk related to hiring external executives.

6. Additional Analyses

6.1. CEO Departure and SEC Investigation Outcomes

Our main analyses focus on the association between CEOs' departure decisions and SEC

investigations and how it affects their future career prospects. Another related actor that deserves further attention in this setting is the SEC. We focus our supplementary analysis on how the SEC responds to CEOs' prompt quiet departure during an investigation.

Given prior research that the SEC is a constrained regulator, they do not have the capacity to investigate every case (Bonsall et al. 2024; Kedia and Rajgopal 2011). As such, a relatively quick and quiet exit by a CEO may allow the SEC the option to drop the investigation as the SEC's concerns regarding misconduct were associated with the CEO and were alleviated once they left. In contrast, in cases where the CEO was forced out the SEC may need to conduct a full and in-depth investigation as to not appear negligent given the increased visibility resulting from the public nature of the forced CEO dismissal announcement. As such, we examine association between CEO's departure decisions and the likelihood that the investigation closes quickly.

We focus our examination on the investigated firms (i.e., 1,261 investigations selected in Section 3.2.1).[24] To proxy for a quick investigation, we code those investigations that close within one year of opening (*Short_Inv*=1), and test whether there is an association with the CEO quietly leaving within six months of the opening of the investigation (*CEO_Quiet_6m*). In addition to testing for an association with *Short_Inv*, we also test for an association with overall investigation length as an alternative dependent measure (*LN_Inv_Length*). We include the firm controls consistent with equation (1) and include fixed effects for the SEC regional office conducting the investigation and industry fixed effects. This leads to the following linear regression:

$$\textit{Short\_Inv (LN\_Inv\_Length)} = \beta_0 + \beta_1\, \textit{CEO\_Quiet\_6m} + \beta_2\, \textit{CEO\_Forced\_6m} + \beta_3\, \textit{Firm controls} + \text{SEC Regional Office FE} + \text{Industry FE} + \varepsilon. \quad (4)$$

[24] 103 singleton observations were dropped, resulting in 1,158 observations in Table 7.

Table 7 presents the results of estimating equation (4). Column (1) tabulates the results when *Short_Inv* is the dependent measure. We find a strong *positive* association between instances of short investigations and the CEO choosing to leave the firm quietly (i.e., *CEO_Quiet_6m*). In contrast, we document a *negative* association between the likelihood of a short SEC investigation and those instances where CEOs were forced out (i.e., *CEO_Forced_6m*) of office.[25] Further, when testing for a difference using an F-test, we find that the two independent variables are statistically different. Column (2) tabulates the results when *LN_Inv_Length* is the dependent measure. The inferences are similar in this column, where quick quiet CEO exits are associated with shorter SEC investigations, and quick forced CEO exits are associated with longer SEC investigations. Overall, we interpret these results as the SEC increasing the scrutiny of their investigation when a CEO is forced out leading to more lengthy investigations, but when the CEOs quietly leave the SEC seems to close the investigation relatively quickly.

6.2. Verifying Quiet Turnovers

In additional analyses, we validate that quiet turnovers during undisclosed SEC investigations are associated with minimal market attention through several tests. The results of these analyses are tabulated and discussed in detail in Appendix B.1. First, we find no statistically significant market reaction for quiet turnovers during undisclosed investigations, whereas we find negative announcement return with marginal statistical significance for CEOs that were forced out during disclosed investigations. Second, we find that quiet CEO turnover announcements of firms being privately investigated are associated with relatively lower levels of media coverage, in terms of the number of published media articles. These findings are consistent with with CEO quiet exits during undisclosed investigations, being associated with

[25] This is potentially due to the public nature of these firings encouraging the SEC to push for an enforcement action to minimize any cost of appearing negligent (Holzman et al. 2024; Schantl and Wagenhofer 2020).

less scrutiny from the public, in terms of market reaction and media coverage.

6.3. Severity of SEC Investigations

In additional analyses, we mitigate potential concerns that investigation severity may impact our primary inferences given its likelihood to affect a firm's choice to disclose an investigation and to force out a CEO. It is worth noting that this concern impacts the forced turnover results in our study, whereas our primary interest is on quiet turnover around undisclosed SEC investigation. Nonetheless, it is important to mitigate this potential concern.

A benefit of our sample is that some of the public disclosures of the SEC investigations are driven by third-party FOIA request denials, and therefore the disclosure decision is not directly made by the firm itself. We exploit this unique aspect of our setting to help mitigate selection concerns. After all dropping observations (and their matched pair) where the public disclosure was made by the firm, we document consistent findings that undisclosed investigations are associated with quiet turnovers. Although not the focus of our study, we note that the association between public disclosures of an SEC investigation and forced turnover is slightly weaker after dropping the firm initiated disclosure of the investigation. These more modest results for the disclosed and forced turnover analysis are not wholly unexpected given that we dropped many of the disclosed observations from this analysis thus reducing the power of the test. We tabulate and discuss these results further in Appendix B.2.

7. Conclusion

Given the regularity and private nature of SEC investigations, it is important to understand how this privacy policy impacts managers' career incentives. Given prior research suggesting that CEOs of firms engaged in misconduct experience job market penalties, we predict that CEOs of privately investigated firms may choose to quietly exit the firm voluntarily before news

of the investigation is made public. Consistent with CEOs with undisclosed investigations avoiding potential reputational penalties before news of the investigation comes to light, we find that the likelihood of CEO departing quietly is positively related to the presence of an undisclosed SEC investigation. Interestingly, we find these results are largely concentrated in the first six months or so after the initial opening of the investigation.

Further, we examine whether the CEOs that exit when under investigation experience penalties in the market for subsequent employment. We fail to find any evidence that CEOs that left during a private investigation experience job market penalties. These findings are important because they help to shed light on the efficacy of the SEC's long standing privacy policy in not disclosing on-going investigations (Blackburne et al. 2021). In other words, the SEC conducts investigations privately to protect reputations, but our findings suggest some CEOs are able to use this policy to escape the penalties and be rehired by another potentially unsuspecting firm.

Consistent with these successful ship-jumping managers remaining suspicious from an SEC standpoint, we find that relative to rehired CEOs not subject to an SEC investigation, hiring a privately investigated CEO in a comparable position (i.e., CEO, Chairman, President) significantly increases the subsequent employer's likelihood of being investigated by the SEC. These results suggest that the previously investigated CEO was not completely exonerated by the SEC of potential misconduct. Given that regulatory investigations likely impose high costs on firms, these findings uncover a possible hidden risk to hiring CEOs externally.

Overall, our findings suggest that while CEOs that leave during undisclosed investigations subject their new employer to a higher risk of regulatory investigation, they do not appear to be penalized from a career prospects perspective. These findings provide important information to regulatory agencies that conduct enforcement-related investigations privately.

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Table 1
Sample Selection for CEO Turnover and SEC Investigations

		N
Total number of closed formal SEC investigations between January 1, 2000 and August 2, 2017		12,861
Less: Investigations without a valid gvkey match	(6,892)	
Less: Investigation opened after January 1, 2014	(1,056)	
Less: Overlapping Investigatioins	(631)	
Less: Investigations (t) without investgiation probability score (t-1)	(1,849)	
Total Qualified Investigations for Matching		2,433
Less: Investigations with missing control variables	(1,172)	
Total Number of Investigations in the Final Sample		1,261
Total Number of Non-Investigations in the Final Sample		1,261
Total Number of Observations for Table 2		2,522
Less: Singleton Observations	(68)	
Total Number of Observations for Table 3		2,454

This table reports the sample selection procedures for investigations and matched non-investigations sample

Table 2
Descriptive Statistics for CEO Turnover and SEC Investigations

	SEC_INV=1 (n=1,261)		*SEC_INV* = 0 (n=1,261)		
	Mean	SD	Mean	SD	Diff
Investigation Likelihood Score	0.012	0.011	0.012	0.010	-0.001
Dependent Variables:					
CEO Turnover_6m	0.059	0.237	0.035	0.184	-0.025***
CEO Turnover_12m	0.094	0.292	0.070	0.255	-0.025**
Governance Controls:					
Board Size	8.782	2.622	8.830	2.564	0.048
Board Independence (%)	0.837	0.157	0.836	0.158	-0.001
CEO/CHM Duality (1,0)	0.153	0.360	0.163	0.370	0.010
Firm Controls:					
LNSALES	6.551	2.322	6.363	2.239	-0.188**
ROA	-0.011	0.243	-0.006	0.214	0.005
BK_TO_MKT	0.549	0.563	0.586	0.543	0.037*
ABN_RET	-0.042	0.467	0.007	0.423	0.050***
RET_STD	0.033	0.018	0.030	0.016	-0.002***

This table presents descriptive statistics of the sample selected in Table 1. *SEC_INV* is a dummy variable set to one for investigations and zero for matched non-investigations. We use t-tests to examine the differences between the investigations and matched non-investigations. We winsorize all continuous variables at 1%, 99%. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). We provide detailed description of the variables in Appendix A.

Table 3
CEO Turnover and SEC Investigations

Panel A: CEO Turnover (Forced + Quiet)

Dependent Variable:	*CEO_Turnover_6m*		*CEO_Turnover_12m*	
	Column (1)	Column (2)	Column (3)	Column (4)
SEC Invesetigations:				
SEC_INV	0.023**	/	0.024**	/
	(2.43)		(2.02)	
DIS_SEC_INV	/	0.027*	/	0.035**
		(1.89)		(1.97)
UNDIS_SEC_INV	/	0.021**	/	0.018
		(1.97)		(1.32)
F-Test*:*		0.15		0.78
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	2,454	2,454	2,454	2,454
R-Squared	0.013	0.013	0.028	0.028

Panel B: CEO Quiet Turnover

Dependent Variable:	*CEO_Quiet_6m*		*CEO_Quiet_12m*	
	Column (1)	Column (2)	Column (3)	Column (4)
SEC Invesetigations:				
SEC_INV	0.013	/	0.011	/
	(1.57)		(1.11)	
DIS_SEC_INV	/	-0.002	/	-0.004
		(-0.15)		(-0.32)
UNDIS_SEC_INV	/	0.020**	/	0.019*
		(2.14)		(1.68)
F-Test*:*		3.59*		2.40
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	2,409	2,409	2,378	2,378
R-Squared	0.008	0.010	0.017	0.018

Panel C: CEO Forced Turnover

Dependent Variable:	*CEO_Forced_6m*		*CEO_Forced_12m*	
	Column (1)	Column (2)	Column (3)	Column (4)
SEC Invesetigations:				
SEC_INV	0.012**	/	0.015**	/
	(2.15)		(2.01)	
DIS_SEC_INV	/	0.030***	/	0.044***
		(2.72)		(3.23)
UNDIS_SEC_INV	/	0.002	/	-0.000
		(0.35)		(-0.03)
F-Test*:*		5.35**		8.17***
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	2,380	2,380	2,323	2,323
R-Squared	0.009	0.014	0.019	0.026

This table presents the results of comparing the likelihood of CEO turnover, CEO quiet turnover, and CEO forced turnover between investigated and non-investigated firms. Panel A (B)<C> shows the results of having turnover (quiet turnover) <forced turnover> as the dependent variable. Columns (1) – (4) present results with dependent variables varying based on turnover windows. We include industry (SIC) and year fixed effects. We winsorize all continuous variables at 1%, 99%. Standard errors are clustered by firm. We report within R-squared. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). See Appendix A for variable definitions.

Table 4
Sample Selection for CEO Subsequent Employment and SEC Investigations

		N
Total Number of CEO Turnovers from 2000 to 2013		4,191
Less: CEOs that did not leave office during investigations	(664)	
Less: Missing control variables	(1,150)	
Less: Singleton Observations	(52)	
Total Number of Observations Table 5		2,325

This table reports the sample selection procedures for the CEO Turnover-year sample.

Table 5
CEO Subsequent Employment and SEC Investigations

Panel A: Descriptive Statistics

	TO_DUR_INV=1 (n=440)		TO_DUR_INV = 0 (n=1,885)		
	Mean	SD	Mean	SD	Diff.
Dependent Variable:					
CEO_Rehired	0.543	0.499	0.509	0.500	-0.034
CEO Controls:					
AGE	57.88	7.050	59.09	7.840	1.21***
LN_TENURE	2.088	0.610	2.098	0.579	0.010
Firm Controls:					
LNSALES	7.811	1.794	7.034	1.640	-0.777***
ROA	0.023	0.121	0.021	0.149	-0.002
BK_TO_MKT	0.643	0.619	0.604	0.503	-0.039
ABN_RET	-0.062	0.428	0.032	0.470	0.094***
RET_STD	0.030	0.018	0.031	0.018	0.000

Panel B: CEO Rehire and SEC Investigations

Dependent Variable:	*CEO_Rehired*	
	Column (1)	Column (2)
SEC Invesetigations:		
TO_DUR_INV	-0.066**	/
	(-2.22)	
TO_DUR_DIS_INV	/	-0.128***
		(-3.36)
TO_DUR_UNDIS_INV	/	0.008
		(0.20)
F-Test*:*		7.12***
CEO Characteristics:		
AGE	-0.012***	-0.012***
	(-8.42)	(-8.50)
LN_TENURE	-0.039**	-0.040**
	(-1.98)	(-1.99)
Firm Characteristics:		
LNSALES	0.054***	0.056***
	(6.24)	(6.42)
ROA	-0.202**	-0.204**
	(-2.23)	(-2.26)
BK_TO_MKT	-0.067***	-0.067***
	(-2.90)	(-2.94)
ABN_RET	-0.000	0.001
	(-0.00)	(0.05)
RET_STD	-1.416	-1.424
	(-1.53)	(-1.54)
Industry FE	Yes	Yes
Year FE	Yes	Yes
N	2,325	2,325
Adj R-Squared	0.104	0.107

Table 5 (Con't)
CEO Subsequent Employment and SEC Investigations

Panel C: CEO Rehire Quality and SEC Investigations

Dependent Variable:	*RQ_Public*		*RQ_Title*		*RQ_Size*		*RQ_Salary*	
	Column (1)	Column (2)	Column (3)	Column (4)	Column (5)	Column (6)	Column (7)	Column (8)
SEC Invesetigations:								
TO_DUR_INV	-0.108**	/	-0.063	/	-0.027	/	-0.025	/
	(-2.31)		(-1.34)		(-0.51)		(-0.58)	
TO_DUR_DIS_INV	/	-0.225***	/	-0.148***	/	-0.155**	/	-0.118**
		(-3.94)		(-2.47)		(-2.49)		(-2.35)
TO_DUR_UNDIS_INV	/	0.033	/	0.037	/	0.129*	/	0.089
		(0.50)		(0.58)		(1.70)		(1.32)
F-Test*:*		10.12***		5.22**		9.68***		6.94**
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	2,325	2,325	2,325	2,325	1,800	1,800	1,262	1,262
Adj R-Squared	0.099	0.103	0.078	0.080	0.103	0.109	0.139	0.144

This table presents results related to CEO's subsequent employment and SEC investigations. Panel A provides descriptive statistics of the full sample. Panel B provides the results comparing the likelihood of rehire for CEOs that left office during SEC investigation and those that did not experience investigations. The dependent variable is *CEO_Rehired*, a dummy variable set to one if the CEO succeeds in getting a new job regardless of the title in a different firm within 3 years after the CEO left office at year 0. Panel C provides results comparing the rehire quality of CEOs that left office during SEC investigations and those that did not experience investigations. We examine four require quality measures: (1) whether the CEO gets a new job at a public firm (*RQ_Public*); (2) whether the CEO gets a new job with a comparable position (i.e., CEO, Chairman, President) (*RQ_Title*); (3) whether the CEO gets a new job in a firm with comparable size (*RQ_size*); (4) whether the CEO gets a new job with a comparable salary (*RQ_Salary*). We include industry (SIC) fixed effects and year fixed effects based on the year that the CEO left office. We winsorize all continuous variables at 1%, 99%. We calculate heteroskedasticity robust standard errors. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). See Appendix A for variable definitions.

Table 6
CEO Future Outcome

Dependent Variable:	*Begin_INV*	
	Column (1)	Column (2)
SEC Invesetigations:		
REHIRE_UNDIS_INV	-0.096	/
	(-1.38)	
POST	-0.076*	0.011
	(-1.87)	(0.15)
POST*REHIRE_UNDIS_INV	**0.168****	**0.159****
	(2.33)	(2.40)
Firm Characteristics:		
LNSALES	0.033***	0.106**
	(2.68)	(2.16)
ROA	0.211	0.257
	(1.30)	(1.29)
BK_TO_MKT	0.018	0.058
	(0.26)	(0.77)
ABN_RET	-0.021	-0.028
	(-0.47)	(-0.59)
RET_STD	3.516	2.614
	(1.26)	(0.94)
Firm FE	No	Yes
Industry FE	Yes	No
Year FE	Yes	Yes
N	369	369
R-Squared	0.072	0.052

This table presents results for examining whether rehiring firms experience adverse outcomes (i.e., future SEC investigations) for hiring CEOs that left office during undisclosed investigations. The dependent variable, *Begin_INV*, is a dummy variable set to one if the SEC investigation begins at firm-year and zero otherwise. *REHIRE_UNDIS_INV* is a dummy variable set to one if the firm rehired a CEO that left office during undisclosed investigation as CEO or Chairman or President for (-2, +2) firm-years, where year 0 is when the CEO was rehired, and zero otherwise. *POST* is a dummy variable set to one for (+1, +2) years where year 0 is when the CEO was rehired. We include industry (SIC) and year fixed effects. We also estimate the regression model with firm fixed effects. In this case, *REHIRE_UNDIS_INV* is subsumed to the firm fixed effects. We winsorize all continuous variables at 1%, 99%. We cluster standard errors by firm. We report within R-squared. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). See Appendix A for variable definitions.

Table 7
CEO Turnover and SEC Investigation Outcome

Dependent Variable:	*Short_Inv* Column (1)	*LN_Inv_Length* Column (2)
CEO Turnover:		
CEO_Quiet_6m	0.118**	-0.265**
	(2.49)	(-2.27)
CEO_Forced_6m	-0.101*	0.330***
	(-1.87)	(3.45)
F-Test*:*	15.53***	14.49**
Frim Controls	Yes	Yes
SEC Regional Office FE	Yes	Yes
Industry FE	Yes	Yes
N	1,158	1,158
Adj R-Squared	0.041	0.163

This table presents results for examining whether SEC investigation outcomes vary based on CEO turnover decisions. The dependent variables measure SEC investigation outcomes: (1) *Short_Inv* is a dummy variable set to one if an investigation length (the number of days between the beginning and ending date of the investigation) is less or equal to 365 days, and zero otherwise; (2) *LN_Inv_Length* is the natural logarithm of investigation length. The independent variables are (1) *CEO_Quiet_6m*, which is a dummy variable set to one if the CEO of the investigated firm is not forced out within (-2, +4) months after the beginning of the investigation, and zero otherwise; (2) *CEO_Forced_6m*, which is a dummy variable set to one if the CEO of the investigated firm is forced out within (-2, +4) months after the beginning of the investigation, and zero otherwise. We include firm controls. We also include SEC regional office fixed effects and industry fixed effects. We winsorize all continuous variables at 1%, 99%. We cluster standard errors by SEC regional offices and investigated firms. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test). See Appendix A for variable definitions.

Appendix A
Variable Definitions

VARIABLE	DEFINITION	SOURCE
Dependent Variables		
CEO Turnover_6m (12m)	An indicator variable set to one if the CEO turnover happened between 2 months prior to the beginning date of the investigation and 4 (10) months after the beginning of the investigation, and zero otherwise.	ExecuComp Eritmur et al. (2018), Gentry et al. (2021).
CEO Quiet (Forced)_6m (12m)	An indicator variable set to one if the Quiet (Forced) CEO turnover happened between 2 months prior to the beginning date of the investigation and 4 months (or 10 months) after the beginning of the investigation, and zero otherwise. CEO departures are deemed to be Forced where 1) the related press reports state that the CEO was fired, forced out, or retired/resigned due to policy differences or board pressure, 2) press articles that report that the CEO is retiring but where the company does not announce the retirement date at least six months before departure, and 3) CEO exits that occur before the age of 60 and the articles do not report the reason to be death, poor health, or acceptance of another position. All other turnovers are classified as Quiet.	ExecuComp Eritmur et al., (2018), Gentry et al., (2021), Peters and Wagner (2014)
CEO_Rehired	An indicator variable set to one if the CEO gets rehired (regardless of the title) in another firm within 3 years after the CEO left office at year 0, and zero otherwise.	ExecuComp, BoardEx, Regulatory Filings
RQ_Public	A nominal variable is set to two if the CEO gets a new job at a public firm, one if the CEO gets a new job at a private firm, and zero otherwise. We define public firm as firms that have CRSP identifiers.	ExecuComp, BoardEx, Regulatory Filings

RQ_Title	A nominal variable is set to two if the CEO gets a new job with a comparable position, one if the CEO gets a new job but not at a comparable position, and zero otherwise. We define comparable positions as CEO, Chairman, and President, following Desai et al. (2006).	ExecuComp, BoardEx, Regulatory Filings
RQ_Size	A nominal variable is set to two if the CEO gets a new job in a firm with bigger size (i.e., LNSALES) compared to the previous firm, one if the CEO gets a new job in a smaller or equal size firm, and zero otherwise.	ExecuComp, BoardEx, Regulatory Filings, Compustat
RQ_Salary	A nominal variable is set to two if the CEO gets a new job in a firm with larger compensation compared to the previous firm, one if the CEO gets a new job with a smaller or equal compensation, and zero otherwise.	ExecuComp, BoardEx, Regulatory Filings,
Begin_INV	An indicator variable set to one if an investigation started at firm-year, and zero otherwise.	SEC investigation dataset
Short_Inv	An indicator variable set to one if an investigation length (the number of days between the beginning and ending date of the investigation) is less or equal to 365 days, and zero otherwise.	SEC investigation dataset
LN_Inv_Length	Natural logarithm of investigation length (the number of days between the beginning and ending date of the investigation).	SEC investigation dataset
Independent Variables		
SEC_INV	An indicator variable set to one for investigations and zero for matched non-investigations.	SEC investigation dataset, Holzman et al. (2024)

DIS_SEC_INV	An indicator variable set to one if the investigation was disclosed SEC investigations, and zero otherwise. We define disclosed investigations as investigations that were voluntarily disclosed by the firm or those that become subject to FOIA request denials.	SEC investigation dataset, Blackburne et al. (2021), Coleman et al. (2021)
UNDIS_SEC_INV	An indicator variable set to one if the investigation was undisclosed SEC investigations, and zero otherwise. We define undisclosed investigations as investigations that are not disclosed investigations.	SEC investigation dataset, Blackburne et al. (2021), Coleman et al. (2021)
TO_DUR_INV	An indicator variable set to one if the CEO left office during an ongoing investigation, and zero otherwise. We define that CEOs left office during an ongoing investigation when the CEO left date is between the beginning and closing date of the investigation.	SEC investigation dataset, CEO dataset
TO_DUR_DIS_INV	An indicator variable set to one if the CEO left office during an ongoing investigation that is disclosed, and zero otherwise.	SEC investigation dataset, CEO dataset
TO_DUR_UNDIS_INV	An indicator variable set to one if the CEO left office during an ongoing investigation that is undisclosed, and zero otherwise.	SEC investigation dataset, CEO dataset
REHIRE_UNDIS_INV	An indicator variable set to one if the firm rehired a CEO that left during an undisclosed investigation in a comparable position (i.e., CEO, Chairman, President) for (-2, +2) years, where year 0 is when the CEO was rehired, and zero otherwise.	SEC investigation dataset, CEO dataset
POST	An indicator variable set to one for post-rehire period (+1, +2) years where year 0 is when the firm rehired the CEO in a comparable position (i.e., CEO, Chairman, President), and zero otherwise.	SEC investigation dataset, CEO dataset

Controls Variables		
Board Size	Number of directors in the board.	BoardEx
Board independence	Number of independent directors divided by number of directors in the board.	BoardEx
CEO/CHM duality	An indicator variable set to one if the CEO is the Chairman of the firm, and zero otherwise.	BoardEx
LNSALES	Natural logarithm of sales.	Compustat
ROA	Income before extraordinary items divided by total assets.	Compustat
BKT_TO_MKT	Book value of common equity divided by market value of equity.	Compustat
AbnRet	Firm's market-adjusted return over the calendar year.	CRSP
Ret_STD	Standard deviation of daily returns for the firm over the calendar year.	CRSP
AGE	Age of the CEO.	ExecuComp Regulatory Filings Media articles
LN_Tenure	Natural logarithm of the CEO's tenure.	ExecuComp

Appendix B

In this appendix, we provide details on two sets of analyses where we: 1) conduct tests to verify whether CEO quiet turnovers during investigations are indeed relatively 'quieter' in regard to scrutiny from the public and 2) we mitigate concerns that our results are influenced by investigation severity.

Appendix B.1. - Verifying Quiet Turnovers

As discussed in the manuscript, the prior literature has primarily labeled unforced turnovers as voluntary turnovers. However, many of these unforced departures could actually be coordinated between the CEO and firm so as not to draw attention to the CEO exiting the firm for cause. We believe that the proxy for unforced turnover may more appropriately be viewed as quiet turnovers where there isn't a lot of publicity indicating that the CEO's tenure was terminated. However, it is important to test this assumption. In Appendix B.1., we examine whether quiet turnovers during investigations receive minimal attention in terms of market returns and media coverage.

1. Sample Selection

We begin by creating a sample of CEO turnovers. To hold constant the fact that a firm is under investigation, we remove CEO observations that did not experience investigations from the full CEO turnover sample (2,325 observations as reported in Table 4 of our main analysis). This results in 440 CEO observations that left office during SEC investigations from 2000 to 2013. This sample selection procedure allows us to mitigate selection bias by limiting the sample to firms that were under SEC investigations. With this investigated CEO sample, we examine the market reaction and media attention surrounding CEOs' turnover announcement dates.

2. Research Design and Empirical Results

2.1. Empirical Results- Market Reaction

We first examine the market response around CEO turnover announcement dates. We expect no or little market reaction if the CEO quietly leaves during an undisclosed investigation as the CEO was not forced out and the public are unaware of the SEC investigations. On the other hand, market response to CEOs that quietly left during disclosed investigations or those that were forced out during disclosed/undisclosed investigations could show different results as the market knows either the fact that CEOs were forced out or that the CEO left office during an active investigation.

For our empirical analysis, we conduct a univariate analysis of the mean two-day cumulative abnormal stock returns (i.e., CAR [0, 1]) surrounding the CEO turnover announcement date.[1] We test whether the mean CEO announcement returns are different from zero. Panel A of Table B.1 shows no statistical significance for the mean announcement returns for either the quiet or forced CEO turnovers. However, lower in Panel A, when we further divide the sample based on disclosed versus undisclosed investigations, we find a mean negative announcement return with modest statistical significance for CEOs that were forced out during disclosed investigations. We continue to find no statistically significant market reaction for quiet CEO turnovers during undisclosed investigation, consistent with these being relatively quieter turnover announcements.

2.2. Empirical Results – Media Attention

Next, we examine relative media scrutiny of these CEO turnover announcements as a proxy for market attention to these events. To do so, we calculate the number of original full media articles published about the firm during the [-1,+5] event day window using RavenPack

[1] We primarily use the LEFTOFC variable from ExecuComp. If LEFTOFC is missing, we hand-collected the date from press releases, 8-K, and proxy statements.

(*Log(Num_Articles)*).[2] To test whether quiet CEO turnover announcements of firms being privately investigated by the SEC stimulate relatively less intense media coverage we estimate the following linear regression:

$$Log(Num\_Articles) = \beta_0 + \beta_1\, Quiet\_UNDIS\_INV + CEO\ controls + Firm\ controls + \text{Industry Fixed Effects} + \text{Year Fixed Effects} + \varepsilon, \quad (1)$$

where *Quiet_UNDIS_INV* is set to one when the CEO turnover is quiet and the investigation has not been publicly disclosed, and zero otherwise.

We present the results of estimating equation (1) in Panel B of Table B.1. We find that quiet CEO turnover announcements of firms being privately investigated are associated with relatively lower levels of media coverage both in Columns (1) and (2). This suggests that quiet CEO announcements of firms being privately investigated by the SEC stimulate relatively less intense media coverage.

Overall, the evidence in Table B.1. Panel A and Panel B suggest that when the CEO quietly leaves the office during undisclosed investigations, there seems to be less scrutiny from the public, in terms of market reaction and media coverage.

[2] Specifically, we count the number of full-articles and those with at least a relevance score of 90 or higher for the firm.

Appendix B.2. - Materiality of SEC Investigations

In this appendix, we attempt to address the concern that in our main tests, there is a possibility that the materiality of the SEC investigation can influence whether the firm decides to disclose the investigation or not and the likelihood of forced CEO turnover. It is important to note that all investigations in our sample are serious and can have material consequences as they are often conducted using subpoenas which compel document production and testimony from the target firm and executives. Further, our primary interest in on the association between undisclosed investigations and quiet turnover. Nonetheless, to further mitigate this concern, we exploit the fact that a portion of the public disclosures of SEC investigations in our sample are driven by parties external to the firm. Specifically, some of the public disclosures are driven by the denial of FOIA requests made by parties external to the firm (i.e., Exemption 7(A)). These public disclosures are less likely to be associated with the underlying severity of the investigation.

Accordingly, we remove all investigation observations from the sample, and their matched control observations, when the investigation disclosure decision was solely driven by the firm. Consequently, our variable of interest becomes investigations publicly disclosed due to the FOIA request denials (*FOIA_DENIAL_DISC*) and undisclosed SEC investigations, which are defined in the same manner as discussed in the paper (i.e., *UNDIS_SEC_INV*).

Using the modified sample, we re-estimate equation (1) of our main analysis. We tabulate the results in Table B.2. Despite the reduction in sample size, in Table B.2 Panel B we continue to find similar results to those shown in Table 3 Panel B of our main analysis. The results suggest that CEOs subject to undisclosed investigations are more likely to quietly leave their office after the initiation of the investigation. It is worth noting that the results in Panel C of Table B.2. Panel C showing the relationship between forced turnover and the public disclosure of

an SEC investigation are slightly weaker than our main analysis. These more modest results for the disclosed and forced turnover analysis are not wholly unexpected given that we dropped many of the disclosed observations from this analysis thus reducing the power of the test in Table B.2. Panel C.

Table B.1
Market Reaction and Media Attention on Turnovers During Investigations

Panel A: Univariate Analysis of CEO Turnover Announcement Returns

	CEO Turnover Announcement Returns	
Turnover Type:	Quiet Turnovers	Forced Turnovers
	(N= 292)	(N= 142)
	Mean	Mean
CAR (0,1)	0.0029	-0.0100
	(1.25)	(-0.99)

	CEO Turnover Announcement Returns			
Turnover & Disclosure Type:	Quiet & Undis_inv	Quiet & Dis_inv	Forced & Undis_inv	Forced & Dis_inv
	(N= 140)	(N= 152)	(N= 46)	(N= 96)
	Mean	Mean	Mean	Mean
CAR (0,1)	0.0053	0.0007	0.0144	-0.0216*
	(1.57)	(0.23)	(0.73)	(-1.88)

Panel B: Multivariate Analysis of Media Attention

Dependent Variable:	*Log (Num_Articles)*	
	Column (1)	Column (2)
SEC Invesetigations:		
Quiet_UNDIS_INV	-0.479***	-0.676***
	(-3.01)	(-3.43)
CEO Characteristics:		
AGE	-0.026***	-0.018
	(-2.67)	(-1.61)
LN_TENURE	-0.096	-0.118
	(-0.73)	(-0.77)
Firm Characteristics:		
LNSALES	0.472***	0.590***
	(8.37)	(8.95)
ROA	-0.750	-0.942
	(-1.05)	(-1.29)
BK_TO_MKT	0.044	0.201
	(0.34)	(1.11)
ABN_RET	-0.218	-0.480**
	(-1.07)	(-1.98)
RET_STD	1.736	-2.195
	(0.26)	(-0.33)
Industry FE	No	Yes
Year FE	Yes	Yes
N	440	367
Adj R-Squared	0.350	0.518

This table presents the results of market reaction tests and media attention tests surrounding the CEO turnover announcement date. Panel A provides the results of univariate analysis of the mean two-day cumulative abnormal stock returns (CAR [0,+1 days]) measured beginning on the date of the CEO turnover announcement. We test whether the mean is different from zero. Panel B provides the results of Eq. (1) in Appendix B.1., which is a multivariate analysis of the number of articles surrounding the CEO turnover announcement date [-1,+5 days]. Columns (1) – (2) present the results. We include industry (SIC) and year fixed effects. We winsorize all continuous variables at 1%, 99%. Standard errors are clustered by firm. We report adjusted R-squared. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).

Table B.2
CEO Turnover and SEC Investigations
(Removing Publicly Disclosed Investigations)

Panel A: CEO Turnover (Forced + Quiet)

Dependent Variable:	*CEO_Turnover_6m*		*CEO_Turnover_12m*	
	Column (1)	Column (2)	Column (3)	Column (4)
SEC Invesetigations:				
SEC_INV	0.024**	/	0.034***	/
	(2.40)		(2.63)	
FOIA_DENIAL_DISC	/	0.015	/	0.055*
		(0.75)		(1.89)
UNDIS_SEC_INV	/	0.026**	/	0.029**
		(2.40)		(2.19)
F-Test*:*		0.25		0.75
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	1,881	1,881	1,881	1,881
R-Squared	0.009	0.010	0.027	0.028

Panel B: CEO Quiet Turnover

Dependent Variable:	*CEO_Quiet_6m*		*CEO_Quiet_12m*	
	Column (1)	Column (2)	Column (3)	Column (4)
SEC Invesetigations:				
SEC_INV	0.015*	/	0.016	/
	(1.72)		(1.48)	
FOIA_DENIAL_DISC	/	-0.012	/	-0.003
		(-1.07)		(-0.14)
UNDIS_SEC_INV	/	0.020**	/	0.020*
		(2.14)		(1.73)
F-Test*:*		6.63**		1.14
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	1,856	1,856	1,838	1,838
R-Squared	0.007	0.009	0.013	0.014

Panel C: CEO Forced Turnover

Dependent Variable:	*CEO_Forced_6m*		*CEO_Forced_12m*	
	Column (1)	Column (2)	Column (3)	Column (4)
SEC Invesetigations:				
SEC_INV	0.010*	/	0.020**	/
	(1.84)		(2.50)	
FOIA_DENIAL_DISC	/	0.026	/	0.064***
		(1.53)		(2.70)
UNDIS_SEC_INV	/	0.007	/	0.011
		(1.20)		(1.33)
F-Test*:*		1.18		4.62**
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	1,832	1,832	1,787	1,787
R-Squared	0.009	0.011	0.024	0.032

This table presents the results of comparing the likelihood of CEO turnover, CEO quiet turnover, and CEO forced turnover between investigated and non-investigated firms. We further identify investigations that were disclosed due to FOIA request denials (FOIA_DENIAL_DISC) and those that were undisclosed (UNDIS_SEC_INV). Panel A (B)<C> shows the results of having turnover (quiet turnover) <forced turnover> as the dependent variable. Columns (1) – (4) present results with dependent variables varying based on turnover windows. We include industry (SIC) and year fixed effects. We winsorize all continuous variables at 1%, 99%. Standard errors are clustered by firm. We report within R-squared. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively (two-tailed test).