

Investigating Fraud Losses: Can Companies Reduce Losses Associated with Fraud By Voluntary Disclosure?

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The focus of this study is to determine if companies experience lower losses if they voluntarily disclose fraud rather than waiting until the media or the SEC releases the news. The losses investigated are the (1) decline in company market value, as measured in abnormal returns, (2) the length of the companies' and fraud perpetrator(s)' SEC investigation, and (3) civil penalties and disgorgement imposed upon fraud perpetrators.

The results of this study indicate that voluntary disclosing companies do not mitigate market value decline or costs and resources associated with a SEC investigation. There was a similar decline in market value whether the fraud is voluntarily disclosed or not and there was no significant difference in the duration of either the companies' or fraud perpetrators' investigation periods. The findings indicate that, for the period investigated, neither the market nor the SEC distinguishes between voluntary disclosing and involuntary disclosing companies. Also, the finding related to civil penalty and disgorgement amounts indicate that a company's choice to voluntarily disclose fraud does not significantly impact civil penalty and disgorgement amounts imposed on fraud perpetrators.