

**Voluntary Disclosure of Foreign Cash:
The Role of Tax Havens, Foreign Investment and Industry Peer Disclosure**

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ABSTRACT: Disclosures regarding foreign operations of multinational firms are vague and incomplete. Recently, the SEC has called for an increase in disclosures about foreign operations, namely the disclosure of foreign cash. This study examines two costs to disclosure that motivate managers to withhold foreign cash disclosures. We find that multinational firms that withhold foreign cash disclosure do so because of foreign geographic presence in tax havens and foreign investment intentions. Specifically, managers withhold the disclosure of foreign cash when they either have a foreign subsidiary located in a tax haven or when they intend to use cash for foreign acquisitions. The failure to disclose foreign cash is more likely among those firms with less industry peer pressure to disclose than when industry peer pressure is high. The SEC has recently issued comment letters requesting multinational firms to disclose foreign cash; thus our results are timely in light of the renewed efforts to require disclosure.

Keywords: Foreign Cash Disclosure, Tax Haven, Foreign Investment, Peer Disclosures

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1. Introduction

U.S. firms are expanding their operations beyond domestic borders not only to benefit from a larger customer market but also to capitalize on potential tax reduction incentives. The financial outcomes of multinational firms' foreign operations are not well known primarily because the financial reporting disclosures surrounding these operations are voluntary and of lower quality (Hope, Ma and Thomas 2013; Hope and Thomas 2008). Managers have conflicting incentives regarding whether to disclose or withhold foreign financial information. Disclosure is more likely if seeking access to foreign capital but less likely because of proprietary costs, tax regulators' scrutiny, and political costs. Understanding more about these incentives and the outcomes related to foreign investment is important because the ongoing debate on US corporation competitiveness continues. This study examines the association between the voluntary disclosure of financial information and the geographic presence of the multinational firm. We examine whether or not multinational firms with foreign subsidiaries located in low-tax jurisdictions are less likely to disclose their foreign cash balances. Multinational firms' foreign cash balances are currently of interest to several regulatory agencies including the SEC and IRS. We also examine whether lower disclosure of foreign cash balances is related to foreign investment from utilizing non-repatriated foreign cash.

Multinational firms have two primary incentives to withhold the disclosure of foreign cash balances: tax incentives and investment incentives. Managers have incentives to avoid scrutiny from the IRS and other regulators (Hope et al. 2013). By withholding disclosure of foreign cash balances, firms may avoid some of this regulatory scrutiny. Domestic regulators (e.g., IRS) are not the only regulatory agencies interested in MNC foreign cash balances.

Foreign regulators are also interested in the foreign cash held by MNCs. This interest is evident in the Organization for Economic Cooperation and Development (OECD) Base Erosion and Profit Shifting (BEPS) project. The OECD has generated a 15-point plan to reduce the amount of tax avoidance via BEPS.

Prior academic literature establishes a link between multinational firms' tax haven use and tax avoidance (Gravelle 2009; Dyreng, Hanlon and Maydew 2012; Desai and Hines 2002; Rego 2003; Collins et al. 1998; Klassen and Shackelford 1998, among others). These studies suggest that multinationals invest more in tax planning (Mills, Erickson, and Maydew, 1998) and avoid more taxes (Rego, 2003) than domestic firms avoid. The tax reduction benefits increase as the size of foreign operations increase (Desai, Foley, and Hines, 2006). Strategically, firms' tax planning that takes advantage of tax havens includes numerous options. These include, profit shifting, transferring headquarters, setting up foreign affiliates, or establishing a foreign holding company along the equity supply chain (Col and Errunza, 2015; Dyreng, Lindsey, Markle and Shackelford 2015). While low tax liabilities benefit shareholders, other stakeholders (e.g., regulators) are increasingly interested in the loss of tax revenues from these firms' foreign operations. Given the non-repatriation of profits, foreign cash balances may signal to both domestic and foreign regulators aggressive tax planning. We predict that multinationals with a greater ability to avoid taxes via foreign operations are less likely to disclose foreign cash balances.

Managers are also motivated to reduce disclosure of foreign cash balances to conceal their foreign investment activities. Prior studies provide evidence that multinational firms' foreign operations result in two outcomes that do not benefit shareholders. First, some firms have foreign cash balances sitting idle overseas. Second, some firms are investing foreign cash in

unprofitable projects (Campbell, Dhaliwal, Krull and Schwab 2014; Hanlon, Lester and Verdi 2015; Edwards, Kravet and Wilson 2015). Thus, firms that are ineffectively investing cash from foreign operations are more likely to withhold the disclosure of foreign cash balances.

Because the legal, regulatory, and economic environments vary across low tax jurisdictions, isolating the location of foreign cash balances is difficult. Therefore, we examine the voluntary disclosure of foreign cash balances in conjunction with whether or not the firm has a foreign subsidiary located in a tax haven. Using a hand-collected sample of 3,744 firm-year observations for the period 2008-2014 we examine the likelihood of disclosing foreign cash balances. We find evidence that firms with greater permanently reinvested earnings (PRE) are less likely to disclose foreign cash balances when they have a subsidiary located in tax haven country. This is consistent with a company's geographic presence playing a role in the multinational firm's voluntary disclosure practices.

Our results also provide evidence that multinational firms' foreign investment strategies influence the decision to voluntarily disclose foreign cash balances. Managers are more likely to withhold the disclosure of foreign cash when they use cash to make foreign acquisitions. This result suggests that managers are less likely to provide foreign cash balances to investors when they know that investors will reduce their assessment of firm value because of the disclosure.

Finally, we examine how industry peers' disclosure choices influence the decision to disclose foreign cash. The economic literature has examined the phenomenon of social learning. Recently, the accounting literature has provided evidence that firms will time the release of bad news to be in conjunction with their peers to minimize responsibility (Tse and Tucker, 2010). The prior literature provides evidence that firms will adjust their investment policies and earnings management strategies following industry peers' earnings releases (Durnev and

Mangen, 2009; Beatty, Liao, and Yu, 2013; Bratten, Payne, and Thomas, 2014). Our results suggest that the tax effect and foreign investment effect make a greater difference in the disclosure of foreign cash when the firm experiences less industry disclosure pressure. This result suggests that firm level factors influencing voluntary disclosure (e.g. tax effect and foreign investment) are, at times, subsumed by industry peer pressure.

This study makes several contributions to the accounting literature. First, it contributes to the literature examining the interactions between financial reporting and tax reporting. Durnev, Li, and Magnan (2015) provide evidence that offshore operations affect the financial reporting quality of the firm. Hope et al. (2013) provide evidence of a positive association between withholding geographic disclosures and lower effective tax rates. We extend both studies by providing evidence that non-disclosure of foreign cash balances, an issue of concern to the SEC, is associated with foreign tax strategies success. Second, this study extends the prior literature by providing evidence of a positive association between multinational firms' foreign tax avoidance success and their voluntary disclosures.

This study also contributes to the literature that examines managers' reactions to peer firm choices. Brown, Tian and Tucker (2014) and Kubick, Lynch, Mayberry, and Omer (2015) provide evidence that an SEC comment letter can influence behavior and disclosure changes at industry peers. We provide evidence that industry disclosure pressure subsumes firm-level factors that influence voluntary disclosure. Our findings extend and complement Brown et al. (2014) and Kubick et al. (2015) by providing additional evidence of the SEC's effectiveness in changing disclosure policies. Importantly, not only does SEC enforcement affect targeted firms and their peers but the number of firms in the industry already in compliance does as well. This

result could potentially aid the SEC in identifying industries with the lowest voluntary disclosure quality.

Prior research also suggests that voluntary disclosure of geographic earnings is related to firms' effective tax rates (Hope et al. 2013), and the presence of operations in tax havens (Akamah, Hope, and Thomas, 2014). We extend the prior literature by providing evidence that managers are unlikely to disclose foreign cash balances voluntarily if the disclosure reveals the success of its foreign tax strategies or suggests the inefficient use of resources to investors. The results also contribute to the voluntary disclosure literature by providing evidence that multinational firms' investment strategies play a key role in managers' choices of voluntary disclosure.

We organize the remainder of the paper as follows. Section 2 provides background information, as well as motivation and development of our hypotheses. In Section 3, we describe our research design. We discuss and interpret our results in Section 4, and Section 5 concludes.

2. Background & Hypotheses

2.1 The disclosure of foreign cash

The Securities Exchange Commission (SEC) began requesting voluntary disclosure of foreign cash balances in 2003 and reiterated the request in 2010 (SEC 2003, 2010). The SEC initiated the request for additional information because it was interested in the liquidity of multinational firms and their access to foreign cash. A large number of firms began voluntarily providing foreign cash balances in 2008, however, in 2013, only 69 percent of multinational firms had disclosed foreign cash balances. This lack of disclosure suggests there are costs to voluntarily providing the additional disclosure.

Recent studies have examined the disclosure of foreign cash and the implications that foreign cash has on multinational firms operations. Yang (2015) finds that the disclosure of foreign cash increases (decreases) for those firms with stronger governance and greater permanently reinvested earnings (greater agency costs and greater free cash flow). These results are consistent with prior literature that examines the voluntary disclosure of other financial information. Harford, Wang and Zhang (2015) provide evidence that greater tax avoidance reduces the likelihood of the foreign cash disclosure. However, they do not examine the source of the tax avoidance. Finally, Chen (2014) provides evidence that repatriation costs affect the decision to disclose foreign cash voluntarily. In extending these studies, we posit that the MNC's tax haven presence is another factor that managers weigh before the decision to disclose foreign cash.

2.2 Multinational firms and tax havens

Firms often organize their operations to increase profits invested in lightly taxed jurisdictions (Blouin, Krull and Robinson, 2012). When firms avoid taxes, they are more likely to defer repatriation to the U.S. and hold foreign cash abroad (Hanlon et al., 2015). Consistent with this finding, foreign cash balances are highest in subsidiaries located in countries that will generate the largest tax liability upon repatriation (Foley et al., 2007). While the location of the company's foreign subsidiaries is primarily tax motivated, the prior research provides evidence that there are ancillary effects on financial reporting. For example, Durnev et al. (2015) find that U.S. firms with offshore subsidiaries exhibit a lower quality of financial reporting, as evidenced by lower accruals quality and reduced earnings persistence.

Hope et al. (2013) provide evidence that the voluntary disclosure of geographic earnings is related to firms' effective tax rates. In a similar study, Akamah et al. (2014) provide evidence

of an association between discretionary geographic disclosures and firms' operations in tax havens. Given multinational firms' growth in profits from tax havens and concerns about multinational firms' ability to avoid taxes geographic operations disclosures are important (Akamah et al. 2014). Thomas (1999) finds that investors discount U.S. multinational firms foreign earnings and speculates (but does not test) that this is because of poor foreign operations disclosure. The poor disclosure may result from concerns about the interpretation of the disclosures, in particular, the taxes paid in tax havens (Houlder, 2010). An additional concern is that disclosing more information to the public, may reduce the ability to shift profits abroad because more is known about firm earnings (Hope et al. 2013). Consistent with these concerns, firms withholding the disclosure of geographic earnings tend to have lower ETRs and reduced geographic earnings disclosures, compared to their disclosing counterparts. Thus, it appears that managers believe withholding this disclosure enables them to hide tax avoidance behavior (Hope et al., 2013).

Policy makers and others are interested in the association between financial reporting and tax-related activities of multinational firms. Politicians and regulators also accuse many U.S. Corporations of avoiding taxes by shifting profits offshore generating harsh criticism from numerous groups (Akamah et al. 2014). Akamah et al. (2014) provide evidence that managers obscure tax haven activity if they believe disclosures could damage their or the firm's reputation, or inspire increased government sanctions and regulations.

We examine the association between multinational voluntary foreign cash balance disclosure and firms' geographic presence. Specifically, we examine whether firms with foreign subsidiaries located in low-tax jurisdictions are less likely to disclose foreign cash balances. Examining the voluntary disclosure of foreign cash balances in low-tax jurisdictions should

provide evidence on the effectiveness of firms' international tax strategies. Based on this, we formulate our first hypothesis as follows:¹

H1: *Subsidiary location in a tax haven is associated with reduced disclosure of foreign cash balances.*

2.3 The disclosure of foreign cash and MNCs foreign investment

Repatriation taxes reduce access to foreign cash (Hanlon et al. 2015; Harford et al. 2015; among others) and lower firms' financial flexibility (Harford et al. 2015). This effect is more pronounced for firms subject to higher repatriation taxes and/or higher costs of raising capital in the domestic market (Harford et al. 2015). The more cash held abroad; the less the firm's cash is valued because of reduced access to cash for profitable investment opportunities (Chen, 2014; Harford et al., 2015). Repatriation taxes can also motivate excess investments in financial assets, for which the rate of return is usually lower than firms' cost of capital (Chen, 2014).

Prior literature provides evidence that holding foreign cash leads to suboptimal foreign investments (Hanlon et al. 2015, Edwards et al. 2015). As a result, investors likely lower the value of high levels of foreign cash when valuing the assets of a firm (Campbell et al., 2014). Firms with high levels of foreign cash make less profitable foreign business acquisitions (Edwards et al., 2015), and excess foreign cash accumulation is valued lower by investors because of decrease usefulness and sub-optimal investment uses (Chen, 2014). Managers that have the intention to make a foreign acquisition with the firm's cash may be motivated to withhold the amount of cash held abroad. For example, managers with the ability to conceal the firm's foreign cash balance receive higher valuations from equity investors. If managers want to

¹ Hypothesis 1 is conditioned based on the level of PRE given that firms with lower levels of PRE have less incentive to disclose foreign cash in the first place.

conceal from investors, their intentions to participate in foreign cash acquisitions, they are less likely to disclose foreign cash balances.

H2: *Multinational firms that make foreign acquisitions are less likely to disclose foreign cash.*

2.4 Voluntary disclosure pressure from industry peers

Verrecchia (1983) and Dye (1985) show that prior industry peer disclosures influence managers' disclosures. The economic literature has long studied the phenomenon of social learning (Bikhchandani, Hirshleifer and Welch, 1998). Social learning theory suggests that managers being aware of the actions of other firms and managers plan their actions accordingly. The accounting literature provides evidence that managers are less likely to manage earnings upward when industry leaders have previously disclosed poor results (Bratten, Payne and Thomas, 2012).

Recently, the accounting literature has studied how SEC comment letters affect industry peer's actions. Brown et al. (2014) and Kubick et al. (2015) provide evidence of a spillover effect of qualitative corporate disclosure concerning risk and tax issues. Both studies provide evidence that industry peers will follow disclosure practices of firms receiving SEC comment letters.

In our sample, few firms receive SEC comment letters; however, a large number of firms disclose foreign cash balances. Consistent with Brown et al. (2014) and Kubick et al. (2015) we suggest that one SEC comment letter likely affects the disclosures for an entire industry. In concert with these prior studies, we examine the percentage of firms that are already disclosing foreign cash within that industry as a measure of industry disclosure pressure. When a greater proportion of firms in the industry disclose foreign cash balances, we expect a weaker association between firm specific factors and voluntary disclosure. Therefore, we predict that the

association between tax and investment factors and disclosure of foreign cash is weaker firms operate in an industry with a high proportion of firms already disclosing foreign cash balances (i.e., greater industry peer pressure to disclose).

H3a: *Subsidiary location in a tax haven reduces disclosure of foreign cash balances for firms in industries with lower industry disclosure pressure.*

H3b: *In industries with lower industry disclosure pressure, multinational firms that make foreign acquisitions are less likely to disclose foreign cash.*

3. Research Design

3.1 Sample Selection

The sample is 981 firms accounting for 3,744 firm-year observations. Panel A of Table 1 outlines the sources of the data. The starting point is all firms with non-missing PRE from Audit Analytics. The majority period covered by the data is 2007 through 2014 thus our sample begins in 2008 to accommodate lagged variables. In the first year of the sample, 49 firms disclosed foreign cash balances. Although the SEC requested disclosure of foreign cash balances in 2003, many firms did not disclose until 2008. We eliminate firms with missing data from I/B/E/S, missing Exhibit 21 data and missing data from Compustat.

We then identify firms that voluntarily disclose cash balances of foreign subsidiaries. We use DirectEdgar to collect the disclosures of cash balances held by foreign subsidiaries from firms' MD&A section of their 10-K annual reports.² We classify each company-year observation as disclosing or not disclosing levels of cash held in foreign jurisdictions.

There are 1,795 (1,949) disclosers (non-disclosers). We analyze disclosure behavior based on year and industry in Panels B and C, respectively. The disclosure of foreign cash has increased throughout the sample. The increase in disclosure is most likely attributed to SEC

² We examine both the MD&A section and the footnotes to the financial statements. For those firms that disclose foreign cash, the majority of the foreign cash amounts are disclosed in the MD&A section.

pressure (i.e., SEC comment letters) and industry peers' disclosures (i.e., similar auditors). While 20 percent of the sample disclosed foreign cash in 2008, 76 percent of multinational firms disclosed foreign cash in 2014. Although the percentage of disclosers increased, it is clear that foreign cash remains a voluntary disclosure among many multinational firms.

Panel C presents disclosure of foreign cash balances based on industry. Computer equipment services and electronic equipment are the two industries with the greatest representation. This result is most likely because of the materiality of PRE for these industries. For example, these industries have firms with the ability to locate intangible assets in foreign countries and allocate earnings to their foreign subsidiaries that own the intangible assets. In turn, this creates greater PRE, greater foreign earnings and greater foreign cash.

3.2 Multinational firms, tax havens and foreign investment

H1 posits that the association between PRE and the disclosure of foreign cash *decreases* for firms with a subsidiary located in a tax haven compared to firms without subsidiaries in tax havens. H2 predicts that the association between PRE and the disclosure of foreign cash also decreases when firms make a foreign acquisition. To test these predictions, we estimate the following logistic model:³

$$\begin{aligned}
 Fcash\ Disclosure_{i,t} = & \alpha_0 + \alpha_1 PRE_{i,t} + \alpha_2 PRE * Tax\ Haven_{i,t} + \alpha_3 PRE * ForAcq_{i,t} + \alpha_4 Tax \\
 & Haven_{i,t} + \alpha_5 ForAcq_{i,t} + \alpha_6 SEC_{i,t} + \alpha_7 IndPctDisc_{i,t} + \alpha_8 Total\ Cash_{i,t} + \\
 & \alpha_9 Tax\ Avoidance_{i,t} + \alpha_{10} Foreign\ Earnings_{i,t} + \alpha_{11} Domestic\ Earnings_{i,t} + \\
 & \alpha_{12} HHI_{i,t} + \alpha_{13} Litigate_{i,t} + \alpha_{14} Size_{i,t} + \alpha_{15} Leverage_{i,t} + \alpha_{16} PPE_{i,t} + \\
 & \alpha_{17} Intangibles_{i,t} + \alpha_{18} Big4_{i,t} + \alpha_{19} Sales\ Growth_{i,t} + \alpha_{20} ExFin_{i,t} + \\
 & \alpha_{21} Follow_{i,t} + \alpha_{22} NumSubs_{i,t} + Year\ Fixed\ Effects + Industry\ Fixed \\
 & Effects + \varepsilon
 \end{aligned} \tag{1}$$

The dependent variable *Fcash Disclosure* is equal to one when firms disclose foreign cash and zero otherwise. *PRE* is equal to permanently reinvested earnings obtained from Audit

³ Variables are also defined in the Appendix.

Analytics scaled by lagged total assets. *Tax Haven* is equal to one when a firm has a foreign subsidiary located in a tax haven, and zero otherwise. We identify tax havens based on Dyreng and Lindsey (2009).⁴ *ForAcq* is equal to one when the MNC uses cash to make a foreign acquisition. We use SDC Platinum to identify those MNCs that make a foreign acquisition. Consistent with H1 we predict a negative sign for α_2 suggesting a negative association between foreign subsidiaries located in tax haven countries and disclosure of foreign cash balances. Similarly, we predict a negative sign for α_3 suggesting a negative association between foreign acquisitions using cash and disclosure of foreign cash balances.⁵

Based on the prior literature, we also control for the following variables associated with voluntary disclosure with coefficient predictions in parentheses. *SEC* is equal to one when the firm receives a comment letter from the SEC asking the firm to disclose foreign cash (+). We search all comment letters for our sample using DirectEdgar. We then search for the term “foreign” and “international” within these comment letters to determine if the comment letter relates to foreign cash. *IndPctDisc* is the percentage of firms disclosing foreign cash within an industry, based on year and two-digit SIC codes (+) (Hope et al. 2013). We remove the firm's decision to disclose or not disclose from this percentage for each company-year. *Total Cash* is total cash scaled by lagged total assets (+). *Tax Avoidance* is equal to current year income taxes minus deferred income taxes, scaled by total income multiplied by negative one so that higher

⁴ The following countries are considered tax havens: Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Brunei, Cape Verde, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Dominica, Gibraltar, Grenada, Guernsey and Alderney, Hong Kong, Ireland, Isle Of Man, Jersey, Kitts and Nevis, Latvia, Lebanon, Liberia, Liechtenstein, Luxembourg, Macau, Maldives, Malta, Marshall Islands, Mauritius, Monaco, Montserrat, Motswana, Nauru, Netherlands Antilles (or Dutch Antilles), Niue, Palau, Panama, Samoa, San Marino, Seychelles, Singapore, St. Lucia, St. Vincent and The Grenadines, Switzerland, U.S. Virgin Islands, Uruguay, and Vanuatu.

⁵ For the interaction terms, we consider both the normal calculated z-statistics (which are consistent with Kolasinski and Seigel, 2010), and adjusted z-statistics (as presented in Ai and Norton (2003) and Greene (2010)). Results are robust to both specifications. The significance levels in the tables are based on the adjusted z-statistics per Ai and Norton (2003).

values indicate greater tax avoidance (-). *Foreign Earnings* is equal to foreign pretax income scaled by lagged total assets (+). *Domestic Earnings* is equal to domestic pretax income scaled by lagged total assets (-). *HHI* is the Herfindahl-Hirschman Index using sales and 2-digit SIC codes (-) (Harford et al., 2015). *Litigate* is an indicator equal to one for litigious industries (+) (SICs: 2833-2836, 3570-3577, 3600-3674, 5200-5961, and 7370-7374). *Size* is equal to the natural logarithm of the market value of equity (+) (Akamah et al. 2014; Rego, 2003). *Leverage* is equal to total debt scaled by lagged total assets (-) (Harford et al., 2015). *MTB* is equal to stock price scaled by book value per share (+) (Akamah et al. 2014; Hope et al. 2013). *PPE* is net property, plant, and equipment scaled by lagged total assets (-) (Akamah et al. 2014; Hope et al. 2013). *Intangibles* is total intangible assets scaled by lagged total assets (+) (Akamah et al. 2014; Hope et al. 2013). *Big4* is equal to one if the firm is audited by a Big4 auditor and zero otherwise (+). *Sales Growth* is total sales minus lagged sales, scaled by lagged sales (-). *External Financing* is equal to total net equity issuances plus total net debt issuances, scaled by lagged total assets (+). *Follow* is equal to one plus the number of analysts following the firm (+). *NumSubs* is equal to the natural logarithm of firms' total subsidiaries in a given year (+) (Dyreg et al. 2008). *We include fixed effects for year and industry in all models. We also winsorize all continuous variables at the 1 and 99 percent levels. We cluster standard errors by company.*⁶

3.3 Voluntary disclosure pressure from industry peers

H3 posits that the associations between tax haven and foreign investment and the disclosure of foreign cash will be stronger when there is less industry peer pressure to disclose foreign cash. To test this prediction, we partition the sample based on year-median levels of the *IndPctDisc* variable. The sample that is above the year-median of *IndPctDisc* is considered to

⁶ Given the small sample size, we also estimate our regressions with robust standard errors (White 1984) without clustering at the firm level. Qualitative and quantitative conclusions remain similar to those presented.

have the greatest peer pressure to disclose foreign cash. Therefore, we predict that our results will be stronger (weaker) in the subset of industries that are below (above) the median of IndPctDisc.

4. Results

4.1 Descriptive Statistics

The sample contains 3,744 firm-year observations representing 981 unique firms. Panel A of Table 2 presents the descriptive statistics for the sample. Foreign cash disclosing multinationals comprise 48 percent of the sample. Ninety-one percent of the sample has, at least, one subsidiary located in a tax haven. Our foreign investment variable of interest shows that 12 percent of the sample completed a foreign acquisition during the sample period. Our collection of comment letters revealed a total of 73 comment letters. However, 51 of these were eliminated because of missing data from other sources (i.e., I/B/E/S). Thus, just under one percent of the sample receiving a comment letter from the SEC. The typical firm has between two and three foreign subsidiaries. As expected, the majority of the sample is audited by the Big 4, and on average, firms hold 20 percent of assets in cash.

Panel B presents a t-test of the means for the variables used in our study. As expected, those variables that signal greater foreign operations are greater for disclosing firms compared to non-disclosing firms. Specifically, firms with greater PRE, tax havens, foreign investment, total cash, foreign earnings and intangibles are all more likely to disclose foreign cash.⁷ Firms with greater PPE are less likely to disclose foreign cash, suggesting that these firms contrast with

⁷ The main effect of tax havens and foreign investment are greater for disclosing firms. We hypothesize a negative association for the interaction between both tax havens and foreign investment and PRE.

firms with greater intangibles (i.e., Capital intense firms have lower ability to locate intangible assets in foreign countries resulting in less PRE).

Table 3 presents the correlation matrix. Except for those in bold and italics, all correlations are significant at the 10 percent level. We present Spearman (Pearson) correlations above (below) the diagonal. The correlations appear to be consistent with Table 2, Panel B univariates. The variables positively related to disclosure of foreign cash include PRE, tax havens, foreign investment, SEC comment letters, the percent of industry peers that disclose, total cash, foreign earnings, whether the company operates in a litigious industry, size, market-to-book, intangibles, Big 4, analyst following and total number of foreign subsidiaries. These univariate results suggest that voluntary disclosure of foreign cash balances is more likely for large firms, with more intangible assets and more industry peer pressure. In contrast, firms with greater PP&E, sales growth (a proxy for agency costs), and tax avoidance are less likely to disclose foreign cash balances. The correlations appear reasonable and suggest that firms with greater capital intensity and less intellectual property owned by foreign subsidiaries are less likely to disclose foreign cash balances. While these univariate statistics provide initial insights and evidence, we turn to our multivariate logistic regression to test our hypotheses.

4.2 Multinational firms, tax havens and foreign investment

We present the results of estimating Equation (1) in Table 4. H1 predicts that the association between PRE and the disclosure of foreign cash *decreases* for firms with a subsidiary located in a tax haven compared to firms without a tax haven presence. Column (1) presents a baseline model before including our interacted variables of interest. The multivariate evidence presented in Column (1) is consistent with the univariate evidence presented in Table 2, Panel B and in Table 3. Importantly, the coefficient on *PRE* is positive and significant at the one percent

level in all four models. This result is consistent with the greater materiality of foreign operations increasing the likelihood of foreign cash balance disclosure.

Results are similar for Columns (2) through (4); thus, we only discuss Column (4). The coefficient of interest for H1 is on the interaction between *PRE* and *Tax Haven*. The negative and significant coefficient (p-value=0.03) suggests that even though firms with higher PRE are more likely to disclose foreign cash, having a subsidiary located in a tax haven reduces the likelihood of disclosure.

The coefficient of interest for H2 is on the interaction between *PRE* and *ForAcq*. The negative and significant coefficient (p-value=0.07) suggests that firms that make greater foreign investments via acquisitions are less likely to disclose foreign cash, even when the foreign cash balance is material. The results confirm our predictions and suggest that the investment strategies of MNCs influence the motivation to disclose foreign cash voluntarily. These results complement Hanlon et al. (2015) and Edwards et al. (2015) by providing evidence that MNCs will withhold the disclosure of foreign cash if they intend to use that cash for future foreign acquisitions. Withholding the disclosure of foreign cash delays the eventual decrease in firm value associated with the level of foreign cash disclosed (Campbell et al. 2014).

The significant control variables appear reasonable. The direction and significance of our control variables remain the same in all of our model specifications; thus, we only discuss them here to avoid redundancy. Consistent with our univariate evidence, foreign cash disclosures are influenced by levels of PRE (*PRE*), higher industry pressure to disclose (*IndPctDisc*), SEC comment letters (*SEC*), total cash (*Total Cash*), and size (*Size*). These results suggest firms with better information environments and greater materiality of foreign operations are more likely to disclose foreign cash balances. Firms with greater domestic earnings (*Domestic Earnings*),

Property, Plant, and Equipment (*PPE*), and sales growth (*Sales Growth*) are less likely to disclose foreign cash balances. This result suggests that multinational firms are more capital intense, with fewer intangibles assets are less likely to disclose foreign cash balances. These firms also have the lowest likelihood they house their intellectual property overseas. Therefore, the foreign cash disclosure is less important.

4.3 Voluntary disclosure pressure from industry peers

Table 5 presents the estimated coefficients from equation (1) partitioned based on high versus low industry peer pressure to voluntarily disclose foreign cash. Specifically, Column (1) includes the sample of firms included in industries with *IndPctDisc* greater than the year-median (i.e., High Industry Pressure). Column (2) presents the coefficients for the sample with *IndPctDisc* below the median (i.e., Low Industry Pressure). In both columns, the coefficient on *PRE* is positive and significant providing evidence that the materiality of foreign operations makes a difference regardless of industry pressure to voluntarily disclose.^{8,9}

Consistent with H3a, the coefficient on the interaction between *PRE* and *Tax Haven* is negative and significant only for the sample of firms with low industry pressure (p-value=0.06). This result suggests that having a subsidiary in a tax haven and not disclosing foreign cash balances is primarily in a subset of firms with lower industry peer pressure to disclose.

The coefficient on the interaction between *PRE* and *ForAcq* is negative and significant only for the subset of firms with lower industry peer pressure to disclose foreign cash balances (p-value=0.02), consistent with H3b. Thus, consistent with the results for tax havens, foreign investment influence on the disclosure of foreign cash balances is more pronounced for firms

⁸ The coefficient associated with *PRE* is not statistically different between the two groups.

⁹ Untabulated results show that 42 (53) percent of firms disclose foreign cash for the High (Low) Industry Pressure group.

subject to less industry peer pressure to disclose. Consistent with expectations there is a negative associations between tax haven presence and foreign investment and foreign cash balance disclosures, and these associations are more pronounced when there is less industry peer pressure to disclose.

5. Conclusion

This study examines the association between multinational firms voluntary disclosure practices, and a firm's geographic presence. We examine the association between having foreign subsidiaries located in a tax haven disclosing foreign cash balances voluntarily. Prior studies find that multinational firms invest more in tax planning, avoid more taxes than U.S.-only firms avoid, and take advantage of low-tax jurisdictions (Mills, Erickson, and Maydew, 1998; Rego, 2003; Desai, Foley, and Hines, 2006; Col and Errunza, 2015; Dyreng et al.2015; Foley et al., 2007). Based on the prior literature, we examine whether managers with incentives to conceal their international tax strategies are less likely to disclose foreign cash balances when they have a subsidiary located in a low-tax jurisdiction.

We find evidence that multinational firms with greater PRE are less likely to disclose foreign cash balances when they have a subsidiary located in a tax haven. This result is consistent with firms' international geographic presence influencing voluntary disclosure practices. We further interpret this as evidence that managers are unlikely to disclose foreign cash balances voluntarily if the disclosure indicates inefficient use of resources (i.e., making sub-optimal business decisions to achieve greater levels of tax avoidance) to investors. Finally, our results suggest that multinational firms making foreign acquisition are less likely to disclose foreign cash, which is consistent with the notion that managers are less likely to disclose foreign

cash when they intend to use foreign cash to make a foreign acquisition. This study provides evidence that the firm-specific factors of voluntary disclosure (i.e., the tax effect and foreign investment effect) influence managers' decision to disclose foreign cash only when there is little industry level disclosure pressure.

Our study contributes to the literature examining the association between financial reporting and tax reporting and the literature examining the relationship between multinational voluntary disclosure practices and a firm's geographic presence. We provide evidence that managers of multinational firms with operations in low tax jurisdictions that engage in greater tax avoidance are less likely to disclose foreign cash balances. We also contribute to the literature examining the interactions between financial reporting and tax reporting. For example, prior research suggests that offshore operations affect firms' financial reporting quality (Durnev, Li, and Magnan, 2015) and a positive association between withholding of geographic disclosures and lower effective tax rates (Hope et al., 2013). Our study extends the prior literature by providing evidence that the success of multinational firms' foreign tax avoidance affects multinational firms' voluntary disclosures. Specifically, we argue that our study extends the prior literature by providing evidence that managers are unlikely to disclose foreign cash balances voluntarily if the disclosure would reveal the success of existing tax avoidance or the inefficient use of resources. By providing evidence that multinational firms investment strategies play a key role in managers' choices of voluntary disclosure we are also able to add to the voluntary disclosure literature.

Overall, prior research has provided evidence that voluntary disclosure of geographic earnings is related to firms' effective tax rates, and the presence of operations in tax havens. We

extend this line of research by demonstrating that managers are unlikely to disclose foreign cash balances voluntarily if the disclosure suggests the inefficient use of foreign cash to investors.

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Appendix

Variable Definitions

<i>Fcash Disclosure</i>	Indicator equal to 1 if foreign cash disclosed; zero otherwise
<i>PRE</i>	Permanently reinvested earnings from Audit Analytics scaled by lagged total assets.
<i>Tax Haven</i>	Indicator equal to 1 when the firm has a foreign subsidiary located in a tax haven per Dyreng and Lindsey (2009); zero otherwise. The following countries are considered tax havens: Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Brunei, Cape Verde, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Dominica, Gibraltar, Grenada, Guernsey and Alderney, Hong Kong, Ireland, Isle Of Man, Jersey, Kitts and Nevis, Latvia, Lebanon, Liberia, Liechtenstein, Luxembourg, Macau, Maldives, Malta, Marshall Islands, Mauritius, Monaco, Montserrat, Motswana, Nauru, Netherlands Antilles (or Dutch Antilles), Niue, Palau, Panama, Samoa, San Marino, Seychelles, Singapore, St. Lucia, St. Vincent and The Grenadines, Switzerland, U.S. Virgin Islands, Uruguay, and Vanuatu.
<i>ForAcq</i>	ForeignAcquirer is equal to one when the MNC makes a cash only foreign acquisition, and zero otherwise.
<i>SEC</i>	Indicator equal to 1 when the firm received an SEC comment letter requesting the disclosure of foreign cash; zero otherwise.
<i>IndPctDisc</i>	The percentage of firms disclosing foreign cash within an industry. The individual firm is not included in this calculation.
<i>Total Cash</i>	Total cash, scaled by lag assets
<i>Tax Avoidance</i>	Equal to the negative of CurrETR, where CurrETR is current year income taxes, less deferred income taxes, all scaled by total income; $\text{CurrETR} = (\text{TXT} - \text{TXDI}) / \text{PI}$, and is set equal to one (zero) if greater (less) than one (zero)
<i>Foreign Earnings</i>	Foreign pre-tax income, scaled by lag assets (PIFO/AT_Lag1)
<i>Domestic Earnings</i>	Total earnings, less foreign earnings, scaled by lag assets
<i>HHI</i>	The Herfindahl-Hirschman Index using sales and 2-digit SIC codes
<i>Litigate</i>	Indicator equal to 1 for litigious industries, defined by the following SICs: 2833-2836, 3570-3577, 3600-3674, 5200-5961, and 7370-7374
<i>Size</i>	Natural log of market value
<i>Leverage</i>	Total liabilities, scaled by lag assets
<i>MTB</i>	Market to book ratio
<i>PPE</i>	Net property, plant, and equipment, scaled by lag assets
<i>Intangibles</i>	Intangible assets, scaled by lag assets
<i>Big4</i>	Indicator equal to 1 if Big 4 auditor used; zero otherwise
<i>Sales Growth</i>	Current year sales, less prior year sales, scaled by prior year sales

<i>ExFin</i>	Sum of Equity and Debt, scaled by lag assets (AT_Lag1); where Equity = SSTK - PRSTKC - DV; and where Debt = DLTIS - DLTR - DLCCH
<i>Follow</i>	Natural log of 1 plus the number of analysts following the firm. Number of analysts is obtained from I/B/E/S.
<i>NumSubs</i>	Natural log of total number of subsidiary locations. The firm's subsidiaries are identified from the Exhibit 21 filing.

Table 1
Sample Selection and Distribution

Panel A: Sample Selection

Observations with nonmissing PRE data from Audit Analytics	7,294
- PRE data from Audit Analytics prior to 2007 or post 2014	(70)
- Missing Analyst Data from I/B/E/S	(1,512)
- Missing Exhibit 21 Data	(1,401)
- Missing Compustat Data	(567)
Total Firm-Year Observations	3,744

Panel B: Sample Distribution by Year

Year	N	% Total	Disclose	% Disclose
2008	246	6.6%	49	19.9%
2009	379	10.1%	94	24.8%
2010	723	19.3%	184	25.4%
2011	799	21.3%	403	50.4%
2012	683	18.2%	420	61.5%
2013	788	21.0%	549	69.7%
2014	126	3.4%	96	76.2%
Total	3,744		1,795	

Panel C: Sample Distribution by Industry

Industry	SIC Code	Freq	%
Oil and gas		13, 29	119 3.18%
Food products		20	84 2.24%
Paper and paper products		24-27	115 3.07%
Chemical products		28	360 9.62%
Manufacturing		30-34	280 7.48%
Computer equipment and services		35, 73	1,021 27.27%
Electronic equipment		36	529 14.13%
Transportation		37, 39, 40-42, 44, 45	202 5.40%
Scientific instruments		38	352 9.40%
Communications		48	49 1.31%
Durable goods		50	98 2.62%
Retail		53, 54, 56, 57, 59	94 2.51%

Eating and drinking establishments	58	15	0.40%
Entertainment services	70, 78, 79	14	0.37%
Health	80	6	0.16%
Others		406	10.84%
Total		3,744	

Table 1 presents the sample selection and the source of lost firm-year observations. Panel A outlines the sample sources. Panels B and C present the sample distribution by year and industry, respectively.

Table 2
Descriptive Statistics

Panel A: Descriptive Statistics

	N	Mean	St. Dev.	Q1	Median	Q3
Fcash Disclosure	3,744	0.479	0.500	0.000	0.000	1.000
PRE	3,744	0.159	0.152	0.039	0.112	0.233
Tax Haven	3,744	0.914	0.280	1.000	1.000	1.000
ForAcq	3,744	0.120	0.325	0.000	0.000	0.000
SEC	3,744	0.006	0.075	0.000	0.000	0.000
IndPctDisc	3,744	0.355	0.189	0.192	0.374	0.500
Total Cash	3,744	0.203	0.178	0.071	0.152	0.279
Tax Avoidance	3,744	-0.246	0.207	-0.332	-0.242	-0.097
Foreign Earnings	3,744	0.041	0.052	0.010	0.030	0.065
Domestic Earnings	3,744	0.039	0.082	0.000	0.035	0.080
HHI	3,744	0.049	0.043	0.027	0.034	0.049
Litigate	3,744	0.338	0.473	0.000	0.000	1.000
Size	3,744	7.719	1.693	6.562	7.654	8.819
Leverage	3,744	0.535	0.246	0.363	0.519	0.678
MTB	3,744	2.848	2.866	1.400	2.181	3.471
PPE	3,744	0.208	0.183	0.081	0.152	0.267
Intangibles	3,744	0.255	0.218	0.074	0.206	0.393
Big4	3,744	0.916	0.278	1.000	1.000	1.000
Sales Growth	3,744	0.081	0.171	-0.013	0.063	0.152
ExFin	3,744	-0.016	0.095	-0.067	-0.022	0.011
Follow	3,744	2.520	0.761	1.946	2.639	3.091
NumSubs	3,744	2.355	1.039	1.609	2.565	3.178

Panel B: T-test of Means

Variables	NonDisclosers		Disclosers		MeanDiff
	N	Mean	N	Mean	
PRE	1,949	0.139	1,795	0.180	-0.040***
Tax Haven	1,949	0.901	1,795	0.928	-0.027***
ForAcq	1,949	0.107	1,795	0.133	-0.026**
SEC	1,949	0.002	1,795	0.009	-0.007***
IndPctDisc	1,949	0.279	1,795	0.438	-0.159***
Total Cash	1,949	0.192	1,795	0.214	-0.021***
Tax Avoidance	1,949	-0.240	1,795	-0.253	0.014**
Foreign Earnings	1,949	0.038	1,795	0.045	-0.006***
Domestic Earnings	1,949	0.039	1,795	0.038	0.001
HHI	1,949	0.050	1,795	0.049	0.001
Litigate	1,949	0.309	1,795	0.370	-0.061***
Size	1,949	7.543	1,795	7.911	-0.368***
Leverage	1,949	0.530	1,795	0.539	-0.009
MTB	1,949	2.677	1,795	3.035	-0.358***
PPE	1,949	0.224	1,795	0.191	0.034***
Intangibles	1,949	0.240	1,795	0.271	-0.031***
Big4	1,949	0.908	1,795	0.924	-0.017*
Sales Growth	1,949	0.086	1,795	0.075	0.011*
ExFin	1,949	-0.017	1,795	-0.015	-0.002
Follow	1,949	2.656	1,795	2.764	-0.108***
NumSubs	1,949	2.303	1,795	2.411	-0.107***

Table 2 presents the descriptive statistics for the sample. Panel A presents the descriptive statistics for the variables used to test our hypotheses. Panel B presents a t-test difference of the means of our variables used to test our hypotheses. All continuous variables have been winsorized at the 1 and 99 percent levels. Variables are defined as follows. *Fcash Disclosure* is an indicator equal to one if foreign cash disclosed; zero otherwise. *PRE* is equal to permanently reinvested earnings scaled by lagged total assets. *Tax Haven* is equal to one when the firm has a foreign subsidiary located in a tax haven per Dyreng and Lindsey (2009); zero otherwise. *ForAcq* is equal to one when the MNC makes a cash only foreign acquisition, and zero otherwise. *SEC* is equal to one when the firm receives a comment letter requesting the disclosure of foreign cash from the SEC; zero otherwise. *IndPctDisc* is the percentage of firms disclosing foreign cash within an industry. *Total Cash* is total cash, scaled by lag assets. *Tax Avoidance* is equal to the negative of *CurrETR*, where *CurrETR* is current year income taxes, less deferred income taxes, all scaled by total income. *Foreign Earnings* is foreign pre-tax income, scaled by lag assets. *Domestic Earnings* is domestic pre-tax income, scaled by lag assets. *HHI* is the Herfindahl-Hirschman Index using sales and 2-digit SIC codes. *Litigate* is an indicator equal to one for litigious industries, defined by the following SICs: 2833-2836, 3570-3577, 3600-3674, 5200-5961, and 7370-7374. *Size* is the natural log of market value. *Leverage* is total liabilities, scaled by lag assets. *MTB* is the market to book ratio. *PPE* is net property, plant, and equipment, scaled by lag assets. *Intangibles* is intangible assets, scaled by lag assets. *Big4* is an indicator equal to one if Big 4 auditor used; zero otherwise. *Sales Growth* is current year sales, less prior year sales, scaled by prior year sales. *External Financing* is the sum of Equity and Debt, scaled by lag assets (AT_Lag1); where $Equity = SSTK - PRSTKC - DV$;

and where $Debt = DLTIS - DLTR - DLCCH$. $Follow$ is the natural log of one plus the number of analysts following the firms. $NumSubs$ is the natural log of total number of subsidiary locations.

Table 3
Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Fcash Disclosure		0.153	0.048	0.040	0.050	0.422	0.098	-0.025	0.101	-0.006	-0.025	0.064	0.115
2 PRE	0.132		0.210	0.021	-0.013	0.055	0.139	0.008	0.610	-0.108	-0.060	0.051	0.202
3 Tax Haven	0.048	0.181		0.063	0.023	0.010	0.086	0.018	0.193	-0.090	-0.115	0.102	0.159
4 ForAcq	0.040	0.002	0.063		0.016	0.010	-0.031	-0.038	0.056	0.030	-0.025	0.018	0.132
5 SEC	0.050	-0.023	0.023	0.016		0.050	-0.036	-0.021	-0.016	0.030	0.034	-0.039	-0.001
6 IndPctDisc	0.422	0.072	0.010	0.007	0.046		0.080	-0.062	0.006	0.027	-0.106	0.091	0.007
7 Total Cash	0.060	0.161	0.055	-0.034	-0.026	0.062		0.055	0.223	0.004	-0.190	0.439	-0.084
8 Tax Avoidance	-0.033	0.027	0.002	-0.036	-0.022	-0.054	0.063		-0.119	-0.341	-0.044	0.094	-0.145
9 Foreign Earnings	0.060	0.503	0.130	0.039	-0.015	-0.010	0.251	-0.050		0.043	-0.071	0.062	0.307
10 Domestic Earnings	-0.002	-0.070	-0.053	0.030	0.031	0.026	0.034	-0.206	0.052		-0.011	-0.058	0.310
11 HHI	-0.012	-0.047	-0.068	-0.041	0.058	-0.117	-0.174	-0.029	-0.062	0.038		-0.313	-0.035
12 Litigate	0.064	0.081	0.102	0.018	-0.039	0.073	0.425	0.058	0.070	-0.055	-0.218		-0.006
13 Size	0.109	0.186	0.165	0.140	-0.003	0.001	-0.071	-0.088	0.294	0.305	0.014	0.011	
14 Leverage	0.019	-0.083	0.014	0.053	0.027	0.002	-0.303	-0.065	-0.015	0.029	0.101	-0.200	0.229
15 MTB	0.062	0.046	0.024	-0.019	0.008	0.108	0.145	-0.080	0.172	0.196	0.000	0.073	0.272
16 PPE	-0.092	-0.018	-0.060	-0.026	0.024	-0.173	-0.281	0.027	0.059	0.012	0.189	-0.210	0.172
17 Intangibles	0.071	-0.145	0.027	0.163	0.012	0.102	-0.241	-0.096	-0.077	0.102	-0.114	-0.001	0.177
18 Big4	0.030	0.006	0.051	0.041	-0.003	-0.042	-0.081	-0.020	0.040	0.022	0.012	-0.051	0.301
19 Sales Growth	-0.032	-0.054	-0.018	0.068	0.003	-0.026	0.167	-0.029	0.225	0.212	-0.056	0.067	0.079
20 ExFin	0.009	-0.120	-0.059	0.076	0.031	0.048	0.104	0.012	-0.064	-0.199	-0.037	-0.013	-0.110
21 Follow	0.061	0.114	0.136	0.109	-0.013	-0.026	0.040	-0.026	0.209	0.160	0.006	0.113	0.774
22 NumSubs	0.051	0.277	0.493	0.077	-0.001	0.022	-0.092	-0.061	0.149	-0.043	-0.104	-0.041	0.316

	14	15	16	17	18	19	20	21	22
1 Fcash Disclosure	0.021	0.075	-0.097	0.075	0.030	-0.014	-0.004	0.060	0.058
2 PRE	-0.059	0.101	0.049	-0.105	0.029	-0.068	-0.119	0.122	0.334
3 Tax Haven	0.020	0.038	-0.074	0.030	0.051	-0.019	-0.042	0.132	0.420
4 ForAcq	0.060	0.015	-0.036	0.158	0.041	0.073	0.065	0.102	0.079
5 SEC	0.031	0.018	0.042	0.016	-0.003	0.002	0.024	-0.017	-0.003
6 IndPctDisc	-0.002	0.134	-0.152	0.112	-0.046	-0.014	0.017	-0.033	0.020
7 Total Cash	-0.380	0.184	-0.292	-0.247	-0.087	0.103	0.066	0.027	-0.072
8 Tax Avoidance	-0.046	-0.144	0.011	-0.119	-0.035	-0.096	0.091	-0.046	-0.060
9 Foreign Earnings	-0.020	0.261	0.066	-0.034	0.040	0.197	-0.086	0.206	0.254
10 Domestic Earnings	0.003	0.356	0.026	0.143	0.038	0.244	-0.224	0.173	-0.048
11 HHI	0.079	-0.124	0.208	-0.158	0.013	-0.073	0.015	-0.003	-0.135
12 Litigate	-0.213	0.092	-0.236	-0.015	-0.051	0.064	-0.024	0.116	-0.034
13 Size	0.272	0.438	0.144	0.203	0.299	0.107	-0.160	0.798	0.367
14 Leverage		0.195	0.191	0.150	0.167	0.069	0.122	0.122	0.231
15 MTB	0.191		-0.027	0.133	0.105	0.219	-0.142	0.310	0.123
16 PPE	0.189	-0.018		-0.363	0.065	0.013	0.044	0.079	-0.076
17 Intangibles	0.192	0.040	-0.344		0.084	0.094	0.003	0.128	0.183
18 Big4	0.157	0.058	0.055	0.066		0.004	-0.057	0.250	0.184
19 Sales Growth	0.074	0.112	0.056	0.098	0.001		0.158	0.103	-0.084
20 ExFin	0.233	-0.047	0.111	0.187	-0.039	0.179		-0.099	-0.106
21 Follow	0.099	0.198	0.136	0.138	0.270	0.083	-0.053		0.217
22 NumSubs	0.167	0.063	-0.108	0.117	0.179	-0.083	-0.091	0.191	

Table 3 presents the correlation coefficients for the variables used in the study. All correlations except those in bold and italics are significant at the 10% level. Variables are defined as follow. *Fcash Disclosure* is an indicator equal to one if foreign cash disclosed; zero otherwise. *PRE* is equal to permanently reinvested earnings scaled by lagged total assets. *Tax Haven* is equal to one when the firm has a foreign subsidiary located in a tax haven per Dyreng and Lindsey (2009); zero otherwise. *ForAcq* is equal to one when the MNC makes a cash only foreign acquisition, and zero otherwise. *SEC* is equal to one when the firm receives a comment letter requesting the disclosure of foreign cash from the SEC; zero otherwise. *IndPctDisc* is the percentage of firms disclosing foreign cash within an industry. *Total Cash* is total cash, scaled by lag assets. *Tax Avoidance* is equal to the negative of *CurrETR*, where *CurrETR* is current year income taxes, less deferred income taxes, all scaled by total income. *Foreign Earnings* is foreign pre-tax income, scaled by lag assets. *Domestic Earnings* is domestic pre-tax income, scaled by lag assets. *HHI* is the Herfindahl-Hirschman Index using sales and 2-digit SIC codes. *Litigate* is an indicator equal to one for litigious industries, defined by the following SICs: 2833-2836, 3570-3577, 3600-3674, 5200-5961, and 7370-7374. *Size* is the natural log of market value. *Leverage* is

total liabilities, scaled by lag assets. *MTB* is the market to book ratio. *PPE* is net property, plant, and equipment, scaled by lag assets. *Intangibles* is intangible assets, scaled by lag assets. *Big4* is an indicator equal to one if Big 4 auditor used; zero otherwise. *Sales Growth* is current year sales, less prior year sales, scaled by prior year sales. *External Financing* is the sum of Equity and Debt, scaled by lag assets (*AT_Lag1*); where Equity = $SSTK - PRSTKC - DV$; and where Debt = $DLTIS - DLTR - DLCCH$. *Follow* is the natural log of one plus the number of analysts following the firms. *NumSubs* is the natural log of total number of subsidiary locations.

Table 4
Foreign Cash Disclosure: The Effect of Tax Havens and Foreign Acquisitions

		(1)	(2)	(3)	(4)
	Prediction	Fcash Disclosure	Fcash Disclosure	Fcash Disclosure	Fcash Disclosure
PRE	+	1.581*** (0.002)	5.618*** (0.005)	1.744*** (0.001)	5.718*** (0.005)
PRE * Tax Haven	-		-4.126** (0.026)		-4.003** (0.031)
PRE * ForAcq	-			-1.711** (0.043)	-1.635* (0.069)
Tax Haven	?		0.511 (0.108)		0.486 (0.128)
ForAcq	?			0.446** (0.019)	0.432** (0.023)
SEC	+	1.112* (0.074)	1.115* (0.072)	1.086* (0.079)	1.090* (0.077)
IndPctDisc	+	4.350*** (0.000)	4.384*** (0.000)	4.369*** (0.000)	4.401*** (0.000)
Total Cash	+	0.900** (0.028)	0.917** (0.025)	0.894** (0.030)	0.910** (0.027)
Tax Avoidance	+	-0.132 (0.528)	-0.135 (0.519)	-0.126 (0.546)	-0.130 (0.536)
Foreign Earnings	+	-0.031 (0.979)	-0.129 (0.912)	0.003 (0.998)	-0.094 (0.936)
Domestic Earnings	-	-1.490** (0.049)	-1.433* (0.060)	-1.531** (0.044)	-1.474* (0.053)
HHI	-	5.259 (0.285)	5.223 (0.291)	5.181 (0.291)	5.144 (0.297)
Litigate	+	0.124 (0.563)	0.116 (0.591)	0.130 (0.546)	0.122 (0.573)
Size	+	0.202*** (0.004)	0.201*** (0.004)	0.210*** (0.003)	0.208*** (0.003)
Leverage	-	0.058 (0.829)	0.048 (0.860)	0.058 (0.831)	0.047 (0.861)
MTB	+	-0.011 (0.548)	-0.011 (0.547)	-0.012 (0.512)	-0.012 (0.513)
PPE	-	-0.986* (0.058)	-0.974* (0.062)	-0.999* (0.055)	-0.987* (0.059)
Intangibles	+	0.569 (0.114)	0.580 (0.109)	0.550 (0.127)	0.562 (0.121)
Big4	+	0.301 (0.240)	0.281 (0.277)	0.307 (0.231)	0.288 (0.266)
Sales Growth	-	-0.603**	-0.622**	-0.593**	-0.612**

		(0.031)	(0.026)	(0.034)	(0.029)
ExFin	+	-0.225	-0.186	-0.224	-0.186
		(0.678)	(0.733)	(0.680)	(0.733)
Follow	+	-0.199	-0.192	-0.207*	-0.200
		(0.115)	(0.129)	(0.100)	(0.113)
NumSubs	+	-0.036	-0.028	-0.035	-0.027
		(0.635)	(0.711)	(0.643)	(0.717)
Intercept	?	-6.341***	-6.594***	-6.434***	-6.674***
		(0.000)	(0.000)	(0.000)	(0.000)
Year Fixed Effects		Included	Included	Included	Included
Industry Fixed Effects		Included	Included	Included	Included
Area Under ROC Curve		0.782	0.783	0.783	0.784
<i>N</i>		3,744	3,744	3,744	3,744
pseudo <i>R</i> ²		0.1894	0.1905	0.1901	0.1912

Table 4 presents the estimated coefficients to test the hypotheses. Standard errors are clustered by firm. P-values are in parentheses. ***, **, * represent significance at the 1%, 5%, and 10%. P-values are one-tailed where predicted and two-tailed otherwise. Variables are defined as follows: *Fcash Disclosure* is an indicator equal to one if foreign cash disclosed; zero otherwise. *PRE* is equal to permanently reinvested earnings scaled by lagged total assets. *Tax Haven* is equal to one when the firm has a foreign subsidiary located in a tax haven per Dyreng and Lindsey (2009); zero otherwise. *ForAcq* is equal to one when the MNC makes a cash only foreign acquisition, and zero otherwise. *SEC* is equal to one when the firm receives a comment letter requesting the disclosure of foreign cash from the SEC; zero otherwise. *IndPctDisc* is the percentage of firms disclosing foreign cash within an industry. *Total Cash* is total cash, scaled by lag assets. *Tax Avoidance* is equal to the negative of *CurrETR*, where *CurrETR* is current year income taxes, less deferred income taxes, all scaled by total income. *Foreign Earnings* is foreign pre-tax income, scaled by lag assets. *Domestic Earnings* is domestic pre-tax income, scaled by lag assets. *HHI* is the Herfindahl-Hirschman Index using sales and 2-digit SIC codes. *Litigate* is an indicator equal to one for litigious industries, defined by the following SICs: 2833-2836, 3570-3577, 3600-3674, 5200-5961, and 7370-7374. *Size* is the natural log of market value. *Leverage* is total liabilities, scaled by lag assets. *MTB* is the market to book ratio. *PPE* is net property, plant, and equipment, scaled by lag assets. *Intangibles* is intangible assets, scaled by lag assets. *Big4* is an indicator equal to one if Big 4 auditor used; zero otherwise. *Sales Growth* is current year sales, less prior year sales, scaled by prior year sales. *External Financing* is the sum of Equity and Debt, scaled by lag assets (*AT_Lag1*); where Equity = *SSTK - PRSTKC - DV*; and where Debt = *DLTIS - DLTR - DLCCH*. *Follow* is the natural log of one plus the number of analysts following the firms. *NumSubs* is the natural log of total number of subsidiary locations.

Table 5
Foreign Cash Disclosure and Industry Peer Pressure

		(1)	(2)
	Prediction	High Industry Pressure	Low Industry Pressure
PRE	+	5.607* (0.067)	5.538** (0.037)
PRE * Tax Haven	-	-3.519 (0.127)	-4.216* (0.067)
PRE * ForAcq	-	-0.533 (0.452)	-3.429*** (0.016)
Tax Haven	?	0.605 (0.142)	0.420 (0.318)
ForAcq	?	0.315 (0.269)	0.595** (0.021)
SEC	+	-0.034 (0.972)	1.514* (0.072)
IndPctDisc	+	3.645** (0.026)	3.410*** (0.000)
Total Cash	+	1.021** (0.047)	0.761 (0.248)
Tax Avoidance	-	-0.538* (0.063)	0.214 (0.499)
Foreign Earnings	+	-1.493 (0.366)	1.147 (0.463)
Domestic Earnings	-	-1.954** (0.044)	-1.323 (0.236)
HHI	-	5.452 (0.644)	7.064 (0.242)
Litigate	+	0.098 (0.710)	0.181 (0.568)
Size	+	0.372*** (0.000)	0.082 (0.369)
Leverage	-	-0.137 (0.686)	0.134 (0.748)
MTB	+	-0.008 (0.734)	-0.012 (0.677)
PPE	-	-1.595** (0.027)	-0.420 (0.545)
Intangibles	+	0.666 (0.157)	0.470 (0.363)
Big4	+	0.019 (0.954)	0.604* (0.074)
Sales Growth	-	-0.757* (0.954)	-0.440 (0.074)

		(0.062)	(0.294)
ExFin	+	0.259	-0.668
		(0.731)	(0.405)
Follow	+	-0.306*	-0.149
		(0.080)	(0.408)
NumSubs	+	-0.092	-0.006
		(0.333)	(0.950)
Intercept	?	2.926	-7.227***
		(0.317)	(0.000)
Year Fixed Effects		Included	Included
Industry Fixed Effects		Included	Included
Area under ROC Curve		0.792	0.778
<i>N</i>		1,841	1,877
pseudo <i>R</i> ²		0.1985	0.1812

Table 5 presents the estimated coefficients to test the hypotheses. Column (1) is estimated for the sample that is above the year-median of *IndPctDisc*. Column (2) is estimated for the sample that is equal to or below the year-median of *IndPctDisc*. Standard errors are clustered by firm. P-values are in parentheses. ***, **, * represent significance at the 1%, 5%, and 10%. P-values are one-tailed where predicted and two-tailed otherwise. Variables are defined as follows. *Fcash Disclosure* is an indicator equal to one if foreign cash disclosed; zero otherwise. *PRE* is equal to permanently reinvested earnings scaled by lagged total assets. *Tax Haven* is equal to one when the firm has a foreign subsidiary located in a tax haven per Dyreng and Lindsey (2009). We also add Hong Kong and the Netherlands to this list. The variable is set equal to zero otherwise. *ForAcq* is equal to one when the MNC makes a cash only foreign acquisition, and zero otherwise. *SEC* is equal to one when the firm receives a comment letter requesting the disclosure of foreign cash from the SEC; zero otherwise. *IndPctDisc* is the percentage of firms disclosing foreign cash within an industry. *Total Cash* is total cash, scaled by lag assets. *Tax Avoidance* is equal to the negative of *CurrETR*, where *CurrETR* is current year income taxes, less deferred income taxes, all scaled by total income. *Foreign Earnings* is foreign pre-tax income, scaled by lag assets. *Domestic Earnings* is domestic pre-tax income, scaled by lag assets. *HHI* is the Herfindahl-Hirschman Index using sales and 2-digit SIC codes. *Litigate* is an indicator equal to one for litigious industries, defined by the following SICs: 2833-2836, 3570-3577, 3600-3674, 5200-5961, and 7370-7374. *Size* is the natural log of market value. *Leverage* is total liabilities, scaled by lag assets. *MTB* is the market to book ratio. *PPE* is net property, plant, and equipment, scaled by lag assets. *Intangibles* is intangible assets, scaled by lag assets. *Big4* is an indicator equal to one if Big 4 auditor used; zero otherwise. *Sales Growth* is current year sales, less prior year sales, scaled by prior year sales. *External Financing* is the sum of Equity and Debt, scaled by lag assets (*AT_Lag1*); where Equity = *SSTK* - *PRSTKC* - *DV*; and where Debt = *DLTIS* - *DLTR* - *DLCCH*. *Follow* is the natural log of one plus the number of analysts following the firms. *NumSubs* is the natural log of total number of subsidiary locations.