The Wealth Effects of CFO Turnover: Evidence from Post-Sarbanes-Oxley Act

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Abstract

This study investigates the impact of CFO turnover on shareholder wealth in the post-Sarbanes-Oxley Act period. Our tests are based on a sample of 244 CFO turnovers during the post-SOX (2003-2007) years. Our full and sub-sample empirical results show that market reaction to CFO turnover events was significantly negative for all departure reasons. Prior Pre-SOX research showed no significant market reaction around most CFO departure events with the exception of a sudden CFO departure event. Thus, our results indicate that SOX has influenced market participants' perception of CFO turnover event as value relevant. We provide evidence that supports existing literature that CFO turnover is disciplinary in nature.

I. Introduction

Prior research in top corporate executive departures primarily focuses on chief executive officer (CEO) turnover events and present little investigation surrounding chief financial officer (CFO) changes. The purpose of our study is to measure the effects of CFO turnover events in the post- Sarbanes-Oxley Act of 2002 (hereafter SOX) period on shareholder wealth.

The motivation of this paper is derived from the enactment of SOX that sheds light on the changing role of CFO in corporate financial reporting and in setting market expectations. Section 302, paragraph (a) of SOX identifies two parties who are required to certify the accuracy of the annual and quarterly financial statements. And, these parties are "principal executive officer or officers" and "the principal financial officer or officers" of the firm. Integrity of financial reporting is not only of concern to investors in United States but also has global implications regarding the optimal flow of capital. More recent financial meltdown triggered by US financial institutions' excessive risk taking calls for the need of high quality corporate governance mechanisms. This in turn makes our study much more timely and pertinent for regulators and policy maker as additional regulations are contemplated.

II. Literature Review

Prior research primarily focuses on the impact of corporate restatements. And we know that the chief financial officers have a direct hand in preparing these corporate financial filings. Defond and Jiambalvo (1991) provide evidence that firms who restate experience far poor financial performance than are firms who do not restate. Palmrose et al. (2004) find that restating firms experience significant wealth loss around the restatement disclosures events. Some studies argue that firms who restate do manage and manipulate accounting numbers in order to appear more profitable and less risky. The motivation for these firms is to reduce borrowing cost or to impress capital markets [Richardson, Tuna and Wu, 2002; Erickson, Hanlon, and Maydew, 2004].

A related stream of research links firm performance with top management changes and provides evidence that CEOs are replaced subsequent to poor financial performance [see e.g., Parrino, 1997; Denis and Denis, 1995; Gilson, 1989]. More recently, researchers have started

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focusing on the link between financial performance and CFO turnover. A major impetus for this investigation comes from reporting requirements under SOX which in turn has given rise to unprecedented restatements of financial filings by the corporate world. For example, Denton et al. (2008) provide evidence that CFO of restating firms experience higher turnover and that this turnover rate has become more pronounced after the enactment of SOX.

There is only one known pre-Sox study; a seminal work by Mian (2001) providing empirical evidence that poor financial performance is the primary determinant of CFO turnover. He links his findings to the hypothesis that labor markets impose severe penalties on poor performing CFOs and those CFO removals are disciplinary in nature. He tests the impact of CFO turnover events to market performance and finds that shareholders experience significant negative wealth effects for a year leading up to these events. Mian (2001) did not find any negative effects around event dates with the exception of the CFO dismissal event. His test period only includes pre-SOX years. We are not aware of any research that has examined the relationship between CFO turnover and market reaction in the post-SOX period. Therefore, our study examines the market reaction to CFO turnover in the post-SOX periods.

III. Sarbanes-Oxley Act of 2002 and CFO Departure Events

The last ten years of U.S. corporate environment has experienced some of the most egregious examples of recklessness, greed, and disregard for stakeholders (shareholders, suppliers, customers, employees, etc.) interests in the form of accounting manipulation and fraud. Some examples that come abruptly to mind are of Enron, Tyco, Adelphia, Computer Associates, and Health South among many. The enactment of Sarbanes-Oxley Act in 2002 is a direct result of failures of corporate governance. The primary purpose of this Act is to restore investors' confidence in financial reporting of public companies.

Toward that end, the SOX rules have not only changed the listing requirements of the major exchanges but has also drastically altered internal and external monitoring landscape of a public enterprise. The act has moved to institute the formation of Public Companies Accounting Oversight Board (PCOAB). The PCOAB's job is to monitor external auditors' practices and corporate governance mechanisms in order to strengthen the integrity of corporate financial reporting.

More importantly, SOX has fundamentally changed the responsibilities of top management (CEO, CFO) regarding corporate financial reporting. There are key sections of SOX where CFO is held accountable. For example, Section 302 requires CFO to certify (by signing) that the financial statements (both annual and quarterly) have presented fairly the economic activities of the company. Under this section, the CFO is also "responsible for establishing and maintaining internal controls"; Section 304 stipulates that CFO has to forfeit all bonuses earned due to misstated financial numbers; Section 802 assesses criminal sanctions against the CFO if the financial statements are misstated or are misleading. Under this section, certifying a false statement can lead to a fine of $5 million and an incarceration of up to 20 years.

A. Stock Market Reaction to Guidance events - Hypothesis Development

Prior research has shown that top executive turnover events are value relevant and market participants do take these events in to account in setting asset prices. More importantly, SOX

has put tremendous responsibility on the shoulder of CFO in terms of assuring the integrity of corporate financial reporting. Thus, any departure of CFO from the company (due to any purported reason) can create significant uncertainty for investors in the post-SOX environment. We expect this uncertainty to be reflected in share prices.

Thus, the CFO turnover events are expected to have a significant wealth effect on shareholders of the affected firms in turn resulting in a negative stock price reaction. We measure both the market reaction to CFO turnover in the post-SOX and formulate and test the following hypothesis:

H1a: *CFO turnover has negative impact on the average security returns (AR) of affected firms.*

It is fairly likely that value relevant information regarding CFO departure is impounded in stock prices some days before the news release. In fact, prior evidence in financial literature supports this *information-leakage* phenomenon (see more on this in Xi & Heidle, 2005; Mac 2002). The use of the cumulative abnormal returns (CAR) metric provides us the opportunity to pick abnormal activity (if there is any) over multiple trading intervals. The CAR can be interpreted as the firms' average deviation of returns from their normal market relationship. We expect CAR to be equal to zero on average. A non zero and significant and positive/negative CAR over different selected intervals would show that investors experienced significant wealth gain/loss over these intervals around test events as proposed below:

H1b: *CFO turnover has negative impact on the average cumulative security returns (CAR) of the affected firms.*

B. Sample Selection

Table 1

CFO Departures – Reasons as Reported

The following chart describes the CFO turnover as identified in the texts of the news reports in the ABI/INFO Database.

Event	Reasons identified	Number of Firms
1	**Join another company or start own business**	**37**
2	**Personal reasons (Personal or Pursue other interests)**	**61**
3	**Retire**	**64**
4	**Accounting Irregularity and Fraud**	**24**
5	**Performance**	**7**
6	**Promotion**	**2**
7	**Shakeup Restructuring**	**6**
8	**All other reasons (including unidentified)**	**43**
Total		**244**

We searched ProQuest Research Library for all news items related to CFO's termination of employment for years 2003 through 2007 using the search words that include "firings", "terminations", "resignations", "retirements", "demotions", and "promotions". We treated "stepping down" of CFO as "resignation." The search results contained various sources such as *The Wall Street Journal* and the *New York Times*. In cases where news related to an event was published on two or more days, the date of the first news article was considered as an *event date.* The ProQuest Researh Library is owned and managed by ProQuest.

Next, in order to identify a precise event date, we deleted any news articles that specify a month or a year only. We further restricted our sample by the availability of data in The Center for Research in Security Prices (CRSP). Our screening resulted in a total of 244 events for our sample. We divided the events into eight sub categories. Table 1 reports the number of events per subcategory. The highest number of events (64) is for "Retire". The lowest number of events (2) is for "Promotions".

IV. The Market Model - The Event Study Methodology

We use the *standard* event study methodology similar to one elaborated in Dodd and Warner (1983) and Travalos (1987) in which the *market model* presents a linear relationship between the daily stock return of firm i and the returns on a market portfolio using ordinary least square regression (OLS). The use of market portfolio (equally weighted or value weighted index) in the regression model *controls* for the market-wide movement in returns of all securities that take place at the same time but may not be associated to the test event (Schwert 1981). In fact, by its very design, the market model provides explicit controls for unrelated events by using all of the securities traded on the NYSE and AMEX in the regression equation. Our approach is in conformity with the practice of other researchers in the economics and finance areas where they do not use a control sample in studies that examine the stock market effects of value relevant events. Some examples include Fraser et al. (1997) on the wealth effects of interstate branching regulation, Gupta (1997) on the value of regulatory seal of approval, Carow and Larsen (1997) on the effect of FDICIA regulation on bank holding companies, and Madura et al. (1993) on market reaction to the thrift bailout, etc.

We use "Eventus®" software and CRSP data from Wharton Research Data Services (WRDS) for analysis. Eventus® is used to extract raw data and conduct analysis. Eventus® user guide (Cowan, 2007) provides a detailed description of the methodology and statistics reported in this paper. In the market model, the stock returns are modeled as a single index model

$$R_{it} = \alpha_i + b_i R_{mt} + \varepsilon_{it} \qquad (1)$$

Where, R_{it} is the returns of security i on day t, R_{mt} is the return on the index on day t and b_i is the sensitivity of the stock to the index. First, an ordinary least square regression model is used to estimate coefficients of the model over the estimation period.

The estimation period is composed of the past *ex post* returns. The 'estimation period' selected for our purpose starts 150 trading days before the event date (day 0) and ends 31 trading days before the event date (t = -150 to t = -31). Next, we use the estimated model to generate the unexpected (abnormal) returns during the prediction period (event period) for the trading days -5,

0, and +5, where day 0 is the test date.

It is possible that an information leakage may take place before the event date. In that case, a contamination is likely to be introduced into the estimation of the coefficients if we include days near the event period in estimating the OLS model. To avoid such a possibility, we end the estimation period 31 trading days prior to the event date.

Hence, the abnormal stock returns are calculated by taking the difference between the actual and expected returns from the market model for a sample of N firms as follows:

$$AR_t = \frac{1}{N}\sum_{i=1}^{n}[R_{it} - \hat{\alpha}_i - \hat{b}_i R_{mt}],\ t = -1,....+1 \qquad (2)$$

Where,

AR_t = abnormal return for period;

R_{it} = return on security i for period t;

R_{mt} = return on the value-weighted market portfolio for period t; and

$\hat{\alpha}_i$, $\hat{b}_i$ = ordinary least-squares estimates of the market-model parameters.

The average cumulative abnormal returns ($CAR_{T1,T2}$) are calculated by summing the AR_t's over different intervals ranging from day -5 to day +5 or a larger interval where necessary. The expected values of AR_t and $CAR_{T1,T2}$ are assumed to be zero.

V. Abnormal Returns Test and Wealth Effects - Empirical Results

We examine a sample of 2444 CFO turnover events that are expected to impact daily abnormal returns (AR) and the percentage of negative returns for announcement periods -5 to +5 relative to a particular event day (t = 0). We also report the cumulative average abnormal returns (CAR) and the percentage of negative cumulative average abnormal returns over various trading intervals. The Generalized Sign Z statistic is used to test whether the fraction of positive abnormal returns and cumulative abnormal returns around the event date are significantly different from estimation period. In the next section, we report wealth effects of selective events.

CFO Turnover in Post-SOX Period (2003-2007) – Full Sample Results

Table 2

Daily Average Abnormal Returns (AR), Proportions of Negative Returns, Cumulative Average Abnormal Returns (CAR), and Proportions of Negative Returns of Firms Effected by CFO Turnovers for Years 2003-2007

Event: All CFO Turnovers (N = 244)

Daily Average Abnormal Returns (AR) and Proportions of Negative Returns

Event Day	AR%	Gen Sign Z	% Negative
-5	0.13%	0.727	49.79%
-4	-0.36%	-0.044	52.26%
-3	0.37%	1.626	46.91%

-2	-0.08%	-0.943	55.14%
-1	-0.62%	-2.484**	60.08%**
0	-0.82%	-3.639**	63.79%***
1	-0.35%	-2.869**	61.32%**
2	-0.03%	1.626	46.91%
3	-0.12%	-0.814	54.73%
4	-0.06%	1.948*	45.87%
5	0.24%	0.661	50.00%

Cumulative Average Abnormal Returns (CAR), and Proportions of Negative Returns

Trading Interval	CAR%	Gen Sign Z	% Negative
(-10,0)	-1.78%	-2.155*	59.02%
(-5,0)	-1.38%	-0.686	54.32%
(-10,+10)	-2.27%	-1.515$	56.97%
(-5,+5)	-1.69%	-1.071	55.56%
(-2,+2)	-1.90%	-4.025**	65.02%**
(-1,0)	-1.44%	-2.355**	59.67%*
(-1,+1)	-1.79%	-3.382**	62.96%**
(0,+1)	-1.17%	-3.511**	63.37%**
(0,+5)	-1.14%	-1.071	55.56%
(0,+10)	-1.32%	-1.713*	57.61%

*Significant at $p \leq .05$.

**Significant at $p \leq .01$.

Table 2 results are based on a sample of 244 CFO departure events in the post-SOX period. Table 2 shows the average daily abnormal returns (AR), the percentage of negative returns and cumulative average abnormal returns for the CFO departure events. As shown in Table 2, the average abnormal returns of the firms on day 1 and +1 are negative and highly significant at the 0.01 or better levels. More importantly, day 0 abnormal returns are negative with a Z-value of 3.639 and are significantly different from zero at the 0.01 level or better. On this day, a significantly higher percentage of returns are negative (day 0 = 63.79 %) with a p-value of greater than 0.01. Overall, the results are highly negative and significant in the post-SOX period.

Next, we examine CFO departure events using CAR over various trading intervals to detect the effect of these managerial changes. As shown in Table 2, the sample firms experience negative CAR for most trading intervals (e.g., -2, +2; -1, 0; -1, +1). The results suggest that market responded very negatively to changes in CFO of sample firms. Next section reports test of subsamples based on Table 1 classification.

Event 1: Joined another firm - Test Results

Table 3

Daily Average Abnormal Returns (AR), Proportions of Negative Returns, Cumulative Average Abnormal Returns (CAR), and Proportions of Negative Returns of Firms Effected by CFO Turnovers for Years 2003-2007

Event: CFO joined another firms (n = 37)

Event Day	AR%	Gen Sign Z	% Negative
-5	-0.65%	-2.175*	70.27%
-4	0.58%	0.129	51.35%
-3	0.35%	-0.2	54.05%
-2	0.52%	1.117	43.24%
-1	-0.53%	-0.529	56.76%
0	-0.17%	-1.517	64.86%
1	-0.49%	-1.846*	67.57%
2	0.04%	0.129	51.35%
3	-0.33%	-0.859	59.46%
4	-0.65%	-1.188	62.16%
5	0.31%	0.458	48.65%

Cumulative Average Abnormal Returns (CAR), and Proportions of Negative Returns

Trading Interval	CAR%	Gen Sign Z	% Negative
(-10,0)	-0.57%	-0.859	59.46%
(-5,0)	0.10%	0.129	51.35%
(-10,+10)	-4.21%	-0.859	59.46%
(-5,+5)	-1.02%	-0.859	59.46%
(-2,+2)	-0.63%	-2.175*	70.27%
(-1,0)	-0.70%	-0.529	56.76%
(-1,+1)	-1.19%	-1.846*	67.57%
(0,+1)	-0.66%	-1.846*	67.57%
(0,+5)	-1.29%	-1.188	62.16%
(0,+10)	-3.82%	-3.163**	78.38%**

*Significant at $p \leq .05$.

**Significant at $p \leq .01$.

Table 3 reports the results of event 1, when a CFO joins another firm. We expect stock prices of these sub-sample firms to be negative around this event. The average abnormal returns of the firms on day 1 are negative and significantly different from zero at the .05 level with a Z-value of -1.846. The abnormal returns on day 0 are insignificant but have a negative sign.
Next, we examine Event 1 using CAR over various trading intervals. As shown in Table 3, the sub-sample firms experience significant negative CAR for various trading intervals. For example, the CAR for trading interval (-2, +2) is significantly negative at -0.63 percent (Z = -2.175; significant at the .05 level). The overall results suggest that information about a CFO departure to join another firm had an adverse wealth effect for the sample firms.

Event 2: Personal reasons (personal or pursue other interests) - Test Results

Table 4

Daily Average Abnormal Returns (AR), Proportions of Negative Returns, Cumulative Average Abnormal Returns (CAR), and Proportions of Negative Returns of Firms Effected by CFO Turnovers for Years 2003-2007

Event: *Resigned for Personal or Pursue Other Interest (61)*

Event Day	AR%	Gen Sign Z	% Negative
-5	0.46%	0.793	47.54%
-4	-1.58%	0.023	52.46%
-3	0.39%	-0.746	57.38%
-2	-0.47%	-1.772*	63.93%
-1	-0.56%	-2.284*	67.21%
0	-0.90%	-1.772*	63.93%
1	0.66%	0.28	50.82%
2	-0.35%	0.793	47.54%
3	-0.22%	-0.233	54.10%
4	-0.42%	1.049	45.90%
5	1.02%	0.536	49.18%

Cumulative Average Abnormal Returns (CAR), and Proportions of Negative Returns

Trading Interval	CAR%	Gen Sign Z	% Negative
(-10,0)	-4.85%	-2.541**	68.85%
(-5,0)	-2.67%	-1.002	59.02%
(-10,+10)	-3.49%	-1.515	62.30%
(-5,+5)	-1.99%	-0.49	55.74%

(-2,+2)	-1.62%	-1.515	62.30%
(-1,0)	-1.45%	-1.259	60.66%
(-1,+1)	-0.80%	-0.746	57.38%
(0,+1)	-0.24%	-0.746	57.38%
(0,+5)	-0.22%	0.536	49.18%
(0,+10)	0.46%	0.28	50.82%

*Significant at $p \leq .05$.

**Significant at $p \leq .01$.

Our Event 2 is when a CFO leaves the company for personal reasons or to pursue other interests. Table 4 presents the results for Event 2. As shown in Table 4, the average abnormal returns on day -2, day -1 and, day 0 are negative and significantly different from zero at the .05 level.

Table 4 reports the CAR for various trading intervals surrounding event 2. The CAR for trading interval (-10, 0) is negative and highly significant at the .01 level with a Z- value of -2.541. The results suggest that significant leakage of information occurred prior to the event date and that market participants revised downward their assessment regarding future values of the firms.

Event 3: CFO Retires - Test Results

Table 5

Daily Average Abnormal Returns (AR), Proportions of Negative Returns, Cumulative Average Abnormal Returns (CAR), and Proportions of Negative Returns of Firms Effected by CFO Turnovers for Years 2003-2007

Event: *CFO Retired (n = 64)*

Event Day	AR%	Gen Sign Z	% Negative
-5	0.20%	0.599	48.44%
-4	0.16%	0.849	46.87%
-3	-0.18%	-0.152	53.12%
-2	0.34%	0.849	46.87%
-1	0.31%	-0.152	53.12%
0	-0.05%	-0.903	57.81%
1	-0.29%	-2.404**	67.19%**
2	-0.02%	0.348	50.00%
3	0.06%	0.599	48.44%
4	0.32%	2.100*	39.06%
5	-0.07%	-0.653	56.25%

Cumulative Average Abnormal Returns (CAR), and Proportions of Negative Returns

Trading Interval	CAR%	Gen Sign Z	% Negative
(-10,0)	0.45%	0.348	50.00%
(-5,0)	0.78%	0.348	50.00%
(-10,+10)	0.53%	0.348	50.00%
(-5,+5)	0.79%	0.348	50.00%
(-2,+2)	0.30%	-0.403	54.69%
(-1,0)	0.26%	0.348	50.00%
(-1,+1)	-0.03%	0.098	51.56%
(0,+1)	-0.34%	-0.653	56.25%
(0,+5)	-0.04%	0.098	51.56%
(0,+10)	0.03%	0.849	46.87%

*Significant at $p \leq .05$.

**Significant at $p \leq .01$.

Table 5 presents the results of event 3, when a CFO retires from the firm. The average abnormal returns of the firms on day 1 are negative and highly significantly different from zero at the .01 level with a Z-value of -2.404. The abnormal returns on day 0 are insignificant but have a negative sign. In addition, a higher percentage of returns are negative (67.19%) on day -1 with a significance of .05 or better.

Next, we examine Event 1 using CAR over various trading intervals. As shown in Table 5, the sub-sample firms experience insignificant CAR for various trading intervals.

Event 4: CFO Departure due to Accounting Irregularity and Fraud - Test Results

Table 6

Daily Average Abnormal Returns (AR), Proportions of Negative Returns, Cumulative Average Abnormal Returns (CAR), and Proportions of Negative Returns of Firms Effected by CFO Turnovers for Years 2003-2007

Event: *Accounting Irregularities and Fraud (n =24)*

Event Day	AR%	Gen Sign Z	% Negative
-5	0.57%	1.930*	30.43%

-4	-0.13%	-0.572	56.52%
-3	0.10%	1.513	34.78%
-2	-0.06%	-0.155	52.17%
-1	-2.07%	-1.406	65.22%
0	-1.77%	-1.824*	69.57%
1	-0.58%	-0.572	56.52%
2	0.47%	0.679	43.48%
3	-0.07%	-0.572	56.52%
4	0.78%	1.096	39.13%
5	-0.11%	0.679	43.48%

Cumulative Average Abnormal Returns (CAR), and Proportions of Negative Returns

Trading Interval	CAR%	Gen Sign Z	% Negative
(-10,0)	-3.20%	0.463	45.83%
(-5,0)	-3.35%	-0.155	52.17%
(-10,+10)	-3.63%	0.871	41.67%
(-5,+5)	-2.88%	-0.572	56.52%
(-2,+2)	-4.02%	-2.241*	73.91%*
(-1,0)	-3.84%	-1.406	65.22%
(-1,+1)	-4.42%	-2.241*	73.91%*
(0,+1)	-2.35%	-0.989	60.87%
(0,+5)	-1.29%	-0.155	52.17%
(0,+10)	-2.21%	-0.155	52.17%

*Significant at $p \leq .05$.

**Significant at $p \leq .01$.

Table 5 reports the results of event 43, when a CFO departs due to accounting irregularity and fraud. We expect stock price to significantly decrease for these sub-sample firms around this event. The average abnormal returns of the firms on day 0 are negative (-1.77%) and highly significant and different from zero at the .05 level with a Z-value of -1.824. The results suggest that the affected firms experience significant wealth loss around this event.

Table 6 also reports the analysis of Event 4 using CAR over various trading intervals. As shown in Table 6, the sub-sample firms experience significant negative CAR for various trading intervals. For example, the CAR for trading interval (-1, +1) is significantly negative at -4.42 percent (Z = -2.241) with a significance level of .05 or better. The overall results suggest that information about a CFO departure due to accounting irregularity and fraud triggers an adverse wealth effect for the sub-sample firms.

Sub-sample Tests

Table 1 provides a list of reasons behind CFO departures. We discussed test results of four events in the prior section. We also conducted tests for the remaining four events but did not report the results because either the sample size was too small (Event 5, 6 or 7) or the reason

cited for CFO departure was unrelated to the events of interest or not identified (event 8).

VI. Conclusion

This study investigates the impact of CFO turnover on shareholder wealth in the post-SOX period. Our tests are based on a sample of 244 firms who announced the departure of their CFO in the post-SOX (2003-2007) period. Our empirical results, based on the full sample and sub-samples, show that market reaction to CFO turnover was significantly negative in the post-SOX period. . Prior Pre-SOX research (only known study by Mian, 2001) showed no significant market reaction around most CFO departure events with the exception of a sudden CFO departure event. Thus, our results indicate that SOX has influenced market participants' perception of CFO turnover event to be value relevant. We provide evidence that supports existing literature that CFO turnover is disciplinary in nature.

The main impetus of this paper comes from the enactment of SOX that highlights the changing role of CFO in corporate financial reporting and in managing capital market expectations. Section 302, paragraph (a) of SOX establishes the role of two parties in certifying the accuracy of the annual and quarterly financial statements. And, these parties are "principal executive officer or officers" and "the principal financial officer or officers" of the firm. Integrity of financial reporting system is not only of value to market participants in United States but also has world-wide implications as to the optimal flow of financial capital. More recent financial fiasco spearheaded by US financial institutions' excessive risk taking necessitates the establishment of high quality corporate governance framework. This in turn makes our research much more relevant for regulators and policy maker as tightening of existing or formulation of entirely new regulations are contemplated.

VII. Implications for Future Work

This study investigates the impact of CFO turnover on shareholder wealth in the post-Sarbanes-Oxley Act period and has implications for future research. Recent financial industry debacles caused untold loss to the wealth of millions of shareholders not only in the United States but also around the globe. This makes market participants even more wary about the custodial function of top management. Undoubtedly, the role of CFO comes under increased scrutiny and the cry for increased regulation or better implementation of existing regulation becomes even more pronounced and urgent. In light of the above, the utility, effectiveness, and value relevance of accounting and corporate governance reforms under Sarbanes-Oxley Act necessitates continued investigation. Our study examines the impact of a CFO turnover on stock market assessment of shareholder wealth and does not analyze the characteristics of the affected firms. Further examination of the link between firm-specific variables and CFO turnover in the post Sarbanes-Oxley Act warrants further examination. Such an investigation will help us preempt potential blow outs before they occur and provide additional credence to the disciplinary nature of the stock market response.

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