Do board secretaries with financial expertise reduce regulatory inquiries? Empirical evidence based on the China stock exchange’s annual report comment letter

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**ABSTRACT**

The number of annual report comment letters (ARCLs) has been increasing over the years with the stock exchanges continuously strengthening ex-post supervision. Focusing on the financial expertise of board secretaries, who are directly responsible for disclosure, we thoroughly explore whether such expertise can impact regulatory inquiries. We document that financial expert board secretaries significantly reduces the likelihood, frequency, and characters of firms’ receipt of ARCLs and the likelihood of firms’ delay of responses to ARCLs. Further, we find that the influence of financial expert board secretaries on ARCLs mainly exists in the non-state-owned enterprises, enterprises with a poor governance environment, and enterprises in which board secretaries enjoy a higher organizational status. The mechanism test results show that financial expert board secretaries can reduce the accrual-based earnings management. Overall, this research reveals board secretaries’ disciplinary effects on regulatory inquiries and provides detailed analysis helping understand board secretaries’ role in disclosure.

**KEYWORDS**

Board secretary; financial background; annual report comment letter; earnings management

1. Introduction

Since 2013, when the Shanghai and Shenzhen Stock Exchanges formally implemented the *Information Disclosure Express Practice*, the focus of the stock exchanges’ regulatory scrutiny has gradually shifted from ex-ante substantive review to the process and ex-post supervision. A ‘disclosure-centric’ regulatory strategy takes shape. Under this background, the issuance of annual report comment letters (hereafter, ARCLs) becomes an essential method of strengthening oversight by the Shanghai and Shenzhen Stock Exchanges in a ‘legal, strict and comprehensive’ manner. China’s inquiry system has shifted from private to public since 2014. The Shanghai and Shenzhen Stock Exchanges thus start to publicly disclose the details of periodic report comment letters on their official websites and require the inquired companies to explain and clarify the issues involved in the comment letters within the specified date. With the increasing intensity of post-event supervision, the volume of ARCLs issued by the stock exchanges has been

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increasing. According to our statistics, the stock exchanges issue 74 comment letters for 2014 periodic reports of A-share Main Board listed companies, and the number of comment letters for 2018 periodic reports increases to 323. The newly revised *Measures for the Administration of the Stock Exchanges* in 2018 further consolidate the first-line regulatory status of the Shanghai and Shenzhen Stock Exchanges and ensure that their oversight role can be carried out adequately.

Although the issuance of comment letters can regulate the disclosure behaviours of listed companies (Bozanic et al., 2017; Johnston & Petacchi, 2017; Robinson et al., 2011), enhance the audit quality (Chen et al., 2018a), and reduce the earnings management (Chen et al., 2019), receiving comment letters may indicate that the reporting quality of the inquired firms has been questioned by the stock exchanges. Therefore, receiving comment letters may send the capital market risk signals that the inquired firms have more earnings management behaviours (Liu & Lu, 2019) and poorer corporate governance, thus bringing a negative markets response (Li et al., 2017; Chen et al., 2018). Public firms should actively improve disclosure quality and corporate governance to avoid the negative impacts of receiving comment letters.

As specified in *the Rules Governing the Listing of Stocks*, the board secretary is directly responsible for information disclosure and acts as the designated liaison between the listed companies and the stock exchanges. The board secretary is a vital part of the firm’s governance structure, so the effectiveness of their performance will directly determine firms’ information disclosure quality, which may ultimately exert influence on regulatory inquiries. Our statistics indicate that from 2014 to 2019, a substantial fraction of board secretaries are financial expert board secretaries. That is, about 33% of board secretaries in A-share Main Board listed companies have financial educational backgrounds or previous work experience in a financial role (i.e., accountant and CFO). Board secretaries with financial backgrounds (hereafter, FB board secretaries) are more financially sophisticated, so they can better understand firms’ financial information and policies, which helps them disclose information more effectively. Additionally, a deeper understanding of financial operations and their deficiencies also helps board secretaries better supervise firms’ disclosure compliance and assist the board members in improving the internal governance.

Further, top managers with financial backgrounds usually have higher career ethics (Lin et al., 2019) and prudence (Bamber et al., 2010). Previous accounting-related training and work experience may bring higher career ethics and prudence among board secretaries. Consequently, FB board secretaries may be more inclined to provide accurate and truthful information in annual reports. Taken together, we expect that FB board secretaries will reduce regulatory inquiries. Specifically, we examine whether FB board secretaries will reduce the likelihood, frequency, and characters of firms’ receipt of ARCLs and the likelihood of firms’ delay of responses to ARCLs.

To examine these questions, we construct our sample based on the A-share Main Board listed companies from 2014 to 2019. Consistent with our predictions, we find that board secretaries’ financial backgrounds are significantly associated with less regulatory inquiries. The above results mainly exist in non-state-owned enterprises, companies with a poor governance environment, and companies in which board secretaries enjoy a higher organisational status. We further find that FB board secretaries influence regulatory inquiries by reducing the accrual-based earnings management.
The results of our study provide important practical implications and contribute to the literature in the following ways. Firstly, this paper complements the extant research on the factors that influence ARCLs. Prior literature mainly focuses on the consequences of ARCLs. These studies provide evidence that the receipt of comment letters will enhance information disclosure quality (Bozanic et al., 2017; Johnston & Petacchi, 2017; Robinson et al., 2011), decrease earnings management (Chen et al., 2019), improve audit quality (Chen et al., 2018), and reduce the stock price crash risk (Zhang et al., 2018). On the other hand, research on the influence factors mainly examines the impact of firm-level characteristics on the comment letters, including the accrual-based earnings management (Liu & Lu, 2019), accounting quality (Hribar et al., 2014), corporate governance (Cassell et al., 2013), CEO overcompensation and media scepticism (Robinson et al., 2011), and tax avoidance (Kubick et al., 2016). Board secretaries are executive positions with Chinese characteristics (Xing et al., 2019), and in China, they have been given more responsibilities, the most important of which is information disclosure. The characteristics of board secretaries can influence the annual report disclosure quality and further affect regulatory inquiries. This paper provides a new perspective that top managers’ characteristics can affect ARCLs for the research on the factors that influence comment letters.

Second, we use four indicators related to ARCLs – the existence, number, and characteristics of ARCLs and the existence of delayed ARCL correspondence – as the proxy for information disclosure and further explore the mechanisms that FB board secretaries affect regulatory inquiries. This paper also adds to the growing literature on the relationship between board secretaries and information disclosure.

Finally, as stipulated in the Rules Governing the Listing of Stocks, besides being responsible for the information disclosure, board secretaries also assume responsibility for supervising board members to reply to all comment letters promptly. We find that FB board secretaries can significantly reduce the probability that firms postpone the comment letter correspondence, which means they can supervise and assist board members more effectively. Our research is of strong practical significance for an in-depth understanding of board secretaries’ job content and duties.

2. Institutional background and literature review

2.1. Institutional background

The board secretary post in China originates from the ‘company secretary’ system in western countries and has developed into a senior management position with Chinese characteristics. Besides sharing the responsibility company secretaries hold, Chinese board secretaries are also in charge of other aspects, the most important of which is the information disclosure. Company Law of the People’s Republic of China (2006) clearly stipulates that a listed company must appoint a board secretary to be responsible for the preparation of meetings of the board of shareholders and board of directors, maintenance of relevant documents, and management of information disclosure issues.
The Rules Governing the Listing of Stocks (2008) further clarify the information disclosure duties of the board secretary, which include 1) releasing company information to the public promptly, 2) establishing and improving the company’s information disclosure system, 3) supervising other managers to ensure that they comply with information disclosure regulations, 4) coordinating information disclosure matters, and 5) managing investor relationships. Besides, the board secretary is also responsible for information disclosure and acts as the designated liaison between listed companies and the stock exchanges. The Rules Governing the Listing of Stocks (newly revised in 2012) add that board secretaries should urge the board members to respond to all comment letters on time. With the continuous improvement of the relevant system, board secretaries have gradually become an essential part of the governance structure of listed companies.

2.2. Literature review

Extant research on board secretaries mainly focuses on their personal and behavioural characteristics. In terms of personal characteristics, FB board secretaries will significantly increase the earning information content (Jiang et al., 2016a, 2016b); female board secretaries decrease the information disclosure quality (Lin et al., 2016); professional board secretaries can reduce the information asymmetry degree and increase the investment value of IPO firms (Quan, 2018); if the board secretary has a higher reputation, more significant social influence and longer tenure, the readability of the annual report will be better (Sun, 2019); the tenure of board secretaries is negatively associated with board meeting frequency, independent director dissent, and incidence of fraud and lawsuit (Wang et al., 2019); the board secretary who serves as the CFO can reduce the stock price crash risk (Peng & Zheng, 2018).

In terms of behavioural characteristics, Zhou et al. (2011) find that board secretaries’ shareholding behaviours reduce the disclosure quality. They explain that if board secretaries hold shares in the company, their independence will be undermined, further aggravating the ‘insider control’ problem. However, Liu et al. (2022) argue that the fact that board secretaries generally hold a low proportion of shares satisfies the ‘interests convergence hypothesis’, under which shareholding board secretaries help reduce agency problems and improve efficiency of enterprise external information communication. Moreover, the information provision behaviour of board secretaries to independent directors will effectively enhance the disadvantageous information position of independent directors, which in turn enhances the effectiveness of independent directors in performing their duties (Zhou et al., 2018).

The literature documents several factors that affect regulatory inquiries. Cassell et al. (2013) find that low profitability, high complexity, the engagement of small audit firms, and poor corporate governance significantly increase the probability of receiving comment letters. In addition to the above factors, the accounting quality is negatively associated with the receipt of comment letters (Hribar et al., 2014). Ettredge et al. (2011) find that the more financial experts in the audit committee and the longer the CFO’s tenure, the lower the probability of receiving SEC opinions. Besides, other factors also significantly increase the probability of receiving comment
letters, including the excess CEO compensation and media criticism (Robinson et al., 2011), financial restatements in the past two years (Johnston & Petacchi, 2017), higher tax avoidance (Kubick et al., 2016), higher level of accrual-based earnings management (Liu & Lu, 2019), and political connections (Heese et al., 2017). Finally, companies with poor reporting quality in M&A transactions are also more likely to receive comment letters from the stock exchanges (Li, Yang, et al., 2019).

Most of the extant literature on the consequences of comment letters focuses on their benefits. These studies provide evidence that comment letters lead to improved disclosure quality (Bozanic et al., 2017; Johnston & Petacchi, 2017; Robinson et al., 2011), lower earnings management degree (Chen et al., 2019), higher financial forecast quality (Li et al., 2019), more detailed information in revised M&A plans (Li et al., 2019), discouragement of tax avoidance (Kubick et al., 2016) and controlling shareholders’ tunnelling behaviours (Nie & Pan, 2019), and lower stock price crash risks (Zhang et al., 2018). Regulatory inquiries also enhance audit quality, and the number of questions in comment letters can strengthen this positive relationship (Chen et al., 2018).

3. Theoretical analysis and hypothesis development

3.1. FB board secretaries and regulatory inquiries

The comment letters issued by the Shanghai and Shenzhen Stock Exchanges can be broadly divided into restructuring comment letters, periodic report comment letters (including annual, semi-annual, and quarterly reports), and other comment letters (such as concern letters). Among these sorts of comment letters, the ARCLs account for a significant proportion. The annual report is a summary, description and analysis of the company’s business situation in the past years, as well as one of the most critical channels for investors to obtain operational and financial information about the company. In the process of annual report ex-post review, the regulators not only focus on the authenticity and reliability of financial data in annual reports but also inquire about the substance of relevant transactions to help investors better understand the transactions, identify the hidden risks of listed companies, and thus make reasonable investment decisions. With the continuous development of China’s inquiry system, the scope, intensity, and frequency of ARCLs have been expanding. Issuing ARCLs has gradually become a solid regulatory instrument of the stock exchanges. Generally, the more problems exist in the annual reports, the higher probability that regulators issue ARCLs to companies.

From the neo-classical view, top managers are homogeneous, which means they do not influence the company’s production and operation decisions. However, upper echelons theory suggests that many factors, particularly executives’ characteristics, contribute to shaping corporate strategic decisions. From the perspective of upper echelons theory, executives are heterogeneous. Therefore, their demographic characteristics, such as work experience, educational background, and gender, can influence their behaviors and thus corporate policies (Hambrick & Mason, 1984; Jiao & Sun, 2021). Bertrand and Schoar (2003) also argue that company-level, industry-level,
or market-level characteristics alone cannot explain companies’ differences in strategic decisions and performance, while executive heterogeneity has strong explanatory power for corporate decisions.

Through working in a particular field, executives can accumulate extensive professional knowledge and practical experience, allowing them to have a higher cognitive level that produces more reasonable strategic decisions (Hitt & Tyler, 1991). Much extant literature also confirms the validity of upper echelons theory. For example, Jensen and Zajac (2004) find that top managers with financial expertise lead to higher diversified investment levels and larger M&A transaction sizes. The Rules Governing the Listing of Stocks require that every company establish a board secretary position. Board secretaries are accountable for information disclosure affairs, of which the annual report is the most crucial component, and act as the designated liaison between the listed companies and the stock exchanges. Consequently, we predict that the characteristics of board secretaries may affect listed companies’ annual report disclosure quality.

Financial experience equips board secretaries with higher financial capability. Financial expert executives might have received systematic financial-related education and been more exposed to finance theory over their career than non-experts, which could increase their ability or sophistication to apply them in practice or made them aware of such theories in the first place (Custodio & Metzger, 2014). Financial expert executives also have a deeper understanding of the financial status and disclosure strategies of listed companies (Jiang et al., 2016a, 2016b; Gramham et al., 2013; Custodio & Metzger, 2014). Moreover, because of the complexity of the accounting standards, board secretaries need accounting-related knowledge and work experience to make a professional judgment on transactions and financial treatments contained in the financial statements. The higher financial capability enables board secretaries to more deeply understand financial data and the economic meaning behind them, ensuring the completeness of information disclosure (Mao et al., 2013) and improving the annual report disclosure quality.

Financial experience also equips board secretaries with higher career ethics and prudence. On the one hand, because executives with financial experience have been more exposed to the high importance of career ethics, they are subject to strict ethical constraints during their careers (Lin et al., 2019). Specifically, they are more clearly conscious of the severe consequences brought by financial frauds. Therefore, driven by professional ethics, board secretaries are more likely to guarantee the truthfulness and completeness of the information disclosed in annual reports, which may further reduce regulatory inquiries. On the other hand, financial work requires high cautiousness and carefulness, so executives with financial experience are usually more conservative (Bamber et al., 2010). That is, they assess and respond to risks more cautiously (Finkelstein & Hambrick, 1990) and weigh the pros and cons more comprehensively (Jiang et al., 2009). Consequently, FB board secretaries may tend to provide more accurate and authentic information. Taken together, FB board secretaries contribute to improving the annual report quality, reducing problems in annual reports and thus reducing regulatory inquiries. Based on the above analysis, the first hypothesis is as follows:
H$_1$: Board secretaries with financial expertise can reduce regulatory inquiries.

### 3.2. FB board secretaries and the delayed ARCL correspondence

The public censure and exposure by the Shanghai and Shenzhen Stock Exchanges bring adverse effects to listed companies (Li, 2007). When firms cannot reply to comment letters before the deadline set by the stock exchanges, it indicates their inability and struggle to answer difficult questions. (Li et al., 2017). Consequently, the public announcement of delayed response may send risk signals to the capital market and exacerbate the negative market responses caused by the receipt of ARCLs. Furthermore, listed companies have to pay more to remedy the negative impact of not responding to comment letters promptly, including employees working inefficiently and limited access to financing (Cassell et al., 2013).

The signaling effect will be more substantial in China since the Chinese inquiry system has the real-time nature. Specifically, firms’ delay of responses causes both damage to their image and declines in the investors’ trust in them, which further increases operating costs, market expansion costs, and financing costs (Liu & Lu, 2019). Additionally, the regulatory authorities may also allocate more attention to firms that postpone the reply to ARCLs, which exposes listed companies to increased scrutiny and political costs. A rational listed company usually chooses to respond to the comment letter promptly to minimize the negative impact caused by being inquired (Liu & Lu, 2019). Companies that do not respond late own a better market response than those that respond late. In other words, the prompt reply to ARCLs is beneficial to the clarification of problems involved in them and stock price recovery (Li et al., 2017).

FB board secretaries can reduce the likelihood of firm delaying the ARCL correspondence from two aspects. As specified in *Administrative Measures for the Disclosure of Information of Listed Companies*, top managers such as CEOs, CFOs, and board secretaries should compile the annual report draft. During this process, FB board secretaries can ensure the completeness and compliance of the annual report disclosure (Mao et al., 2013) and thus enhance the annual report quality. Since the annual report has fewer problems and their severity is relatively low, even if the firm receives ARCLs, it can reply within the specified date. Additionally, the newly revised *Rules Governing the Listing of Stocks* stipulate that board secretaries hold the responsibility to urge the board of directors to promptly respond to all comment letters. FB board secretaries understand the firm’s financial conditions and policies better and thus can better assist and urge the board of directors to respond to ARCLs on time. Based on the above analysis, the second hypothesis is as follows:

H$_2$: Board secretaries with financial expertise can reduce the likelihood of firm delaying the ARCL correspondence.
4. Research design

4.1. Sample and data

We construct our sample based on the A-share Main Board listed companies from 2014 to 2019. The counterpart period of ARCLs is from 2015 to 2020. We start our sample period from 2014 because the stock exchanges began to publicly disclose the detailed content of comment letters in 2014. Following prior literature, we further exclude from the whole sample firms that satisfy the following criteria: 1) firms that were in special trade status; 2) firms in the financial sector; 3) firms with missing data. Our final sample contains 8946 firm-year observations.

We first manually collect the characteristics of board secretaries by reviewing their resumes. We then obtain comment letters from the CNRDS database and retain those relating to annual reports. The other data all come from the CSMAR database. All continuous variables are winsorized at the 1% and 99% levels to mitigate the effects of outliers.

4.2. Model construction and variable definitions

To examine the impact of FB board secretaries on ARCLs, we construct the following regression model (1):

\[ \text{Inquiry}_{i,t+1} = \alpha_0 + \alpha_1 \text{Finance}_{i,t} + \sum \text{Control}_{i,t} + \varepsilon_{i,t} \]  

(1)

where Inquiry represents the four variables – Inquiry_prob, Inquiry_times, Inquiry_words, and Inquiry_delay. To demonstrate the first hypothesis, we use Logit regression to explore the relationship between the existence of ARCLs in year \(t+1\) (Inquiry_prob) and the financial background of board secretaries (Finance); we use Poisson regression to explore the relationship between the number of ARCLs received over the year \(t+1\) (Inquiry_times) and the financial background of board secretaries (Finance); we use OLS regression to explore the relationship between the total characters of the first ARCL received (Inquiry_words) and the financial background of board secretaries (Finance). To demonstrate the second hypothesis, we use Logit regression to explore the relationship between the existence of delayed ARCL correspondence (Inquiry_delay) and the financial background of board secretaries (Finance). The main variables involved in the model (1) are defined as follows and the definitions of all variables are in the Table 1:

Dependent variables. We investigate whether board secretaries can reduce regulatory inquiries from three dimensions: the existence of ARCLs (Inquiry_prob), the number of ARCLs received over the year (Inquiry_times), and the total characters of ARCLs (Inquiry_words). We follow Cassell et al. (2013) to define Inquiry_prob, a dummy variable that equals 1 if the firm receives ARCLs in a given year, and otherwise 0. Listed companies will be inquired again if there still exist critical or unsolved issues (Nie & Pan, 2019). We follow Chen et al. (2019) to define Inquiry_times, which is the total times of receiving ARCLs.

Generally, the number of characters in the ARCL can measure its severity. The more complex issues in the annual reports require more characters to inquire, and vice versa. Therefore, following Li, Rao, et al. (2019), we construct Inquiry_words, which equals the
Table 1. Variable definitions.

| Variable name | Construction |
|---------------|--------------|
| Inquiry_prob  | An indicator equals 1 if the firm receives ARCLs in a given year, and otherwise 0. |
| Inquiry_times | The total times of receiving ARCLs in a given year. |
| Inquiry_words | The natural logarithm of the number of characters in the first ARCL received by the listed company in a given year. |
| Inquiry_delay | An indicator equals 1 if the listed company postpones the reply to ARCLs, and otherwise 0. |
| Finance       | An indicator equals 1 if board secretaries have financial work experience or graduate from the accounting-related major, and otherwise 0. |
| Law           | An indicator equals 1 if board secretaries have law work experience, such as working as a lawyer, judge, or prosecutor, or graduating from the law major, and otherwise 0. |
| Salary        | The natural logarithm of one plus the total salary of board secretaries. |
| EDU           | An indicator equals 5 if board secretaries have a doctoral degree and above, equals 4 if board secretaries have a master’s degree, equals 3 if board secretaries have a bachelor’s degree, equals 2 if board secretaries have an associate degree, and otherwise 1. |
| Share         | An indicator equals 1 if board secretaries hold shares, and otherwise 0. |
| Follow        | The total number of analysts following. |
| Big4          | An indicator equals 1 if the firm is audited by one of the Big Four audit firms, and otherwise 0. |
| SIZE          | The natural logarithm of the total assets at the end of the reporting period. |
| LEV           | The ratio of total liabilities to the total assets. |
| ROA           | The ratio of net profit to the balance of total assets. |
| INDE          | The ratio of the number of independent directors to board members. |
| Board         | The number of board members. |
| DUAL          | An indicator equals 1 if the CEO is also the board’s chairman, and otherwise 0. |
| SEP           | The difference between voting rights and cash flow rights of the ultimate shareholder. |
| LOSS          | An indicator equals 1 if the firm reports a loss, and otherwise 0. |
| SOE           | An indicator equals 1 if the firm is state-owned, and otherwise 0. |
| Year          | Year fixed effects. |
| Industry      | Industry fixed effects. |

The natural logarithm of the number of characters in the first ARCL received in a given year. Moreover, we investigate whether board secretaries can reduce the likelihood of postponing the reply to ARCLs. Following Chen et al. (2019), we define Inquiry_delay. Inquiry_delay is a dummy variable that equals 1 if the listed company postpones the reply to ARCLs, and otherwise 0.

**Independent variable.** We follow Jiang et al. (2016a, 2016b) to define Finance. Finance is a dummy variable equal to 1 if board secretaries have financial work experience or graduate from accounting-related majors, and otherwise 0. Specifically, if board secretaries have previously served as the CFO, chief accounting officer, finance (deputy) director, (deputy) chief accountant, finance department (deputy) director, employees in the finance or accounting department, or graduated from accounting, finance, or auditing major, they are defined as having financial backgrounds.

**Control Variables.** According to Chen et al. (2019) and Liu and Lu (2019), we control for the following factors that may affect regulatory inquiries: the law background (Law), salary (Salary), educational experience (EDU), and the existence of shareholding of board secretaries (Share); the number of analysts following (Follow); audit quality (Big4); firm size (SIZE); financial leverage (LEV); profitability (ROA); the proportion of independent directors (INDE); board size (Board); duality (DUAL); the separation degree between voting rights and cash flow rights (SEP); whether to report a loss (LOSS); the nature of ownership (SOE); the year fixed effect (Year) and industry fixed effect (Industry).
5. Empirical results

5.1. Descriptive statistics

Table 2 presents the descriptive statistics of the variables in our sample. On average, from 2015 to 2020, about 10% of firm-years in our sample receive ARCLs, and about 6% of them delay the response to ARCLs. The maximum value of Inquiry_times is 3. Approximately 33% of board secretaries in our sample have financial backgrounds, 10% have law backgrounds, and 32% hold shares. For the educational background, on average, board secretaries have a bachelor’s degree. In terms of other control variables, during our sample period, the average (maximum) value of analysts following is 6.33 (75), about 9% of firms are audited by one of the Big Four auditing firms, the average ratio of independent directors is 38%, the average board size is 8.73, about 21% of firms have the same CEO and chairman, the mean value of the separation degree between voting rights and cash flow rights is 0.05. Approximately 10% of firms report a loss, and 54% are SOEs.

5.2. Univariate analysis

Table 3 provides the univariate analysis of the FB board secretaries. Both the t-test (p < 0.01) and z-test (p < 0.01) show that Inquiry_prob is significantly larger in the group where Finance equals 0 than in the group where Finance equals 1. We also find similar results for Inquiry_times, Inquiry_words, and Inquiry_delay. The univariate analysis provides preliminary evidence that firms hiring FB board secretaries have significantly lower likelihood and frequency of receiving ARCLs and fewer characters in ARCLs. Such firms are also less likely to delay the ARCL correspondence. The univariate analysis supports our Hypothesis 1 and 2.

Table 2. Descriptive statistics.

| Variable name    | Obs | Mean  | SD   | Min  | P25  | Median | P75  | Max  |
|------------------|-----|-------|------|------|------|--------|------|------|
| Inquiry_prob     | 8946| 0.10  | 0.30 | 0.00 | 0.00 | 0.00   | 0.00 | 1.00 |
| Inquiry_times    | 8946| 0.10  | 0.31 | 0.00 | 0.00 | 0.00   | 0.00 | 3.00 |
| Inquiry_words    | 8944| 0.77  | 2.34 | 0.00 | 0.00 | 0.00   | 0.00 | 8.47 |
| Inquiry_delay    | 8922| 0.06  | 0.24 | 0.00 | 0.00 | 0.00   | 0.00 | 1.00 |
| Finance          | 8946| 0.33  | 0.47 | 0.00 | 0.00 | 0.00   | 1.00 | 1.00 |
| Law              | 8946| 0.10  | 0.30 | 0.00 | 0.00 | 0.00   | 0.00 | 1.00 |
| Salary           | 8946| 12.98 | 0.72 | 10.64| 12.55| 12.99  | 13.43| 14.90|
| EDU              | 8946| 3.46  | 0.67 | 1.00 | 3.00 | 3.00   | 4.00 | 5.00 |
| Share            | 8946| 0.32  | 0.46 | 0.00 | 0.00 | 0.00   | 1.00 | 1.00 |
| Follow           | 8946| 6.33  | 9.22 | 0.00 | 0.00 | 2.00   | 9.00 | 75.00|
| Big4             | 8946| 0.09  | 0.28 | 0.00 | 0.00 | 0.00   | 0.00 | 1.00 |
| SIZE             | 8946| 22.63 | 1.42 | 19.65| 21.64| 22.48  | 23.51| 26.57|
| LEV              | 8946| 0.47  | 0.21 | 0.07 | 0.31 | 0.47   | 0.63 | 0.94 |
| ROA              | 8946| 0.03  | 0.06 | −0.25| 0.01 | 0.03   | 0.06 | 0.19 |
| INDE             | 8946| 0.38  | 0.05 | 0.33 | 0.33 | 0.36   | 0.43 | 0.57 |
| Board            | 8946| 8.73  | 1.80 | 3.00 | 7.00 | 9.00   | 9.00 | 18.00|
| DUAL             | 8946| 0.21  | 0.40 | 0.00 | 0.00 | 0.00   | 0.00 | 1.00 |
| SEP              | 8946| 0.05  | 0.08 | 0.00 | 0.00 | 0.00   | 0.10 | 0.30 |
| LOSS             | 8946| 0.10  | 0.30 | 0.00 | 0.00 | 0.00   | 0.00 | 1.00 |
| SOE              | 8946| 0.54  | 0.50 | 0.00 | 0.00 | 1.00   | 1.00 | 1.00 |
Table 3. Univariate analysis.

| Variable name | Finance = 0 | Finance = 1 | t-test | Finance = 0 | Finance = 1 | z-test |
|---------------|-------------|-------------|--------|-------------|-------------|--------|
| Inquiry_prob  | 0.10        | 0.09        | **2.72*** | 0.00        | 0.00        | **2.72*** |
| Inquiry_times | 0.11        | 0.09        | **2.90*** | 0.00        | 0.00        | **2.74*** |
| Inquiry_words | 0.82        | 0.67        | **2.74*** | 0.00        | 0.00        | **2.76*** |
| Inquiry_delay | 0.07        | 0.05        | **3.30*** | 0.00        | 0.00        | **3.30*** |

*, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively.

Table 4. The impact of FB board secretaries on regulatory inquiries.

| (1)             | (2)           | (3)           | (4)           |
|-----------------|---------------|---------------|---------------|
| Inquiry_prob    | Inquiry_times | Inquiry_words | Inquiry_delay |
| Finance         | −0.221***     | −0.192***     | −0.137***     | −0.329***     |
| Law             | −0.046        | 0.003         | −0.068        | 0.039         |
| Salary          | −0.013        | −0.012        | 0.039         | −0.050        |
| EDU             | −0.054        | −0.040        | −0.031        | 0.020         |
| Share           | −0.203***     | −0.179**      | −0.150***     | −0.274**      |
| Follow          | −0.047***     | −0.045***     | −0.013***     | −0.049***     |
| Big4            | −0.708***     | −0.683***     | −0.255***     | −0.724***     |
| SIZE            | 0.073*        | 0.085***      | 0.020         | 0.088         |
| LEV             | 1.141***      | 0.826***      | 0.607***      | 1.412***      |
| ROA             | −5.640***     | −3.292***     | −5.848***     | −5.665***     |
| INDE            | −0.212        | −0.385        | 0.147         | −0.436        |
| Board           | −0.052*       | −0.041*       | −0.029*       | −0.054        |
| DUAL            | −0.142        | −0.143*       | −0.094        | −0.032        |
| SEP             | 0.269         | 0.193         | 0.142         | 0.617         |
| LOSS            | 0.729***      | 0.617***      | 0.907***      | 0.606***      |
| SOE             | −0.984***     | −0.790***     | −0.669***     | −0.992***     |
| Constant        | −3.991***     | −4.144***     | 0.098         | −5.221***     |
| Industry&Year   | YES           | YES           | YES           | YES           |
| N               | 8946          | 8946          | 8944          | 8922          |
| Adj/Pseudo_R²   | 0.152         | 0.123         | 0.105         | 0.160         |

Z (or t) – statistics are reported in parentheses based on standard errors robust with heteroskedasticity. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively.
5.3. Multivariate analysis

Table 4 reports the multivariate regression results. Columns 1–3 show the results of Hypothesis 1. Column 4 shows the result of Hypothesis 2. Columns 1–4 of Table 4 report the results of Inquiry_prob, Inquiry_times, Inquiry_words, and Inquiry_delay, respectively. The coefficients of Finance are negative and highly significant (p < 0.01), indicating that FB board secretaries can significantly reduce the likelihood, frequency, and characters of firms’ receipt of ARCLs, and the likelihood of firms’ delay of responses to ARCLs. These results are consistent with H1 and H2.

For control variables, the coefficients of Share are significantly negative (p < 0.05), indicating that firms have higher annual report disclosure quality if their board secretaries hold shares. This result is consistent with the conclusions of Liu et al. (2022). The coefficients of Follow and SOE are negative and significant (p<0.01), suggesting that firms with high analysts following or SOEs are less likely to receive regulatory inquiries. Besides, firms, which are audited by the Big Four auditing firms, have smaller financial leverage and do not report a loss, have the lower probability and frequency of receiving ARCLs, fewer characters in ARCLs, and lower probability of postponing the ARCL correspondence.

5.4. Robustness checks

To guarantee the above empirical results are robust, we conduct the following robustness checks: (1) Propensity score matching (PSM). Firms with certain attributes, which likely impact regulatory inquiries, may tend to employ FB board secretaries. Therefore, we use the propensity score matching (PSM) method to mitigate the endogenous issues caused by the self-selection bias. We choose FB board secretaries as the treatment group. Using the one-to-one and one-to-two nearest neighbor matching, we match each firm in the treatment group with a correspondence firm in the control group on the propensity score and then repeat the baseline regression. All matched variables pass the balance test. The regression results are consistent with our previous findings (untabulated), indicating that our results are still robust after considering the self-selection bias. (2) Using the cluster standard error. To alleviate the potential heteroskedasticity problem, we use the standard error clustered at the firm level and rerun the main regression. The results are still consistent with the previous findings (untabulated). (3) Using the firm fixed effect. To mitigate the bias caused by omitted variables issues, we further control the firm fixed effect in model (1). The results are consistent with our main findings (untabulated).

6. Further analysis

6.1. Distinguishing information quality demands

In general, if listed companies have lower information disclosure quality and a higher degree of information asymmetry, they will suffer more significant financing constraints (Zhang & Lu, 2007). For example, in the context of debt financing, information asymmetry between banks and listed companies creates credit mismatch risk (Jaffee & Russell, 1976). Specifically, if a company has relatively bad information disclosure quality, it will be difficult for banks to
accurately assess its ability to repay the credit, leading to its failure to obtain bank loans (Li & Wang, 2011). Consequently, to alleviate financing constraints, firms that have difficulties raising capitals have stronger incentives to improve the disclosure quality.

Compared to SOEs, non-SOEs face greater financing constraints. In China, both SOEs and state-owned financial institutions are controlled by the government. The two are closely linked, so the phenomenon that state-owned financial institutions emphasise SOEs over POEs is widespread (Deng & Sun, 2014). On the other hand, SOEs usually undertake many non-economic objectives, such as helping achieve social stability, solving employment problems, and providing local public goods (Xin et al., 2007; Bo and Wu, 2009). When expenditures of SOEs exceed their revenues, to reduce their operational difficulties, local governments have a strong incentive to provide financial subsidies, policy loans, and other protective measures, making the financial constraints on SOEs not the hard constraints faced by non-SOEs, but the soft constraints (Kong et al., 2013). Therefore, from the perspective of high information quality demands, non-SOEs are more motivated to enhance information disclosure quality to avoid risk signals brought by the receipt of ARCLs. We expect that the impact of FB board secretaries on regulatory inquiries mainly exists in non-SOEs with higher information quality demands.

To validate the above hypothesis, based on the ownership nature, we divide the whole sample into two categories of subsamples (the SOE subsample and the non-SOE subsample) and repeat the baseline regression. The variable SOE equals 1 for the SOE subsample, and equals 0 for the non-SOE subsample. The results are reported in Table 5. In the non-SOE subsample, the coefficients of *Finance* are significantly negative ($p < 0.05$), whereas in the SOE subsample, the coefficients of *Finance* are not significant. These results suggest that FB board secretaries could help non-SOEs avoid being inquired by the stock exchanges, which further, to some extent, verifies that non-SOEs disclose information completely and accurately and thus helps alleviate financing constraints.

### 6.2. Distinguishing corporate governance environment

Board secretaries are a crucial component of firms’ governance structure. The performance of their disclosure function is influenced by other governance mechanisms (Bu & Sun, 2018). When the firm’s internal or external governance environment is relatively sound, the annual report disclosure quality is high, so board secretaries having financial experience exert limited incremental influence on annual report quality. However, when the firm’s internal governance environment is poor, the agency problem is more serious, and thus the annual report quality is worse; when the external governance environment of the firm is bad (for example, the firm has lower extent of analysts following), its

| Table 5. Distinguishing information quality demands. |
|-----------------|-----------------|-----------------|-----------------|-----------------|
|                 | Inquiry_prob    | Inquiry_times   | Inquiry_words   | Inquiry_delay   |
| **SOE = 1**     |                 |                 |                 |                 |
| Finance         | −0.186          | −0.238**        | −0.171          | −0.190**        |
|                 | (−1.39)         | (−2.10)         | (−1.49)         | (−2.12)         |
| Controls        | YES             | YES             | YES             | YES             |
| N               | 4801            | 4145            | 4801            | 4145            |
| Adj/Pseudo $R^2$| 0.144           | 0.150           | 0.121           | 0.117           |
information asymmetry degree is higher (Jiang et al., 2016a, 2016b). Because of the complexity of accounting standards, board secretaries need professional financial knowledge to make an accurate judgment on whether the accounting treatment involved in the financial statement is legal and compliant.

Compared with financially inexperienced counterparts, FB board secretaries tend to have higher financial capability and thus have a deeper understanding of the firm’s financial status and policy and the economic meaning behind the data of annual reports (Graham et al., 2013; Custodio & Metzger, 2014). Furthermore, they are more sensitive to the deficiencies in annual reports, especially in the earnings information, which means they are able to detect the problems in financial statements and urge the firm to correct these problems promptly. In addition, higher career ethics and prudence also motivate FB board secretaries to commit to reducing problems in annual reports and improving annual report disclosure quality. Therefore, we predict that FB board secretaries exert significant influence on firms with a poor governance environment.

To validate this presumption, we use the number of analysts following and the internal control index from the Dib internal control and risk management database to measure the external and internal governance environment, respectively. Analysts have the professional and informational advantage of identifying executives’ actions that reduce the accounting information quality (Zhang, 2020). Higher analysts following (larger internal control index) indicates a higher level of external governance (internal control quality). Based on the mean value of analysts following and internal control index, we divide the entire sample into two groups, where the variable IG equals 1 for the good governance environment subsample and equals 0 for the poor governance environment subsample. We rerun the baseline regression in the two subsamples, respectively.

Table 6 reports the empirical results of the two groups. In the poor governance environment subsample, the coefficients of Finance are negative and significant (p < 0.05), while in the good governance environment subsample, the coefficients of Finance are not statistically significant. These findings indicate that the negative

| Inquiry_prob | Inquiry_times | Inquiry_words | Inquiry_delay |
|--------------|--------------|--------------|---------------|
| **Panel A: The analysts following** | **IG = 0** | **IG = 1** | **IG = 0** | **IG = 1** | **IG = 0** | **IG = 1** |
| Finance     | −0.232**     | −0.213       | −0.193***     | −0.210       | −0.173***     | −0.065       | −0.345***     | −0.315       |
|              (−2.47)   | (−1.01)      | (−2.60)      | (−1.05)       | (−2.63)      | (−1.03)       | (−2.95)      | (−1.09)       |
| Controls     | YES          | YES          | YES          | YES          | YES          | YES          | YES          | YES          |
| N            | 6095 2851    | 6095 2851    | 6095 2851    | 6095 2851    | 6079 2843    | 6079 2843    | 6079 2843    |
| Adj/Pseudo_R² | 0.144 0.112 | 0.112 0.102 | 0.114 0.032 | 0.154 0.142 |

| **Panel B: The internal control index** | **IG = 0** | **IG = 1** | **IG = 0** | **IG = 1** | **IG = 0** | **IG = 1** |
| Finance     | −0.325***    | −0.098       | −0.252***    | −0.077       | −0.356***    | −0.037       | −0.415***    | −0.181       |
|              (−2.58)   | (−0.81)      | (−2.79)      | (−0.72)      | (−2.75)      | (−0.73)      | (−2.74)      | (−1.13)      |
| Controls     | YES          | YES          | YES          | YES          | YES          | YES          | YES          | YES          |
| N            | 2427 5951    | 2427 5951    | 2427 5951    | 2427 5951    | 2415 5939    | 2415 5939    | 2415 5939    |
| Adj/Pseudo_R² | 0.160 0.106 | 0.112 0.094 | 0.139 0.048 | 0.170 0.127 |
relationship between FB board secretaries and regulatory inquiries mainly exists in listed firms with a poor governance environment. To improve the disclosure quality and avoid the negative market responses brought by regulatory inquiries, these firms can consider employing FB board secretaries.

### 6.3. Distinguishing the organisational status of board secretaries

We examine the impact of the organisational status of board secretaries on their performance from two aspects: whether the board secretary serves as the firm’s CFO or whether the board secretary serves earlier than the firm’s CFO (CEO). Holding other positions can grant board secretaries greater power and higher organisational status (Finkelstein, 1992). CFOs are directly responsible for the formulation and implementation of the firms’ financial strategies and have a deeper and more comprehensive grasp of the firms’ financial situation (Peng & Zheng, 2018). If FB board secretaries serve as the CFO, they can be more engaged in firms’ daily business activities and financial policy decisions, thereby obtaining greater information right (Bu & Sun, 2018). Higher financial expertise also assures that FB board secretaries are able to fully understand and correctly interpret the obtained information.

In sum, both greater information right and higher information interpretation quality establish a good foundation for the full realisation of board secretaries’ information disclosure function. Moreover, the dual identity of board secretaries brings a greater risk of financial statement disclosure violations, so board secretaries serving as the CFO may be more active in risk avoidance, which leads to financial statements that more wholly and realistically reflect the actual financial situation of the company (Lu et al., 2019). On the other hand, if board secretaries serve earlier than the firm’s CFO (CEO), they will be more familiar with the firm’s operating conditions and financial strategies relative to the CFO (CEO). Furthermore, they may occupy a relatively dominant position in the process of communication and coordination with the CFO (CEO), which assures that they can more effectively monitor the CFO (CEO) and urge the CFO (CEO) to conduct compliant disclosures.

Based on the above analysis, we expect FB board secretaries, who also serve as the firm’s CFO and serve earlier than the CFO (CEO), to significantly influence the regulatory inquiries. To test this presumption, according to whether the board secretary also serves as the firm’s CFO, we divide the whole sample into the CFO group (where the variable CFO equals 1) and the non-CFO group (where the variable CFO equals 0). According to the start year of the employment of the CFO (CEO) and board secretary, we also divide the whole sample into two groups. The variable EarlyCFO (EarlyCEO) equals 1 for the earlier group, in which the start employment year of the board secretary is earlier than that of the CFO (CEO). The variable EarlyCFO (EarlyCEO) equals 0 for the non-earlier group, in which the start employment year of the board secretary is equal to or later than that of the CFO (CEO).

\(^1\) We repeat the main regression in the above subsamples.\(^2\)

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1. Under this classification criteria, board secretaries who serve as the CFO (CEO) may be classified into the non-earlier group, which is equivalent to treating them with a lower organisational status. Therefore, when repeating the main regression in the earlier and non-earlier subsamples, we exclude board secretaries serving as the CFO (CEO) from the whole sample.

2. Because the exclusion of board secretaries serving as the CFO (CEO) and some listed firms do not disclose the information of board secretaries, CFOs, and CEOs, the summed sample size of Panel B (Panel C) groups is less than the total sample size of this study.
Table 7. Distinguishing the organisational status of board secretaries.

| Inquiry_prob | Inquiry_times | Inquiry_words | Inquiry_delay |
|--------------|--------------|---------------|--------------|
| Panel A: Board secretaries serve as the CFO |
| CFO = 1 | CFO = 0 | CFO = 1 | CFO = 0 | CFO = 1 | CFO = 0 | CFO = 1 | CFO = 0 |
| Finance | | | | | | | |
| -1.980*** | -1.317*** | -0.156** | -0.2012*** | -0.108* | -2.332*** | -0.295** |
| (−3.28) | (−3.13) | (−2.00) | (−2.79) | (−1.91) | (−2.79) | (−2.79) |
| Controls | YES | YES | YES | YES | YES | YES | YES |
| N | 951 | 7995 | 951 | 7995 | 951 | 7993 | 950 | 7972 |
| Adj/Pseudo R² | 0.242 | 0.151 | 0.197 | 0.122 | 0.121 | 0.106 | 0.324 | 0.156 |

Panel B: Board secretaries serve earlier than the CFO

| EarlyCFO=1 | EarlyCFO=0 | EarlyCFO=1 | EarlyCFO=0 | EarlyCFO=1 | EarlyCFO=0 |
|------------|------------|------------|------------|------------|------------|
| Finance | | | | | | |
| -0.329** | -0.060 | -0.247** | -0.084 | -0.192** | -0.050 | -0.476** | -0.156 |
| (−2.15) | (−0.44) | (−1.98) | (−0.74) | (−2.11) | (−0.63) | (−2.41) | (−0.87) |
| Controls | YES | YES | YES | YES | YES | YES |
| N | 3301 | 3958 | 3301 | 3958 | 3300 | 3957 | 3290 | 3947 |
| Adj/Pseudo R² | 0.172 | 0.147 | 0.142 | 0.115 | 0.113 | 0.100 | 0.181 | 0.158 |

Panel C: Board secretaries serve earlier than the CEO

| EarlyCEO=1 | EarlyCEO=0 | EarlyCEO=1 | EarlyCEO=0 | EarlyCEO=1 | EarlyCEO=0 |
|------------|------------|------------|------------|------------|------------|
| Finance | | | | | | |
| -0.290*** | -0.113 | -0.242** | -0.108 | -0.172** | -0.078 | -0.371** | -0.236 |
| (−2.12) | (−0.99) | (−2.15) | (−1.15) | (−2.11) | (−1.24) | (−2.16) | (−1.60) |
| Controls | YES | YES | YES | YES | YES | YES |
| N | 3740 | 5033 | 3740 | 5033 | 3738 | 5033 | 3731 | 5020 |
| Adj/Pseudo R² | 0.166 | 0.158 | 0.130 | 0.131 | 0.115 | 0.100 | 0.155 | 0.188 |

The results of the CFO and the non-CFO group are reported in Panel A of Table 7. There is a significant difference in the coefficients of Finance between the two groups (p < 0.01). This indicates that compared to those that do not serve as the CFO, board secretaries who also serve as the CFO exert a more significant reduction effect on the regulator inquiries, which verifies our logic related to board secretaries serving as the CFO. Panel B and Panel C of Table 7 present the results of the earlier and the non-earlier group. The negative relationship between FB board secretaries and ARCLs mainly exists in the earlier group, indicating that if board secretaries serve earlier than the firm’s CFO (CEO), they can occupy a relatively dominant position in the process of communication and coordination with the CFO (CEO), which assures the efficient implementation of information disclosure work.

6.4. Mechanism test based on the earnings management

Although we argue that FB board secretaries are able to reduce regulatory inquiries through enhancing annual report quality, it is still unclear the specific way by which they exert influence on regulatory inquiries. Earnings management is one of the most critical factors influencing annual report quality (Hutton et al., 2009; Chen et al., 2011). In the context of the constant emphasis on the stock exchanges’ first-line regulatory roles, the stock exchanges’ internal governance structure and work focus have gradually reoriented toward first-line regulation (Chen et al., 2018a, 2018b). They also have stronger incentives and ability to identify misconducts, such as earnings management, and have the effect of “look-through” regulation. According to Chen et al. (2019), of periodic report
comment letters issued between 2013 and 2016, 92.6% involve profit adjustment problems. This indicates that the stock exchanges pay close attention to the profit adjustment issues, so the earnings management level is positively associated with the probability of receiving ARCLs (Liu & Lu, 2019).

FB board secretaries may increase or reduce earnings management. Information disclosure is one of the most critical responsibilities of board secretaries. Most of their energy and time are spent handling information disclosure matters (Jiang et al., 2016a, 2016b). Besides, if the regulatory authorities discover the disclosure violation, board secretaries may not only face fines and reputational damage but also be charged with criminal liability in serious cases. For example, Sun Fujun, the former board secretary of Zoneco Group, is suspected of non-disclosure of material information. In CSRC’s opinion, he does not carry out the information disclosure work in a standardised process and only simply questions but does not conduct substantive supervision measures in the work process, failing to meet the requirement of diligence. Indeed, compliant disclosure is not only the duty of board secretaries but also one of the effective ways for them to avoid risks.

Therefore, board secretaries have a strong incentive to monitor and urge relevant executives responsible for information disclosure (e.g. CFO) to comply with related disclosure regulations. Moreover, higher financial capability enables board secretaries to more deeply understand listed companies’ financial status, disclosure strategies, and relevant financial data, which helps board secretaries identify problems in the earnings information in a timely manner. Financial experience also equips executives with higher career ethics (Lin et al., 2019) and prudence (Bamber et al., 2010), so FB board secretaries may tend to provide more accurate earnings information in annual reports and reduce earnings management.

However, top managers who past worked in auditing firms are motivated to utilise their financial expertise to conduct more earnings management practices. They not only have the expertise to manipulate earnings data in financial statements and the internal information advantage but also are careful to avoid the possible risks associated with earnings management, which prompts them to abandon accrual-based earnings management and switch to real-activities-based earnings management (Cai et al., 2015). As the legal person in charge of information disclosure, board secretaries may face greater penalties such as reputation loss after the exposure of earnings management. Therefore, after assessing the risks and benefits, to ensure the maximisation of their interests, FB board secretaries may exploit their professional advantages to help listed companies implement real-activities-based earnings management, which is more difficult to detect.

To verify which of the above two mechanisms is valid, we follow Wen et al. (2004) and use the stepwise regression method to conduct mediating effects tests between FB board secretaries and the accrual-based earnings management (real-activities-based earnings management). In specific, we construct the following model (2)-(4). The coefficient of $c$ in model (2) represents the total effect of FB board secretaries on the ARCLs. The coefficient of $a$ in model (3) stands for the impact of FB board secretaries on the accrual-based earnings management (real-activities-based earnings management). The coefficients of $c'$ and $b$ represent the direct effect of FB board secretaries on the ARCLs and the impact of accrual-based earnings management (real-activities-based earnings management) on the ARCLs, respectively. The statistically significant coefficients of both $a$ and $b$ can prove the mediating effect, while the insignificant coefficient of $c'$ proves the full mediating effect.
\[ \text{Inquiry}_{i,t+1} = a_0 + c \text{Finance}_{i,t} + \sum \text{Control}_{i,t} + \epsilon_{i,t} \]  

(2) 

\[ \text{ABSDA}_{i,t}/\text{RealEM}_{i,t} = a_0 + a \text{Finance}_{i,t} + \sum \text{Control}_{i,t} + \epsilon_{i,t} \]  

(3) 

\[ \text{Inquiry}_{i,t+1} = a_0 + c' \text{Finance}_{i,t} + b \text{ABSDA}_{i,t}/\text{RealEM}_{i,t} + \sum \text{Control}_{i,t} + \epsilon_{i,t} \]  

(4) 

Both positive and negative abnormal accruals can reflect the deviation of the disclosed earnings from the actual earnings. Moreover, during the process of sending regulatory inquiries, the stock exchanges mainly focus on the authenticity of the information disclosed in annual reports (Liu & Lu, 2019). Therefore, we follow Dechow et al. (1995) and Liu and Lu (2019) to calculate accrual-based earnings management (ABSDA). We follow Roychowdhury (2006) to calculate the real-activities-based earnings management (RealEM).

Column 1 of Table 8 Panel A reports the result of the model (3), in which the independent variable is ABSDA. The coefficient of Finance is negative and statistically significant \((p < 0.05)\). We further control for the ABSDA in the model (4) and report the results in Column 2 of Table 8 Panel A. The coefficients of Finance and ABSDA are statistically significant. These results support the significant mediating effect between Finance and ABSDA. Moreover, the results reported in Panel B of Table 8 indicate that there does not exist the significant mediating effect between Finance and RealEM. Taken together, we find that FB board secretaries can exert influence on regulatory inquiries by reducing the accrual-based earnings management.

### Table 8. FB board secretaries and earnings management.

|                  | (1) | (2) |
|------------------|-----|-----|
| **Panel A: The accrual-based earnings management** |
| Finance          | -0.003** | -0.207** |
|                   | (-2.24) | (-2.40) |
| ABSDA            | 2.357*** | 1.513*** |
|                   | (3.84) | (3.28) |
| Controls         | YES | YES |
| Constant         | 0.134*** | -4.121*** |
|                  | (7.38) | (-3.79) |
| Year&Industry    | YES | YES |
| N                | 8470 | 8470 |
| Adj.\(R^2\)     | 0.079 | 0.155 |
|                  | 0.124 | 0.111 |
|                  | 0.163 |       |

| **Panel B: The real-activities-based earnings management** |
| Finance          | -0.008* | -0.207** |
|                   | (-1.91) | (-2.28) |
| RealEM            | 0.450* | 0.489** |
|                   | (1.81) | (2.48) |
| Controls         | YES | YES |
| Constant         | -0.245*** | -3.808*** |
|                  | (-4.19) | (-3.33) |
| Year&Industry    | YES | YES |
| N                | 7700 | 7700 |
| Adj.\(R^2\)     | 0.143 | 0.161 |
|                  | 0.131 | 0.110 |
|                  | 0.168 |       |
7. Conclusion

The issuance of comment letters has become one of the most critical methods to strengthen ex-post supervision with the arrival of the era of independent information disclosure. Board secretaries are legally responsible for information disclosure and act as the designated liaison between the listed companies and the stock exchanges. Their characteristics can exert influence on regulatory inquiries. Using a sample of A-share Main Board listed companies from 2014 to 2019, we find that FB board secretaries significantly reduce the likelihood, frequency, and characters of firms’ receipt of ARCLs and the likelihood of firms’ delay of response to ARCLs. Moreover, we find that the negative effect of board secretaries’ financial background on regulatory inquiries mainly exists in non-SOEs, firms with poor governance environment, and firms in which board secretaries serve as the CFO or serve earlier than the CFO (CEO). Lastly, we investigate the specific mechanism through which FB board secretaries reduce regulatory inquiries and find the negative relationship between FB board secretaries and the accrual-based earnings management.

This study has the following policy implications. First, from the perspective of regulatory inquiries, we provide evidence that FB board secretaries play an essential role in improving the information disclosure quality and corporate governance environment. Listed companies, especially those with a greater demand for high-quality information and those with a poorer governance environment, can choose to employ FB board secretaries, which can help them avoid the negative market response brought by the receipt of ARCLs. In addition, the baseline results are more pronounced when board secretaries serve as the CFO, which shows that a dual role as the CFO can provide board secretaries a higher organisational status and further helps them perform duties more efficiently. Therefore, according to the practical duty needs of board secretaries, listed companies can consider granting them more power to guarantee the full realisation of their functions.

Disclosure statement

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