Misconduct Synergies

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Keywords: Investment Advisers, M&A, Synergies, Broker Misconduct, BrokerCheck

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1. Introduction

Do corporate control transactions discipline the labor force? Beyond traditional cost and revenue synergies, mergers can be value-relevant if they bring improved monitoring and disciplinary mechanisms that reduce employee wrong-doing at the combined firm. We use the investment advisory industry as a laboratory to test for evidence of "misconduct synergies" (i.e., reductions in disclosures of employee misconduct) following M&A transactions. While plausible, the hypothesis that M&A disciplines rank-and-file employees is difficult to test because employment records and instances of fraud and misconduct are generally unavailable at the individual employee level.[1] The investment advisory industry is particularly useful because firms must report disciplinary and regulatory events, along with general information about business operations, to the SEC. In addition, because investment advisors are registered and licensed, information regarding advisors' individual employment histories and disciplinary events are reported to regulators and made available to the public via FINRA's BrokerCheck system.

Consistent with misconduct synergies, we find that disclosures of new disciplinary events in the combined firm drops by between 25 and 34 percent following mergers. This reduction is driven mainly by separations of high misconduct employees at the target firm. Layoffs following mergers are a well-documented source of cost savings in M&A (e.g., Bhagat et al. (1990); Haleblian et al. (2009); Lee et al. (2018)); however, the question of whether the "right" employees leave is an open and important question on which this paper sheds light.

Throughout the paper, we use the term"All Employee Disclosures" to describe any disclosure across the 23 categories of disciplinary events in the FINRA BrokerCheck

[1] Most papers in the empirical finance literature study potential value creation in M&A by examining announcement period stock returns, post-takeover stock returns, and changes in operating performance following mergers (see e.g., surveys by Betton et al. (2008) and Mulherin et al. (2017)). Importantly, with very few exceptions, these papers generally do not observe the underlying mechanisms that drive the changes in stock returns and profitability.

data. These include customer disputes, regulatory investigations and actions, certain criminal and civil proceedings, and bankruptcy filings.[2] It is important to emphasize that not all of these disclosures are evidence of employee wrongdoing. To account for this, we separately analyze the six categories of disclosures that Egan et al. (2019) consider to be most indicative of employee misconduct. We use "Employee misconduct (EMS)" to describe this subset of less ambiguous disclosures. Even though the strict definition helps to clarify the overall interpretation, Egan et al. (2019) report that the advisors with disclosures outside of the six categories that they identify are also more likely to have engaged in misconduct under the stricter "Employee misconduct (EMS)" definition when compared to advisors without such disclosures. Therefore, we present our findings using both disclosure measures and we interpret changes in either "Employee Disclosures" or "Employee misconduct (EMS)" as indicative of changes in employee misconduct.

To motivate our focus on misconduct reductions as a potential channel for value creation in M&A, we begin the analysis by documenting correlations between employee misconduct and investment advisory firm performance. Because advisory fees in the investment advisory industry are typically earned as a percentage of assets under management (AUM), the analysis assumes that the level of AUM is a reasonable proxy for advisory firm value and performance. We find that advisory firms with fewer incidences of past misconduct (per employee) have significantly larger future AUM. Estimates imply that a one standard deviation increase in disclosures of misconduct is associated with between 5.4% and 6.8% lower AUM the following year. Moreover, past employee disclosures predict future business closure, an event that is costly to firms and their customers. The estimates imply that a one standard deviation increase in misconduct is associated with a likelihood of closure that is between 8.3 and 9.8 percent higher than the unconditional closure rate of 0.96% in the sample. These

[2] See this summary by the SEC.

correlations suggest that any reductions in misconduct following M&A transactions are likely to be value-relevant.

There are several forces that might drive variation in misconduct near M&A events. Under the traditional view of market discipline (Manne (1965)), poor performing firms are purchased by better firms, resulting in efficiencies. Indeed, there is widespread evidence of the "good buys bad" hypothesis in that high-Q firms (firms with a high ratio of market to book value) tend to buy lower-Q firms. This empirical regularity is formalized as a "Q-theory of mergers" in Jovanovic and Rousseau (2002). In the investment advisory industry, mergers in which good firms purchase bad ones might result in larger AUM or reductions in misconduct-related fines (or both). Under this view of market discipline, there are two hypotheses that are relevant to our setting. First, we would expect high-misconduct firms to be targets of low-misconduct acquirers. Second, following the transaction, we would expect to observe lower misconduct by target firm employees.

Contrary to the idea that M&A provides market discipline to poor-performing target firms, Rhodes-Kropf and Robinson (2008) report a "like buys like" result. That is, while it is true that acquirers tend to purchase firms with valuations that are lower than their own, it is also the case that high-valuation firms tend to buy other high-valuation firms, and low-valuation firms tend to buy other low-valuation firms. In fact, Rhodes-Kropf and Robinson (2008) report that acquirers and targets are typically less than one valuation decile apart, even after controlling for industry. To explain this, they present a model in which gains from M&A come from complementarities rather than from a substitution of "bad" for "good," as in the traditional view. We examine two testable predictions from Rhodes-Kropf and Robinson (2008) that are distinct from what we would expect under the market discipline hypothesis. First, if complementarities are important, then targets and acquirers will match according to levels of wrongdoing. Second, following the transaction, we should observe improvements in employee misconduct, but these improvements could come from employees of either

the target or the acquirer.

Our analysis reveals several interesting patterns. First, both targets and acquirers tend to have lower levels of pre-merger employee misconduct relative to firms that do not engage in M&A. Second, within the sample of targets and acquirers, we find evidence of assortative matching where relatively low (high) misconduct acquirers tend to purchase low (high) misconduct targets. This is consistent with Rhodes-Kropf and Robinson (2008). Finally, inconsistent with the view that superior firms take over poor performing ones, we find that acquirers and target employees have similar disciplinary records, with acquirers experiencing even more recent disciplinary disclosures compared to targets.

In our main analysis, we document significant decreases in employee misconduct following M&A transactions. Misconduct falls by between 25.4 and 34.1 percent, depending on the definition of misconduct that we apply. What are the mechanisms driving this decline? Are there more post-merger layoffs and separations among employees with disciplinary disclosures? Or, do the improvements occur through better employee behavior following the merger? When we examine separation patterns following M&A transactions, we find that pre-merger employees of the acquirer are more likely than target firm employees to stay with the combined firm and that target employees with misconduct histories are more likely to depart. For target firm employees, we do not observe *any* significant sensitivity of employment separations to misconduct prior to the merger. This sensitivity becomes significant following the merger. Thus, a tightening in the disciplinary environment for target firm employees can explain some of the improvements in misconduct that we observe following the merger. We also observe increased sensitivity of separations to misconduct of acquiring firm employees; however, the magnitude of the increase is much less than in the case of targets.

In interpreting the overall findings, we conduct two sets of tests. First, we compare each true merged firm to a pseudo merged firm based on pre-event disclosures, recent

growth in disclosures, the number of employees, and state where the advisory firm is headquartered (i.e., a difference-in-differences approach). We find a significant post-event reduction in misconduct in the true merged firm relative to the control. Second, we conduct counterfactual analysis in which we examine the time series of misconduct of all employees, under the assumption that separated employees who stay in the industry remain employed by the newly merged firm. We then compare this time series to misconduct events by employees that actually worked for the target, acquirer, and combined firm. The counterfactual analysis shows that we would have observed flat or even increasing misconduct following the mergers if all employees had remained with the combined firm post-acquisition. This reinforces our earlier finding that post-merger separations drive the reductions in misconduct that we observe.

2. Literature Review

Existing work on M&A as a potential disciplinary mechanism focuses mainly on the departures of top managers (Martin and McConnell, 1991; Agrawal and Walkling, 1994; Hartzell et al., 2004; Wulf and Singh, 2011). Ours is one of the few papers in the empirical finance literature to ask whether M&A brings improvements among rank-and-file employees and how departures of these employees near merger events are distributed in a way that might impact firm value. Wu and Zang (2009) and Lee et al. (2018) are the closest papers to our work in that both are interested in changes in human capital near merger events. Wu and Zang (2009) document high turnover of sell-side financial analysts near mergers. Unlike our paper, they find that departures from the analyst ranks are concentrated among top performers; however, more consistent with our paper, they find that top performers are more likely to be promoted internally post-merger. Lee et al. (2018) is motivated by some of the same ideas on complementarities (Rhodes-Kropf and Robinson (2008)) that our paper draws on, but they are not able to follow individual employees to shed light on whether any post-merger value creation comes from changes at the employee level. Instead,

their paper is an examination of cost savings from mergers when firms have more and less similarly skilled work forces (based on occupational categories). They find that merging firms with more similar workforces see increased valuations following mergers.

Our paper is also related to the growing literature on fraud and misconduct by financial advisers. Several studies show that brokers and advisers respond to commissions and other incentives that are unrelated to the welfare of their clients (Bergstresser et al., 2008; Mullainathan et al., 2012; Christoffersen et al., 2013; Guercio and Reuter, 2014; Anagol et al., 2017; Guiso et al., 2018; Robles-Garcia, 2019; Charoenwong et al., 2019; Garrett, 2020). Egan et al. (2019) document widespread misconduct in the financial advisory industry. Although they report evidence of some discipline following misconduct events, they find that approximately half of all employees with misconduct histories remain employed at the same firm following misconduct. The other half tend to find jobs at firms where other employees also have records of misconduct. Our finding that targets and acquirers tend to match on misconduct is consistent with the conclusion in Egan et al. (2019) that some firms "specialize" in misconduct and others do not. Unlike Egan et al. (2019), our findings show that M&A is an important mechanism through which employees are disciplined.

Dimmock et al. (2018) also study advisory firm mergers. They exploit variation in the location of firm branches to identify misconduct spillovers across employees. They report that the probability of a new instance of misconduct increases if a new coworker has a history of misconduct. Interestingly, they do not find evidence of spillovers in good behavior. On the surface, the negative spillovers in Dimmock et al. (2018) seem inconsistent with evidence of improvements in misconduct following acquisitions that we report in this paper. However, separations can create a setting in which both are true. If the employees who remain at the firm post-merger tend to be those with cleaner records (which we find), firm-level misconduct can improve because it is driven by separations of high-misconduct employees, even when there are some

negative spillovers among the remaining employees.

Our paper is also related to the corporate governance literature that relates shareholder returns in mergers to differences in governance (usually captured by anti-takeover provisions) between the target and acquirer. One general finding is that when acquirers have stronger shareholder rights relative to targets, the gains to M&A are higher (e.g., Wang and Xie (2009)). In cross-border settings, target firms adopt the acquirer's governance. Martynova and Renneboog (2008) and Bris and Cabolis (2008), both report evidence that improved governance from acquirers is associated with increases in value in cross-border deals.[3] These findings all support the idea that governance mechanisms can drive variation in returns to M&A, but the data do not allow the authors to observe the effects of governance improvements within the combined firm following transactions. By contrast, our paper uses employee-level data on allegations of wrong-doing, which allows for a close-up view of a mechanism through which improvements in governance (in the form of employee monitoring and discipline) might impact value. Interestingly, our findings suggest synergies that come from both the acquirer and the target. Target firm employees tend to have similar levels of past misconduct compared to the employees of acquirers, but acquiring firms also appear to have stronger disciplinary mechanisms in place. The increased sensitivity of employment separations to new misconduct events that target firm employees experience post-merger drive the reductions in misconduct at the combined firm.

We focus our work on the investment advisory industry, but the challenge of managing corporate fraud and misconduct is a broad one (Dyck et al. (2010)). Employee wrongdoing exposes corporations to legal and regulatory risk and can damage firms' reputations. The changes in misconduct that we document here can increase our broader understanding of wrongdoing, and of the sources of synergies in M&A.

The remainder of the paper is organized as follows. In Section 1, we describe the

[3] There is even evidence that these governance effects spill over to related nontarget firms Albuquerque et al. (2019).

source of data on registered investment advisors, the sample of merger events, and measures of misconduct. We provide descriptive statistics in Section 2. In Section 3, we report results of the main regression analyses. Section 4 concludes.

3. Data

We combine several data sources to construct the database of advisory-firm characteristics, mergers, employee disclosure, and misconduct measures. Below, we describe each of these databases along with the various filters that we impose.

3.1. Advisory Firm-level data

The Investment Advisers Act of 1940 requires all advisers managing more than $25 million or that have 15 or more U.S. clients to register with the SEC.[4] These firms must file a Form ADV at least annually. We download from the SEC's website all Form ADVs filed since 2001, and extract yearly information on the investment adviser's business lines, type of clients, number of employees, and total assets under management from Part I of the form..[5] If an advisory firm makes more than one filing in a calendar year, we keep the latest filing for that year. The final sample comprises 13,455 unique investment advisory firms that filed a Form ADV between 2001 and 2020 and have data on employee employment history, which we describe below.

3.2. Merger Events

We combine four data sources to construct the most comprehensive sample (to our knowledge) of mergers in the investment advisory industry. The data are from: Pitchbook, Securities Data Corporation (SDC), Investment News, and Form ADV-W.

We begin with the Pitchbook and SDC databases. We search Pitchbook for all

[4] This threshold was changed to $100 million in 2012, following the Dodd-Frank Act.
[5] See www.adviserinfo.sec.gov.

mergers of asset managers operating in the financial services sector. We require that both the target and acquirer are located in the United States, that the merger date is available, and that the deal status is complete. We search SDC for U.S. targets in the Investment & Commodities Firms, Dealers, Exchanges sector, and we require deals to have non-missing deal effective dates. We add to the combined Pitchbook and SDC data using two additional sources.

First, we collect articles about mergers and acquisitions activity from Investment News, a website covering news events in the investment advisory industry.[6] To confirm the Investment news events, we also search Factiva and company websites. For inclusion in the sample, we require a second information source for all Investment News merger events.

Our final source of merger data is the SEC's Form ADV-W. This form is filed by advisory firms when they withdraw their registrations with the SEC.[7] Form ADV-W includes flags to indicate that a firm is closing for merger-related reasons, but it does not identify the acquirer, nor does it indicate the date of the merger. We identify target-acquirer pairs from these forms by taking the following steps. First, we identify potential targets as those firms that report merger-related reasons in the "Reasons for closure" field of Form ADV-W and where more than 70 percent of its employees move to another firm in the year following the ADV withdrawal. We then use the post-closure employment records of target firm employees during the year of closure to generate a list of potential acquirers. We then manually search news articles and the internet to identify the correct merger events and target-acquirer pairs. We keep only those Target/Acquirer pairs for which we can confirm the mergers.

Table I shows the final sample of 419 merger events by year and data source for the period beginning January 2004 and ending June 2020. There are 324 events from

[6] https://www.investmentnews.com/topic/mergers-acquisitions

[7] Unlike Form ADV, Form ADV-W is not available on the SEC's website. We filed a FOIA request with the SEC to obtain historical Form ADV-Ws.

the Pitchbook and SDC databases, and an additional 95 from the Investment News and ADV-W sources. Note that the numbers of events in the Investment News and ADV-W columns in Table I reflect only the 95 events from those datasets that are not in the combined Pitchbook and SDC data. Table I shows a general increase in merger activity over the sample period, with a peak in 2019. This pattern is consistent with the broad trend in global M&A activity.

[INSERT TABLE I ABOUT HERE.]

3.3. Misconduct at the Adviser Level

The main explanatory variable of interest is the number of recent disclosures (per advisor) within a given investment advisory firm. These disclosures include customer complaints, allegations of fraud and negligence, excessive fees and commissions, regulatory actions, civil and criminal proceedings, and employment separations after allegations. The adviser-level disclosure data are from the SEC's IAPD (https://adviserinfo.sec.gov/) and FINRA's BrokerCheck (https://brokercheck.finra.org/) websites. To construct the misconduct measures, we use a python script to scrape employment and misconduct histories of 1.2 million current and previously registered investment advisers and brokers (to which we collectively refer as "advisers").

We create an adviser-year panel of employment and disclosures from 2001 through 2020 (or the year of the adviser's last employment record, whichever is earlier). The unit of observation in the adviser data is an adviser-firm-year.[8] We code disclosures using FINRA's 23 categories of disclosures. We also separately track the six FINRA categories of disclosures that Egan et al. (2019) consider to be the most indicative

[8] Note that individual advisers can concurrently register with more than one advisory firm. Approximately 18% of advisers are registered with more than one firm in a given year of our sample. This overlap is due to concurrent employment relationships (often with affiliated firms), as well as some turnover in employment within a given calendar year.

of adviser misconduct. For each adviser, we first sum the number of new disclosure events in each category and year. When there are no disclosures, the values are equal to zero. "All" is the cumulative sum of all 23 disclosures, and "EMS" is the sum of 6 less ambiguous misconduct disclosures (from Egan et al. (2019). Both "All" and "EMS" measure disclosures over the past two years, including the current year. We analyze both measures since Egan et al. (2019) report that the advisors with disclosures in some of the 17 categories outside of their strict misconduct definition are also more likely to have engaged in misconduct under the stricter 6-category definition when compared to advisors without such disclosures. Therefore, we interpret changes in either *All* or *EMS* as indicative of changes in employee misconduct.

3.4. Firm-Level Employee Misconduct

We calculate new employee misconduct at the advisory-firm level by summing disclosures for individual advisers within the firm in each calendar year.[9] For each advisory firm, we divide this raw count by the number of employees currently working for the firm. We create two measures of misconduct at the firm level. *Employee Disclosures (All)* is the count of disclosures based on the 23 FINRA categories for each registered representative over the past two years (including the current year), divided by the total number of employees working for the advisory firm in that year. *Employee misconduct (EMS)* includes only six (of the 23) categories of disclosures that Egan et al. (2019) consider most indicative of misconduct. We merge the firm-level employee disclosure data to our panel of advisory-firm characteristics and merger events to create the final sample.

[INSERT FIGURE 1 ABOUT HERE.]

[9] If a given adviser is registered with multiple firms, her misconduct will count in the totals for each of her employers.

4. Descriptive statistics

Table II presents summary statistics for the sample of targets and acquirers as of year *t-1* relative to the merger. Not surprisingly, we find that acquirers are larger, with more employees, clients, and assets under management (AUM) than target firms. We also observe that acquirers have experienced more recent growth in AUM than targets. We also find that, while acquirers and targets have statistically similar levels of employee misconduct, acquirers have experienced significantly greater recent growth in employee misconduct.

[INSERT TABLE II ABOUT HERE.]

5. Empirical Analysis

5.1. Is misconduct value-relevant in the investment advisory industry?

The regulatory and civil fines paid by firms are a direct cost of employee misconduct. Figure 1 plots the average regulatory and civil fines paid in each year by firms with at least one employee disclosure. For firms with disclosures, the average yearly fine is approximately $720,000.

Outside of the direct costs (fines) shown in Figure 1, misconduct can be value-relevant in that it might cause investors to withdraw their funds. Misconduct might also reflect differences in managerial skill and performance, which should be reflected in assets under management (AUM). AUM is closely linked to firm value within the investment advisory industry because advisers typically charge fees that are a percentage of the value of AUM.

In this section, we use the full sample of investment advisory firms to examine the relationship between year t employee misconduct and the year *t+1* level of AUM, the change in AUM from t to *t+1*, and firm closure between years t and *t+1*. We estimate the following reduced-form model by pooled OLS:

$$
\begin{aligned}
Outcome_{i(t+1)} = \quad & \beta_1 \text{Misconduct}_{it} + \beta_2 \text{Retail Clients}_{it} \\
& + \beta_3 \text{Ln(Firm Age)}_{it} + \beta_4 \text{Ln(Number of employees)}_{it} \\
& + \lambda_j + \eta_t + \epsilon_{it}.
\end{aligned} \tag{1}
$$

The unit of observation is an investment advisory firm-year. The main dependent variables (*Outcome*) are: $Ln(AUM)_{i(t+1)}$ the natural log of next year's assets under management; $\Delta AUM_{i(t+1)}$ the percentage change in next year's assets under management; and $\mathbb{1}(Failed)_{i(t+1)}$, an indicator that equals one if the advisory firm closes in the year following its current Form ADV filing. We obtain data on advisory-firm closures from a FOIA request to the SEC for all Form ADV-W's. Form ADV-W is a notice of withdrawal from registration filed by investment advisers. On this form, firms list the reason for their de-registration. We define a firm as *Failed* if the reason for withdrawal is business closure.[10]

The explanatory variable of interest is $Misconduct_{it}$, the fraction of employees with misconduct at the firm level. We define $Misconduct_{it}$ in two ways. *Employee Disclosures (All)* is the count of the 23 FINRA categories of disciplinary events, for all of the firm's registered representatives over the past two years (including the current year), divided by the total number of employees working for the advisory firm in year *t*. *Employee misconduct (EMS)* includes only six (of the 23) categories of misconduct that Egan et al. (2019) consider to be least ambiguous. The sample mean *Employee misconduct (All)* is 3.15% with a standard deviation of 12.72%. The mean *Employee misconduct (EMS)* is 1.56%, and the standard deviation is 7.07%.

Other controls include: $Retail\ clients_{it}$, an indicator that equals one if the advisory

[10] Specifically, using the reasons for closure section of Form ADV-W, we define a firm as failed if it lists one of the following reasons for closure: "No longer conducting advisory activities," "No longer in business or closing business," "Ceased conducting advisory business," "Termination of business," "Going out of business," and "Closed business."

firm primarily serves individual retail clients and small businesses; $Ln(Firm\ Age)_{it}$ the natural log of firm age; $Ln(Number\ of\ employees)_{it}$ the natural log of the number of employees; λ_j, indicators for the advisory firm's line of business; and η_t, year fixed effects.[11] Year and industry fixed effects absorb any variation in closures and AUM that are year or industry-specific.

Panel A, B, and C of Table III present estimates of the relationship between recent misconduct and the future level of AUM, change in AUM, future firm closure, respectively. We standardize all continuous covariates, employee misconduct, number of employees, and age, to have a mean of zero and standard deviation of one to facilitate interpretation and comparisons across rows.

[INSERT TABLE III ABOUT HERE.]

In Panel A of Table III, we find that firms with higher recent disclosures are more likely to have lower levels of assets under management in the following year. For example, the results in Column (1) imply that a one standard deviation (12.72%) increase in disclosures using the "All" measure is associated with 8.5% lower AUM in the following year. A one standard deviation (7.07%) increase in employee misconduct using the "EMS" measure in Column (3) is associated with 7.6% lower AUM in the following year. When we include controls for retail clients, firm age, and the number of employees in Columns (2) and (4), we observe similar relationships. The predicted decline in AUM following a one standard deviation in "All" measure 6.8% and it is 5.4% when we use the "EMS" misconduct measure.

Panel B of Table III tells a similar story. Firms with more new disclosure events are more likely to have lower future growth in assets under management. The mean of the disclosure flow variable using the "All" measure is 1.24% and its standard

[11] Line of businesses include: Financial planning services, Portfolio management for individuals and/or small businesses, Portfolio management for investment companies, Portfolio management for pension consulting services, Selection of other advisers, Publication of periodicals or newsletters, Security ratings or pricing services, and Market timing services.

deviation is 9.86%. The results in Column (1) Panel B imply that a one standard deviation (9.86%) increase "All" employee disclosures is associated with 0.265% lower growth in AUM in the following year. Similarly, the findings in Column (3) imply that a one standard deviation (7.67%) increase in employee misconduct for the "EMS" misconduct measure is associated with 0.294% lower growth in AUM in the following year. Given the unconditional AUM growth rate of 11.46% per year, the estimates in Columns (2) and (4) are economically meaningful, mapping to a decrease in AUM of between 3.71% and 4.13% following a one standard deviation increase in misconduct.

The final analysis of the relationship between misconduct and firm outcomes is in Panel C of Table III, where we examine firm closures. In Column 1, the estimates imply that a one standard deviation increase in any employee disclosures ("All") is associated with a 0.136% percent increase in the probability of closure. In the specification with controls (Column 2), we find that a one standard deviation increase in disclosures is associated with a 0.095% increase in the probability of closure. Estimates using the "EMS" measure of misconduct in Columns (3) and (4) are 0.131% and 0.080%, respectively. Given the unconditional closure rate of 0.96% per year, all of these estimates are economically meaningful. The estimates in Columns (2) and (4) (i.e., regressions with controls) in Panel C map to an increase of between 8.3 and 9.8% in closure probability following a one standard deviation increase in misconduct. The closure analysis provides new insights into the consequences of misconduct in Egan et al. (2019). In that paper, the authors find only limited consequences for misconduct at the adviser level (i.e., half of advisers keep their jobs following disclosure events; most of the other half secure jobs with new firms). Panel C of Table III shows costs that extend beyond those incurred at the individual adviser level. Firms with high levels of employee misconduct are more likely to close their doors.

Taken together, the results in this section reveal strong links between misconduct and value in the investment advisory industry. Firms with more disclosures have lower levels of assets under management, pay more regulatory and civil fines, see

lower growth in assets under management, and are more likely to close. In the next section, we test whether employee misconduct is relevant in M&A, where a primary goal is value creation. We begin by asking whether misconduct predicts which firms become targets or acquirers.

5.2. Is misconduct relevant in M&A?

This section examines the relationship between employee misconduct and the probability that a firm is a target or an acquirer. Under the traditional view of market discipline, in which good firms purchase weaker firms, we would expect acquirers to have fewer disclosures than the average advisory firm and that targets have more disclosures than average. We use the full sample of investment advisors, and we estimate the following reduced-form model by pooled OLS:

$$\begin{aligned} \mathbb{1}(\textbf{Target})_{i(t+1)} = \quad & \beta_1 \text{Misconduct}_{it} + \beta_2 \text{Retail clients}_{it} \\ & + \beta_3 \text{Ln(Assets under management)}_{it} + \beta_4 \text{Ln(Firm Age)}_{it} \\ & + \beta_4 \text{Ln(Number of employees)}_{it} \\ & + \lambda_j + \eta_t + \epsilon_{it}. \end{aligned} \tag{2}$$

The unit of observation is an advisory-firm year. The dependent variable is an indicator that equals one if an advisory firm is acquired in the year following its current Form ADV filing, $\mathbb{1}(\textit{Target})_{i(t+1)}$. The primary independent variable is employee Misconduct_{it}, which we define in two ways, as in the previous section. The mean "All" measure is 3.53 percent, and the standard deviation is 10.72 percent. We define all other controls as in the previous section. The sample period for t runs from 2004 to 2020 to match the merger data.

Table IV presents results of estimating Equation 2. Columns (1) and (2) show

results for the "All" disclosures measure, and Columns (3) and (4) show results for the "EMS" measure of misconduct. We standardize all continuous covariates to have a mean of zero and a standard deviation of one to ease the comparison of relative effects.

[INSERT TABLE IV ABOUT HERE.]

It is clear from Table IV that firms with more disclosures per employee are significantly less likely to be acquisition targets. For example, estimates in Column (1) imply that a one-standard deviation increase in the number of disclosures of employee disciplinary events (this maps to a 10.72% increase) is associated with a .057% reduction in the probability that a advisory firm is acquired. Relative to the unconditional mean rate of acquisitions of 0.50%, this represents a 11.4% decrease in the probability that a firm is acquired in the following year. The estimates in Columns (2) through (4) show similar patterns.

In Table V we focus on acquirers. We change the dependent variable in Equation 2 to an indicator that equals one if a firm makes an acquisition in the year following their year t ADV filing ($\mathbb{1}\textbf{(Acquirer)}_{i(t+1)}$). From Table V, we find that firms with more disclosures per employee are also significantly less likely to be acquirers. For example, the estimated coefficient of -0.026% on the *Employee disclosures (All)* variable in Column (1) implies that a one standard deviation increase in disclosures is associated with a 0.026% decrease in the probability of being an acquirer (a 7.4% decline relative to the unconditional probability of being an acquirer). The estimate is of similar magnitude when we focus on the *EMS* misconduct measure in Column (3), but the relationship is not significant when we add controls in Column (4).

It is useful to compare the results in Table IV with those in Table V. We find that both targets and acquirers have employees with cleaner-than-average records; however, the estimated coefficients on Misconduct_{it} in the target firm analysis (Table IV) are more negative and larger relative to the unconditional means compared to what

we find for acquirers (Table V). Also note that Tables IV and V reveal that younger firms are more likely to make acquisitions, while older firms are more likely to be acquired, which could be partly driven by founders' retirement.[12]

In sum, the evidence suggests that misconduct is relevant in M&A and that firms with lower levels of misconduct are more likely to be acquired. This is inconsistent with the idea that the worst firms are attractive targets. The evidence that both acquirers and targets have lower levels of misconduct than the average firm is more consistent with potential complementarities in misconduct, where combining monitoring and disciplinary mechanisms can be beneficial. We investigate this idea in the next section.

5.3. Matching on Misconduct (Sample of Targets and Acquirers)

In this section, we test the hypothesis that there is positive assortative matching on misconduct among investment advisory firms. In an ideal test of whether acquirers and targets with similar employee misconduct levels merge, we would observe the different targets that a given acquirer considers. We would then test whether the selected target differs from the potential targets (i.e., those firms that are considered but not selected) in that its level of misconduct-related disclosures is more similar to the acquirer's, holding the other characteristics of the target fixed. Because we only observe equilibrium matches and not the set of potential partners, we approximate the ideal test by adopting an approach similar in spirit to Rhodes-Kropf and Robinson (2008). We create counterfactual mergers that pair every target with all potential acquirers in the merger year. We define potential acquirers as all those firms that acquired another asset management firm during year t. The idea is that these firms are most likely to be the ones considering acquisitions at t.

[12] Ameritrade (2019), an industry report discussing various motives for advisory firm mergers, notes that founder retirement is a key motivation for 30% of advisory firms considering a merger. Jenter and Lewellen (2015) also show that takeovers are more likely near CEO retirement age.

Figure 2 provides some visual evidence. The figure plots the probability that a potential target and acquirer pair merge, as a function of whether the potential acquirer or target have any disclosure of a disciplinary event. *Some Disclosure* is an indicator that equals one if any employees of the target or acquirer has one of the 23 categories of FINRA disclosures over the past two years (including the current year). *Probability of Merger (%)* is the fraction of pseudo plus real target-acquirer pairs in each quadrant that are true merging firms. For example, 4.15% of all pairs in the *Some Disclosure* for the acquirer and *Some Disclosure* for the target quadrant are real matches. This value is 83.6% greater than the unconditional merger rate of 2.26%. In the *No Disclosure* for the acquirer and *No Disclosure* for the target quadrant, 2.39% are real matches, also higher than the unconditional rate. Thus, the evidence in Figure 2 is suggestive of positive assortative matching on misconduct.

[INSERT FIGURE 2 ABOUT HERE.]

For a more rigorous test, we estimate the following linear probability model, in which we test the hypothesis that targets and acquirers with similar misconduct records are more likely to pair:

$$\begin{aligned}\mathbb{1}\textbf{(Merged)}_{i(t+1)} = \quad & \beta_1|\text{Disclosure Acq} - \text{Disclosure Tar}|_{it} + \beta_2\text{Retail clients}_{it} \\ & + \beta_3|\text{Ln(AUM Acq)} - \text{Ln(AUM Tar)}|_{it} + \beta_4|\text{Ln(Age Acq)} - \text{Ln(Age Tar)}|_{it} \\ & + \beta_5|\text{Ln(Emp Acq)} - \text{Ln(Emp Tar)}|_{it} \\ & + \beta_6\text{Same state} + \lambda_j + \eta_t + \epsilon_{it}.\end{aligned} \tag{3}$$

The unit of observation is a target-acquirer pair, where pairs include both true merging firms and pseudo-pairs. Recall that pseudo-pairs are formed by pairing all targets in a given year with all acquirers making acquisitions in the same year. The dependent variable ($\mathbb{1}$(Merged)) is an indicator that equals one if the target-

acquiring firm pair actually merge, and zero otherwise. The explanatory variables of interest are the measures of disclosure and misconduct similarity within each pair. We calculate the absolute differences in these measures for the target and acquirer: (|Disclosure Acq−Disclosure Tar|) and (|Misconduct Acq−Misconduct Tar|). If there is assortative matching on misconduct, we expect that larger differences between target and acquirer employee misconduct will make a match less likely. The mean absolute difference in fraction of employees with misconduct at the acquirer and target firm for the "All" measure is 2.31 percent, and the standard deviation is 3.67 percent.

We express the control variables in terms of acquirer-target similarity by taking the absolute difference of acquirer to target values for AUM, Age, and number of employees. We define *Retail* as an indicator that equals one if both a potential target and acquirer are retail-focused. Finally, we define *Same State* as an indicator that equals one if a target and acquirer pair are located in the same state because firms sharing geographic markets might be more likely to merge, and because of the Parsons et al. (2018) finding that there is a geographic component to misconduct. As in previous specifications, η_t are year fixed effects and λ_j are matching line of business fixed effects, indicators that equal one if the target-acquirer pair are in the same line of business.

Results are in Table VI. Columns (1) and (2) present results using the "All" measure, and Columns (3) and (4) show results using the "EMS" measure. As in the earlier tables, we standardize all continuous covariates to have a zero mean and a standard deviation of one to ease comparisons of magnitudes across covariates.

[INSERT TABLE VI ABOUT HERE.]

We find strong evidence of assortative matching on misconduct. For example, the estimates using the "All" measure in Column (1) imply that a one standard deviation increase in the difference in employee misconduct within a acquirer-target pair (a 3.67% increase) reduces the probability of a match by about 0.382%. Once

we add control variables, the estimate is 0.274% and is also statistically significant. Relative to the unconditional merger rate of 2.26% within the sample, these estimates represents a decrease of between 12.12 and 16.90 percent in the probability of a match when levels of employee misconduct between target and acquiring firms are different. The results in Columns (3) and (4) are similar. The estimated coefficients on the control variables show that pairs serving similar clientele and headquartered in the same state are more likely to merge.

The evidence of assortative matching on misconduct in the Table VI is also consistent with the idea in recent work by Gorton and Zentefis (2020), in which corporate culture defines the boundary of the firm. In their setting, culture clashes are costly and can make mergers fail. Our findings support the idea that M&A is less attractive when firms differ in their employee misconduct because different misconduct cultures could be costly to integrate. Anecdotally, in an industry survey of financial advisory firms (Ameritrade, 2019), advisors noted that "a critical ingredient for any successful transaction is compatibility, from both a culture and business model perspective." Thus, assortative matching on misconduct might make firm cultures easier to integrate. Our results are also related to the idea in the organizations literature (e.g., Datta (1991); Teerikangas and Very (2006)) that differences in management styles or culture are associated with post-acquisition performance. There, the empirical evidence is mixed (Teerikangas and Very (2006)).

5.4. Does M&A Discipline employee behavior?

In this section, we turn to the main economic question in the paper: Is there evidence of "misconduct synergies" in M&A? The traditional view of M&A is that the combined firm is more valuable than the sum of stand-alone firms because of synergies between the target and acquirer that result from a more efficient allocation of resources. There are several ways to create such synergies. One way is to reduce

costs by spreading fixed costs of operations. Firms can also eliminate duplicate operations and redundant headcount. In our context, we refer to shedding employees with misconduct records or transferring systems that help curb future misconduct as "misconduct synergies."[13] This channel for potential value creation is much more specific than across-the-board headcount reductions and layoffs, for example. Employee misconduct can be costly to firms in the investment advisory industry. Misconduct exposes these firms to legal and reputational costs. In addition, as Panels A, B, and C of Table III show, firms with high misconduct have lower AUM and are more likely to fail. In this section, we test the hypothesis that misconduct of the combined firm declines following the merger.

To examine the misconduct synergies hypothesis, we compare new disclosures in the 3 years before the merger to new disclosures in the 3 years following the merger. We calculate pre-merger variables by creating a synthetic merged firm. For example, we estimate combined misconduct by taking the weighted average of misconduct measures for the target and acquiring firm, where the weights are based on the number of advisers at each firm. For this test, we keep only target-acquiring firm pairs with the requisite data in each pre-merger year and where we have at least one year of post-merger data for the combined firm (this leaves 389 target-acquirer pairs). We then average each characteristic over the three years preceding the merger and the 3 years following the merger.

Table VII reveals a striking decline in disclosures following merger events. For example, if we focus on *Employee disclosures (All)* in Row (2) Table VII, the average new disclosures (per employee) of the combined firm drops from 2.09 percent in the years before the merger to 1.56 percent in the years following the merger. This represents a 25.4 percent decline. The *Employees with misconduct (EMS)* measure in Row 3 shows an even steeper decline of 34%, from 0.88 to 0.58 percent. Yearly misconduct

[13] Disciplinary and monitoring systems governing misconduct might come from the target or acquirer.

growth measures show similar reductions, and all are statistically significant. Table VII also shows a marginally significant increase in the level of AUM following the merger but no significant growth in the number of employees, suggesting additional efficiencies.[14]

[INSERT TABLE VII ABOUT HERE.]

Figure 3 plots the disclosure and misconduct measures for the combined firms in event time. As in Table VII, we calculate pre-merger disclosures by taking the employee weighted average disclosures of the target and acquiring firm.[15] We observe large declines in new disclosures using both the *All* and *EMS* measures of misconduct in the years following the merger. This is consistent with M&A reducing transactions costs (e.g., fines) by reducing employee misconduct following a merger.

[INSERT FIGURE 3 ABOUT HERE.]

To improve the interpretation of the post-merger declines in new disclosures that we observe in Table VII and in Figure 3, we construct a placebo merged firm. This allows us to check whether we are simply picking up market-wide trends in disclosures following merger events. Each placebo firm consists of two non-merging firms, one matched to the target and the other matched to the acquiring firm. To construct matches, we rely on the entire database of ADV firms. We create the following variables: an indicator that equals one for firms with above median employee disclosures

[14] In Appendix Table A.1, we ask whether merged firms with more significant improvements in employee misconduct enjoy greater increases in AUM in the years following the merger. Consistent with value-relevant synergies in misconduct, we find that declines in the EMS measure of misconduct are associated with greater future AUM. Estimates imply that a one standard deviation decrease in employee misconduct is associated with a 1.96 to 2.06 percent increase in AUM in the year following the merger. The signs of the estimated coefficients on the change in employee misconduct using the *All* Disclosure measure are also negative, but are statistically insignificant.

[15] The average disclosure levels are higher in Figure 3 than in Table VII because we end the sample for the figure in 2016 to ensure that we are plotting data for the same firms in every year. For the figure, we require that all merged-firms have three years of pre- and three years of post-merger data on disclosures.

(*Misconduct*); an indicator equal to one for firms with above median change in employee disclosures (*Misconduct Change*); employee decile, based on the number of employees at the firm (*Employee Decile*); and the state in which the advisory firm is headquartered (*State*). We then match each target and acquirer to the sample of non-merging advisory firms that share the same values of *Misconduct, Misconduct Change, Employee Decile and State*, as of the year of the merger. Within the set of potential matches for each target and acquiring firm, we create a final match with the firm that has the closest level of employee disclosures. Note that the sample size is 17% lower than the number of true mergers because we could not find a match for every target-acquirer pair.

The pre- and post-event characteristics of the pseudo mergers are in Table VIII. Unlike in the case of true mergers, we observe only very small declines in employee disclosures and none are statistically significant. Of course, matches are not perfect (for example, the pseudo merged firms are smaller with fewer employees, AUM and fewer clients than the true merged firms). These differences in characteristics should not impact the overall interpretation. Moreover, we can control for size differences in regression analysis.

[INSERT TABLE VIII ABOUT HERE.]

In Table IX, we conduct difference-in-differences analysis in which we compare post-merger changes in disclosures in the true merged firm to that of the pseudo-merged firms. We use annual data for the three years prior through three years following the merger to estimate a regression in which the dependent variables are *Flow Disclosures* and *Flow Misconduct EMS*, defined as the number of new disclosures (*All* and *EMS*, respectively) during year *t*, divided by the number of employees at the combined firm. We introduce *Merged*, a dummy equal to one if the firm is the true combined firm. The coefficient of interest is on the *Merged*Post* interaction, which estimates the difference in the post-event change in misconduct between the real and

pseudo merged firms. The estimated coefficient on this interaction is negative and statistically significant in all four regression specifications shown in Table IX, implying a significant post-event reduction in new employee disclosures in the true merged firm relative to the control.

[INSERT TABLE IX ABOUT HERE.]

Why do we observe such significant declines in disclosures following mergers? There are at least two possibilities. First, average employee disclosures might decline after the merger because target and/or acquiring firm employees reduce their misconduct following the merger. If the acquiring firm adopts the monitoring and disciplinary practices of the firm with the better record (in our setting, this would be the target firm since we find that acquirers tend to have higher recent growth in disclosures than targets), the stricter disciplinary environment could cause employees' behavior to improve. Incentives for employees to reduce their misconduct might be particularly strong in M&A settings, as there are redundancies and increased competition among employees who wish to keep their jobs (Fulghieri and Sevilir (2021)). A second possibility is that there is a high concentration of separations among employees with misconduct records. If misconduct is a relevant variable that new owners consider when reducing redundancies, we might expect misconduct to improve post-merger through separations (rather than a change in the behavior of existing employees). In the next section, we examine how M&A might discipline misconduct. We focus on the question of how the probability of adviser job separation changes after mergers as a function of their disclosure histories. We interpret increased sensitivity of separation to disclosures as increased monitoring and discipline. We interpret no change in sensitivity as evidence that the average disclosure declines that we observe at the firm level are a result of existing employees improving their behavior.

5.5. What drives the decrease in adviser misconduct following M&A?

In this section, we test whether the sensitivity of separation to adviser misconduct increases following a merger. Specifically, we test whether advisers with disclosures working for either the target or acquirer are more likely to separate from the merged firm following the merger. We estimate the following linear probability model:

$$\begin{aligned}\mathbb{1}\textbf{(Separation)}_{if(t+1)} = \quad & \beta_1 \text{Misconduct}_{ift} \times \text{Post} + \beta_2 \text{Misconduct}_{ift} \\ & + \beta_3 \text{Post}_f + \beta_4 \text{Ln(experience)}_{ift} \\ & + \beta_5 \text{Ln(\# Qualifications)} + \eta_{ift} + \epsilon_{ift}.\end{aligned} \tag{4}$$

In Equation 4, we predict year-ahead separations at the individual adviser level as a function of employee misconduct, timing relative to the merger event, and control variables. Each observation is an employee-year. We include annual data for years from *t-3* through *t+3* relative to the merger year, and we focus the analysis on all employees who are working either at the target or acquiring firm (f) at any time during the three years (t) preceding (and including) the year of the merger. The dependent variable ($\mathbb{1}$**(Separation)**) is an indicator that equals one if an adviser that worked for the target or acquirer in year t no longer works for either the target or acquirer in year $t+1$. The primary explanatory variables of interest are the *Employee Disclosures (All) *Post* and *Employee misconduct (EMS) *Post* interactions. *Employee Disclosures (All)* is an indicator that equals one if the adviser has any of the 23 FINRA categories of disclosures over the past two years, including the current year. *Employee misconduct (EMS)* is an indicator that equals one if the adviser has any one of the six categories of disclosures from Egan et al. (2019). *Post* is an indicator that equals one for the year of the merger and the years following the merger. We also control for the experience and qualifications of the adviser by including *Ln(experience)*, the natural

log number of years of experience in the advisory industry, and *Ln(# Qualifications)* the adviser's total number of certifications. η_{it} are advisory firm by year fixed effects, which control for differences in separations across firms and time.

Table X presents results from estimating Equation 4, which we estimate separately for target and acquiring firm employees. Doing so helps us understand potential changes in the disciplinary environments for each of these firm types. Columns (1) and (2) show the estimated coefficients using the *Employee disclosures (All)* measure, and Columns (3) and (4) show results for *Employee misconduct (EMS)*. For target firm employees (Panel A), somewhat surprisingly, we find no significant pre-merger sensitivity of separations to employee misconduct. This suggests a relatively loose pre-merger disciplinary environment. Following the merger, this sensitivity increases substantially, where employees with any disclosures see their separation probabilities increase by between 1.079 and 1.101 percent (Columns 1 and 2) and those with disclosures in one of the six Egan et al. misconduct categories are between 1.483 and 1.526 percent more likely to separate (Columns 3 and 4) than employees without such disclosures. For acquiring firm employees (Panel B), we also see some evidence of an increase in sensitivity of separations to misconduct following mergers. However, unlike the case of target firm employees, we also observe significant pre-merger sensitivity of separations to disclosures. For example, the estimated coefficients in Column (1) of Panel B imply that, before the merger, an acquiring firm employee with recent disclosures is 0.77 percent more likely to separate than an employee with no recent misconduct. After the merger, that number increases by nearly 80 percent, to 1.385 percent (0.770 + 0.615). The estimates in Column (2) are similar. In Columns (3) and (4), we find that acquiring firm employees with disclosures in one of the six Egan et al. misconduct categories are between 0.931 and 1.046 percent more likely to separate but this relationship does not significantly change post-merger (the estimated coefficients on the *Employees with misconduct (EMS)*Post* interaction are positive

but statistically insignificant).[16]

The estimated coefficients on the other control variables are consistent with intuition. For example, more experienced and qualified advisers are less likely to leave.

[INSERT TABLE X ABOUT HERE.]

The findings in Table X reveal that the decline in employee misconduct that we observe following merger events is driven by separations of high misconduct employees, particularly at the target firm. We can see this visually in Figure 4, in which we zoom in to the months surrounding the merger event (recall that Figure 3 shows that most of the post-merger declines in disclosures occur in the first year of the merger). The figure plots the monthly probability of employment separation in the six months prior to and following the merger events. In line with the results in Table X, Figure 4 not only shows that target-firm employees drive the post-merger separations, but also that those target firm employees with disclosures are much more likely to depart. There is relatively little change in gap between the probability of separation for acquiring firm employees with and without disclosures.[17] Our findings reveal that, even though target employees have slightly better records than the employees of acquiring firms, those target employees with disclosure histories are more likely to separate post-merger. Thus, it appears that mergers tighten the disciplinary environment and

[16] One natural question is whether acquirers with better or worse misconduct histories are driving the improvements that we observe. In Appendix Table A.2, we introduce a dummy variable *HDA*, which equals one if the acquirer has above median pre-merger employee disclosures. We focus on the triple interaction of *HDA* with *Employee Disclosures (All) *Post* and *Employee misconduct (EMS) *Post*. We find that the triple interaction is positive and statistically significant in the case of the *All* measure, suggesting that the most significant improvements are coming from high misconduct acquirers. If we instead sort on acquirers with high pre-merger sensitivity of separations to misconduct (*HSD*), we see that high *HSD* firms also contribute to the improvements that we observe. Interestingly, the intensity of general layoffs does not explain our results (A.3).

[17] The rate of separation in Figure 4 is lower than the separations of very top managers that have been documented in the earlier literature on managerial turnover and corporate control (e.g., Hartzell et al. (2004) report that approximately half of target firm CEOs depart the combined firm) but qualitatively in line with the observation that target firm CEOs tend to lose their jobs during or shortly after a takeover (Martin and McConnell, 1991; Agrawal and Walkling, 1994; Hartzell et al., 2004; Wulf and Singh, 2011).

can improve misconduct through the shedding of high misconduct employees within relatively low misconduct firms.

[INSERT FIGURE 4 ABOUT HERE.]

We observe clear increases in separations by employees with disclosures of disciplinary events, but what is the magnitude of the contribution of separations to the decline in firm-wide misconduct? Is zero change the right benchmark? To help answer this question, Figure 5 conducts counterfactual analysis in which we show the time series of new disclosures by all employees of the combined firm, under the assumption that separated employees who remained in the industry remain employed by the target and acquirer. We then compare this time series to the actual new disclosure events at the target, acquirer and combined firm. From the figure, it is clear that we would have observed flat or even increases in disclosures following the mergers if all pre-merger employees had remained with their respective firms. The results from the conterfactual analysis are in line with the finding in Egan et al. (2019) that one quarter of advisors with misconduct records are repeat offenders and suggests that the shedding of target firm employees with misconduct records is a significant driver of the post-merger decline in misconduct that we observe.

[INSERT FIGURE 5 ABOUT HERE.]

6. Conclusion

We test the hypothesis that reductions in employee misconduct are a source of value in M&A in the investment advisory industry. Consistent with misconduct synergies, we find substantial declines in new disclosures following mergers. We also examine the forces that drive improvements in employee behavior. Unlike the traditional idea that better-performing firms tend to purchase poor-performing ones, we find that both targets and acquirers have better misconduct records than the average

firm in the industry. Formal tests reveal evidence of assortative matching on misconduct. While target firms tend to have cleaner recent records than their acquirers, we find that the sensitivity of separations to employee misconduct increases for target firm employees following mergers, suggesting stricter disciplinary mechanisms for target employees within the merged firm.

Overall, the results shed additional light on how M&A transactions can bring value-enhancing improvements through labor force discipline, even in a world in which "like buys like."

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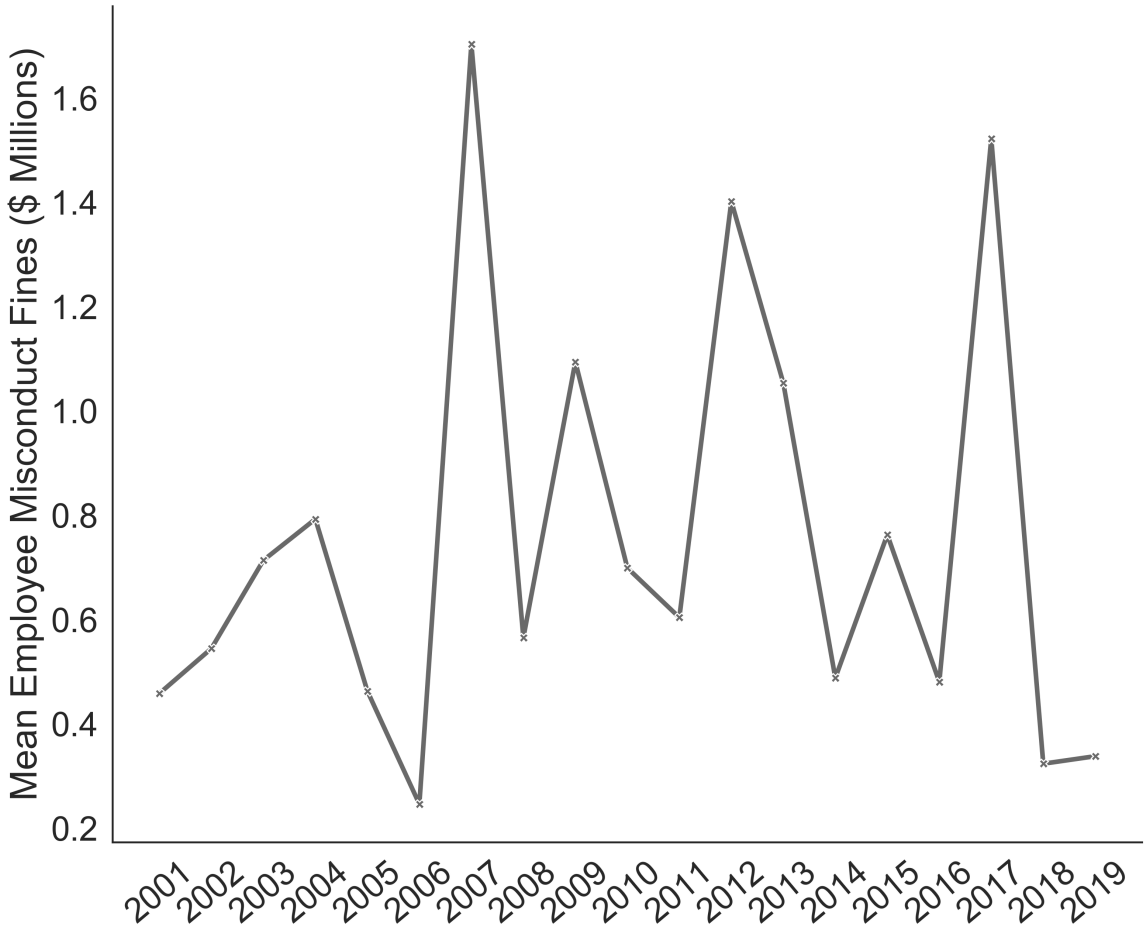


Figure 1: Trends in the Cost of Employee Misconduct

This figure plots the average yearly fines paid by advisory firms whose employees had at least one disclosure of a disciplinary event.

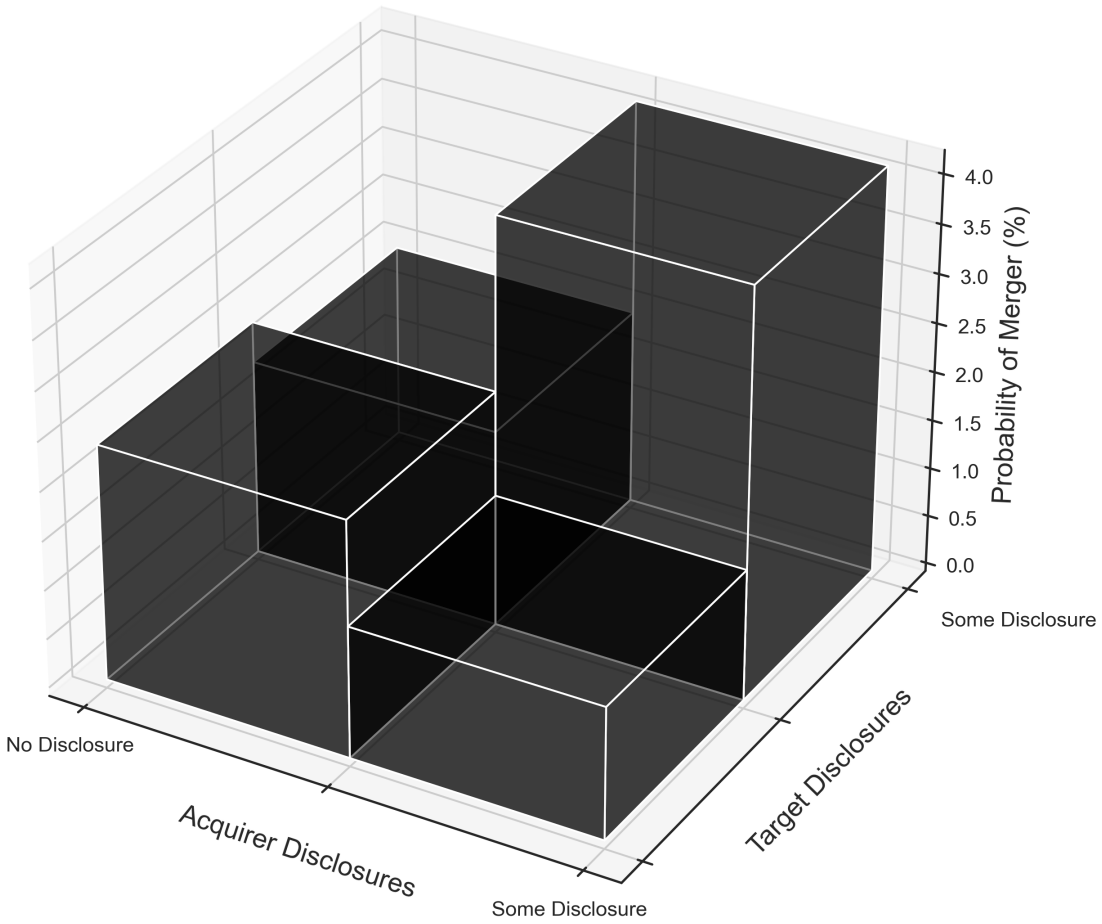


Figure 2: Matching on misconduct

This figure plots the probability that a potential target and acquirer are a true merging pair as a function of whether the potential acquirer or potential target have any disclosures of disciplinary events. *Some Disclosure* is an indicator that equals one if any employee has a disclosure of any one of FINRA's 23 categories over the past two years (including the current year). For each year, we create counterfactual mergers that pair every target with all potential acquirers. We define potential acquirers as those firms that have acquired another asset management firm during the year t, in which the target was acquired. Probability of Merger (%) is the fraction of target-acquirer pairs in each quadrant that are true merging pairs.

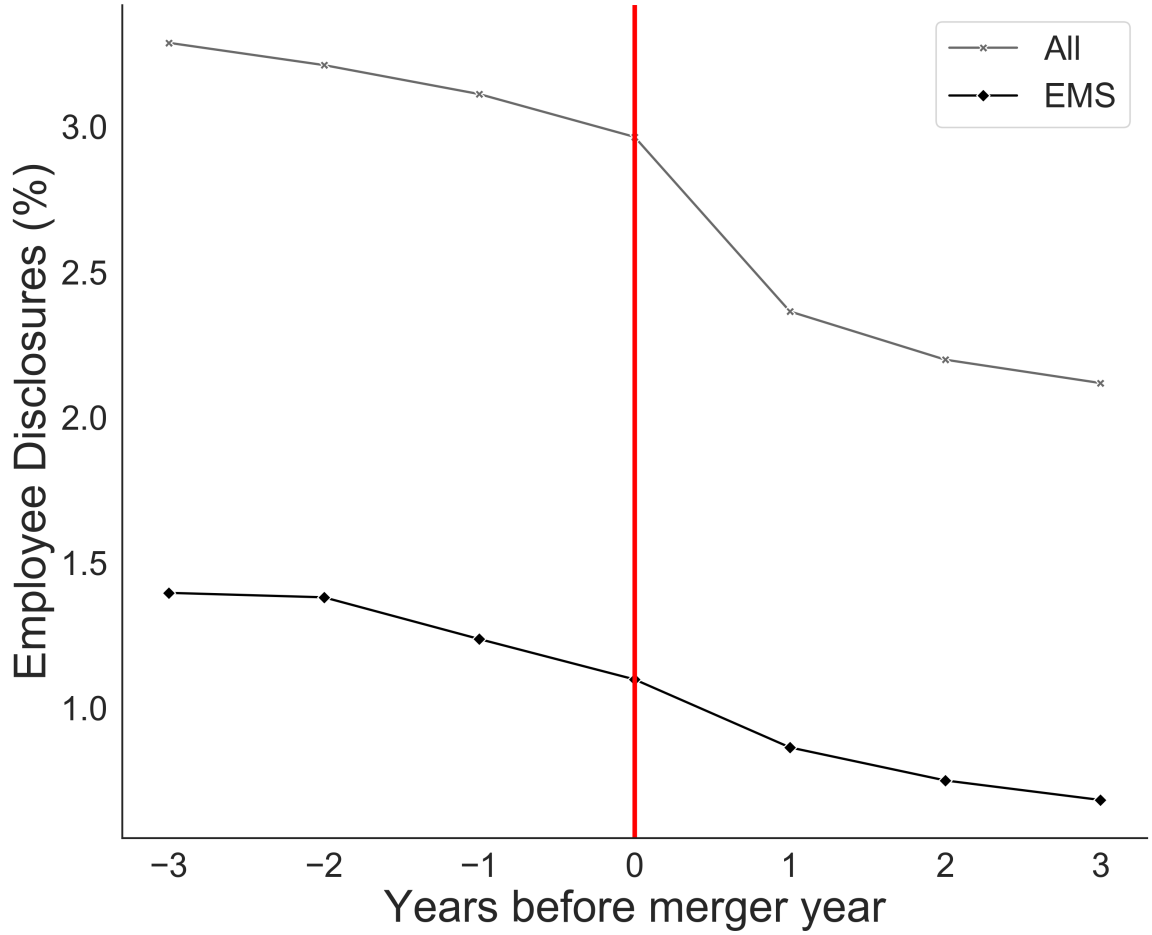


Figure 3: Mean Employee Disclosures of combined Target and Acquirer

This figure plots the average employee disclosures for the sample of investment advisory firms that merged in year zero. *Employee disclosures (%)* is the weighted average employee disclosures of the target and acquiring firm, where the weights are based on the number of advisers at each firm. The "All" measure of is the count across FINRA's 23 categories of disclosure events for each registered representative over the past two years (including the current year) divided by the total number of employees working for the advisory firm in that year. The "EMS" measure includes only six (of the 23) categories of misconduct that Egan et al. (2019) consider to be the most indicative of employee misconduct.

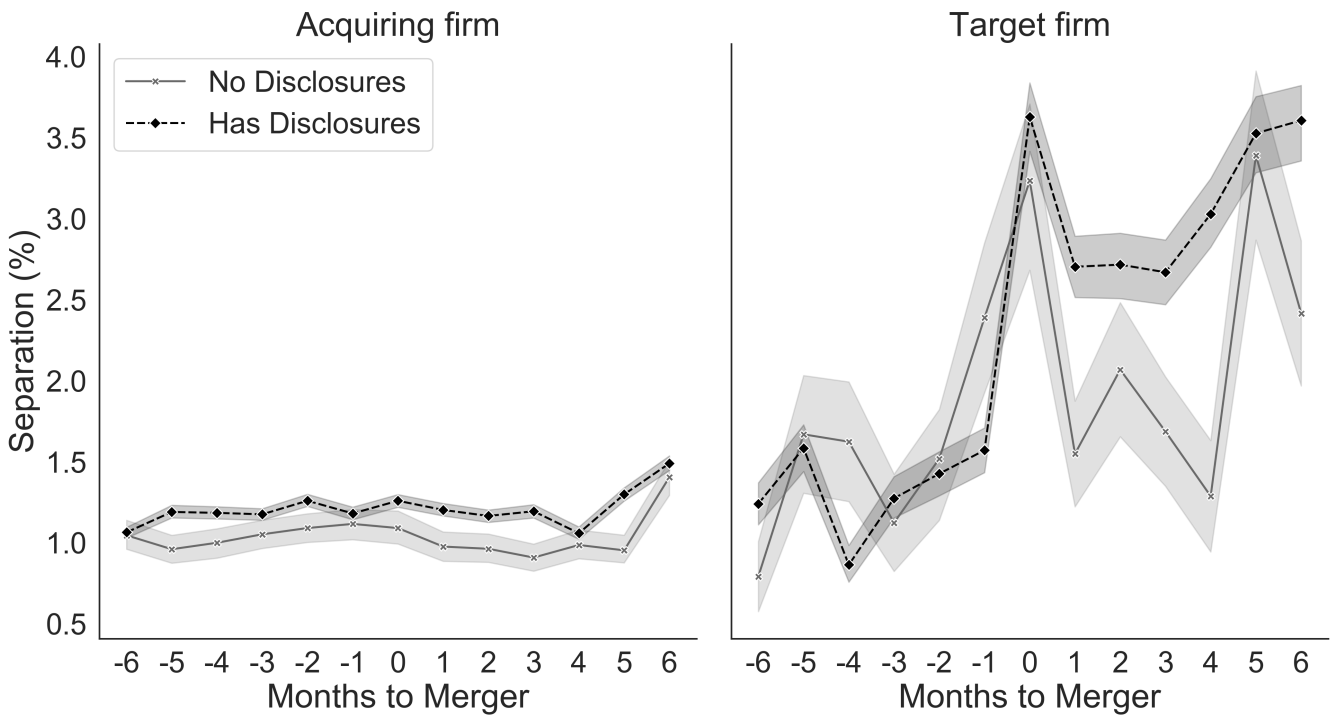
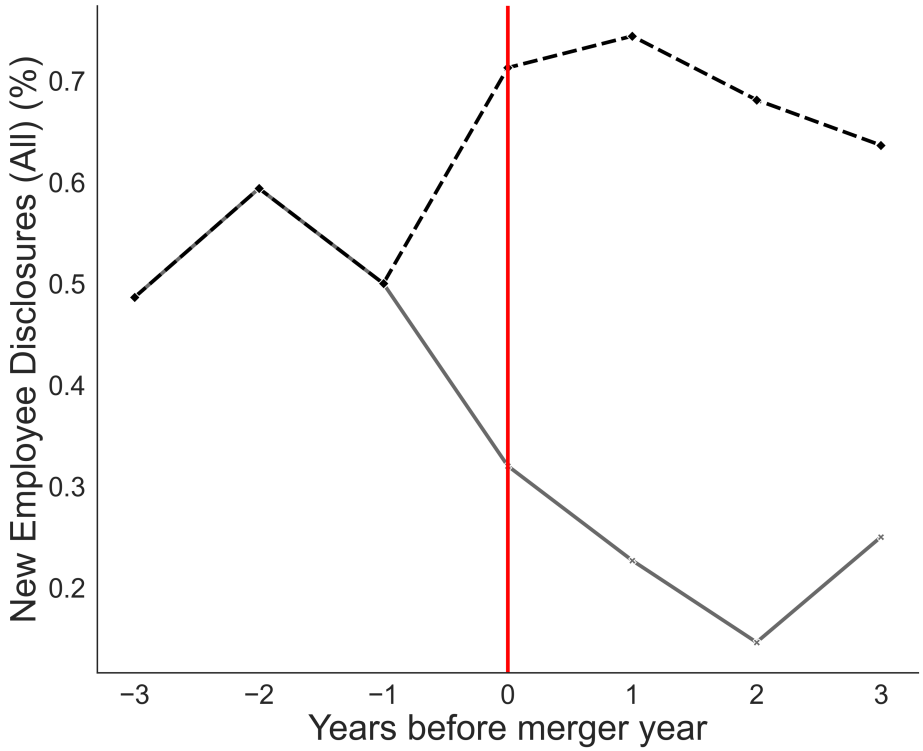
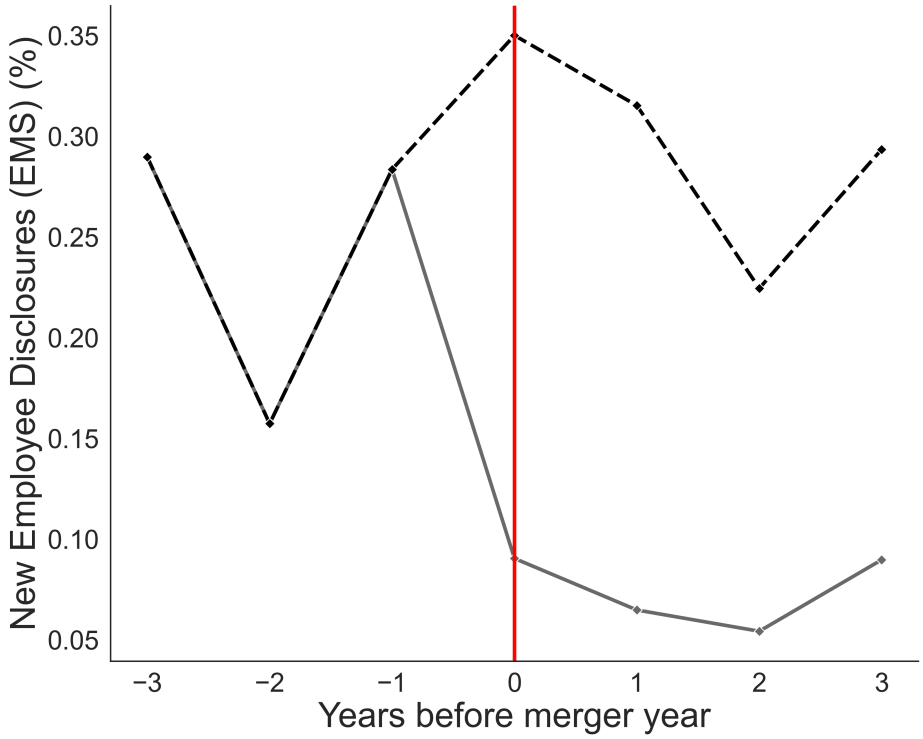


Figure 4: Employment separation by employees of the target and acquiring firms

This figure plots the monthly probability of employment separation for target and acquiring firm employees during the six months before and after the merger event for the 193 mergers for which we have the exact transaction date. *Has Disclosures* is an indicator that equals one if an employee of the target or acquirer has one of FINRA's 23 categories of disclosures over the past two years (including the current year).



Panel A: All Disclosures



Panel B: EMS Misconduct

Figure 5: This figure shows the time series of new (annual) disclosure events from years -3 to +3 relative to merger year 0. ***Counterfactual*** is the time series of new disclosures when we include the disclosures of the employees of the pre-merger target and acquiring firm that separated from the combined firm following the merger. ***Actual*** is the time series of new disclosures when we *exclude* the employees of the target or acquirer that separated following the merger (i.e., we include only actual employees). Panel A shows new disclosure events for the "All" measure, and Panel B shows new misconduct events for the "EMS" measure. The "All" measure is the count of disclosures across FINRA's 23 categories of disclosure events for each registered representative in the current year, divided by the total number of employees working for the advisory firm in that year. The "EMS" measure includes only six (of the 23) categories of disclosures that Egan et al. (2019) consider to be the least ambiguous cases of employee misconduct.

Table I: Sample of merger events, by year and data source

This tables reports the number of mergers in our sample over time, split by data source.

Year	Investment News	PitchBook and SDC	ADV-W	Total
2004	0	1	0	1
2005	0	1	0	1
2006	0	3	0	3
2007	0	13	0	13
2008	0	9	0	9
2009	0	9	0	9
2010	0	13	0	13
2011	1	14	1	16
2012	2	13	1	16
2013	2	17	6	25
2014	0	16	3	19
2015	2	29	9	40
2016	3	37	8	48
2017	4	35	9	48
2018	6	38	11	55
2019	17	66	0	83
2020	10	10	0	20
Total	47	324	48	419

Table II: Characteristics of targets and acquirers

This table reports statistics of investment advisory firms that were in a merger from 2004 to 2020. *Employee Disclosures (All)* is the count of the disclosures across 23 categories of disciplinary events for each adviser over the past two years (including the current year) divided by the total number of employees working for the advisory firm in that year. *Employee misconduct (Egan)* includes only six (of the 23) categories of disclosures that Egan et al. (2019) consider to be the least ambiguous cases of employee misconduct. *Disclosure growth* and *Misconduct growth* is the difference between the total number of disclosures for all employees in the current year and the previous year divided by the current number of employees working for the advisory firm. The table reports statistics for targets and acquirers separately. Each characteristic of the target and acquirer is for the year before the merger. *Diff* is the standardized mean difference between a given characteristic for an acquirer and a target. Standardized differences facilitate comparison of differences across rows.

	Target		**Acquirer**		**Tests**	
	N = 419		**N = 419**			
	Mean	Std. Dev.	Mean	Std. Dev.	Diff	T-stat
# Employees	74.26	485.70	544.54	2507.61	0.26	3.77***
Employee disclosures (All)	1.55	7.77	2.15	5.01	0.09	1.33
Employee misconduct (EMS)	0.73	5.26	0.96	3.42	0.05	0.75
Disclosure growth (All)	0.31	1.77	0.75	1.95	0.23	3.37***
Misconduct growth (EMS)	0.12	0.75	0.30	1.09	0.18	2.66***
AUM ($ Billions)	3.34	26.24	24.49	63.85	0.43	6.27***
AUM growth	19.17	77.11	38.54	111.86	0.20	2.92***
# Clients (000s)	2.08	8.88	40.95	160.36	0.34	4.95***
Client growth	25.86	97.42	44.31	127.14	0.16	2.36**

Table III: Is misconduct value-relevant in the investment advisory industry?

This table reports regression estimates of the relationship between past employee misconduct and future AUM, change in AUM, and firm closure. The sample includes all investment advisory firms filing Form ADV from 2001 to 2020 for which we have data on employees from BrokerCheck or IAPD. The dependent variable in Panel A is the log of assets under management ($Ln(AUM)_{t+1}$). In Panel B, the dependent variable is the percent *change* in assets under management from year t to year $t+1$ ($\mathbf{\Delta AUM}_{t+1}$). The dependent in Panel C is an indicator that equals one if a firm files a Form ADV-W with the SEC citing closing the business or ceasing activities in the advisory business as a reason for closure ($Failed_{t+1}$). *Employee Disclosures (All)* is the count of disclosures across the 23 categories of disciplinary events from Egan et al. (2019) for each adviser over the past two years (including the current year) divided by the total number of employees working for the advisory firm in that year. *Employee misconduct (EMS)* includes only six (of the 23) categories of disciplinary events that Egan et al. (2019) consider to be the most indicative of employee misconduct. *Line of business FE* are indicators for the advisory firm's line of business, as reported on Form ADV. We cluster standard errors, which we report in parentheses, by advisory firm. $^{***}p < 0.01$ denotes significance at the 1% level, $^{**}p < 0.05$ denotes significance at the 5% level, and $^{*}p < 0.10$ denotes significance at the 10% level.

Panel A:	**Ln(AUM)$_{t+1}$**			
	(1)	(2)	(3)	(4)
Employees misconduct (All)	-0.085***	-0.068***		
	(0.009)	(0.009)		
Employees misconduct (EMS)			-0.076***	-0.054***
			(0.010)	(0.008)
Retail clients		-0.404***		-0.406***
		(0.020)		(0.020)
Ln(Firm Age)		0.459***		0.461***
		(0.010)		(0.010)
Ln(Number of employees)		0.577***		0.576***
		(0.016)		(0.016)
Observations	112719	112719	112719	112719
Adjusted R^2	0.274	0.463	0.273	0.463
Year FE?	X	X	X	X
Line of business FE?	X	X	X	X
Panel B:	**ΔAUM$_{t+1}$**			
	(1)	(2)	(3)	(4)
Δ Employee disclosures (All)$_t$	-0.265***	-0.473***		
	(0.082)	(0.089)		
Δ Employee misconduct (EMS)$_t$			-0.294***	-0.426***
			(0.085)	(0.094)
Retail clients		-0.686***		-0.696***
		(0.187)		(0.187)
Ln(Firm Age)		-5.147***		-5.141***
		(0.107)		(0.107)
Ln(Number of employees)		2.870***		2.861***
		(0.108)		(0.108)
Observations	98188	98188	98188	98188
Adjusted R^2	0.146	0.185	0.146	0.185
Year FE?	X	X	X	X
Line of business FE?	X	X	X	X

Table III - *continued*

Panel C:	$\mathbb{1}$**(Failed)**$_{t+1}$			
	(1)	(2)	(3)	(4)
Employees misconduct (All)	0.136***	0.095***		
	(0.036)	(0.036)		
Employees misconduct (EMS)			0.131***	0.080**
			(0.035)	(0.034)
Retail clients		-0.335***		-0.101
		(0.071)		(0.069)
Ln(Assets under management)		-0.531***		-0.797***
		(0.042)		(0.053)
Ln(Firm Age)		0.001		0.019
		(0.031)		(0.031)
Ln(Number of employees)		0.113***		0.258***
		(0.035)		(0.038)
Observations	112719	112719	112719	112719
Adjusted R^2	0.004	0.007	0.007	0.010
Year FE?	X	X	X	X
Line of business FE?	X	X	X	X

Table IV: Is misconduct relevant in M&A? Predicting targets

This table reports estimates from a linear probability model, predicting the probability that an advisory firm is acquired in a given year. *Target* is an indicator that equals one if an advisory firm is acquired between 2004 to 2020. *Employee Disclosures (All)* is the count of disclosures across the 23 categories of disciplinary events from Egan et al. (2019), for each adviser over the past two years (including the current year) divided by the total number of employees working for the advisory firm in that year. *Employee misconduct (EMS)* includes only six (of the 23) categories of misconduct that Egan et al. (2019) consider to be the least ambiguous cases of employee misconduct. *Line of business FE* are indicators for the advisory firm's line of business, as reported on Form ADV. We cluster standard errors, which we report in parentheses, by advisory firm. $^{***}p < 0.01$ denotes significance at the 1% level, $^{**}p < 0.05$ denotes significance at the 5% level, and $^{*}p < 0.10$ denotes significance at the 10% level.

$\mathbb{1}$**(Target)** $\times$ 100				
	(1)	(2)	(3)	(4)
Employees with misconduct (All)	-0.057***	-0.040***		
	(0.009)	(0.009)		
Employees with misconduct (EMS)			-0.047***	-0.032***
			(0.009)	(0.008)
Retail clients		-0.189***		-0.190***
		(0.048)		(0.048)
Ln(Assets under management)		0.174***		0.176***
		(0.030)		(0.030)
Ln(Firm Age)		0.121***		0.122***
		(0.022)		(0.022)
Ln(Number of employees)		0.066**		0.065**
		(0.030)		(0.030)
Observations	103334	103334	103334	103334
Adjusted R^2	0.003	0.004	0.003	0.004
Year FE?	X	X	X	X
Line of business FE?	X	X	X	X

Table V: Is misconduct relevant in M&A? Predicting acquirers

This table reports estimates from a linear probability model, predicting the probability that an advisory firm makes an acquisition in a given year. *Acquirer* is an indicator that equals one if an advisory firm makes an acquisition between 2004 to 2020. *Employee Disclosures (All)* is the count of disclosures across the 23 categories of disciplinary events in the FINRA data for each adviser over the past two years (including the current year) divided by the total number of employees working for the advisory firm in that year. *Employee misconduct (EMS)* includes only six (of the 23) categories of disciplinary events that Egan et al. (2019) consider to be the most indicative of employee misconduct. *Line of business FE* are indicators for the advisory firm's line of business, as reported on Form ADV. We cluster standard errors, which we report in parentheses, by advisory firm. $^{***}p < 0.01$ denotes significance at the 1% level, $^{**}p < 0.05$ denotes significance at the 5% level, and $^{*}p < 0.10$ denotes significance at the 10% level.

$\mathbb{1}$**(Acquirer)** $\times$ 100				
	(1)	(2)	(3)	(4)
Employees misconduct (All)	-0.026***	-0.015**		
	(0.007)	(0.006)		
Employees misconduct (EMS)			-0.023***	-0.006
			(0.006)	(0.005)
Retail clients		-0.038		-0.039
		(0.052)		(0.052)
Ln(Assets under management)		0.444***		0.445***
		(0.052)		(0.052)
Ln(Firm Age)		-0.113***		-0.113***
		(0.026)		(0.026)
Ln(Number of employees)		0.388***		0.388***
		(0.057)		(0.057)
Observations	103334	103334	103334	103334
Adjusted R^2	0.004	0.013	0.004	0.013
Year FE?	X	X	X	X
Line of business FE?	X	X	X	X

Table VI: Matching on Misconduct (Sample of Targets and Acquirers)

This table reports estimates from a linear probability model predicting the probability that a pair of firms will merge in a given year. A unit of observation is a target-acquirer pair. For each year, we create counterfactual mergers—pairings every target with all potential acquirers in that year. For example, there are 16 mergers in the sample in 2012. The total number of observations for 2012 is 16 × 16, where 16 is the total number of unique acquirers in 2012 and 16 is the number of targets. To predict the effect of target and acquirer misconduct similarity on the probability that they merge, we combine the misconduct of the target and acquirer by taking the absolute difference between the fraction of acquirer employees with misconduct and fraction of target employees with misconduct ($|Misconduct(Acq - Tar)|$). This difference is for the year preceding the year of the merger. *All* is the count of disclosures across the 23 categories of disciplinary events from Egan et al. (2019), for each adviser over the past two years (including the current year) divided by the total number of employees working for the advisory firm in that year. *(EMS)* includes only six (of the 23) categories of disciplinary events that Egan et al. (2019) consider to be the most indicative of employee misconduct. We combine *Assets under management*, *Firm Age*, and *Number of employees* by taking the absolute difference of acquirer and target values. *Same state* (*Retail Clients*) is an indicator that equals one if the target and acquirer are headquartered in the same state (are both retail focused). *Matching Line of business FE* are indicators that equals one when the target-acquirer dyad are both in a given line of business, where the lines of business are as reported on Form ADV. We cluster standard errors, which we report in parentheses, by advisory firm. $^{***}p < 0.01$ denotes significance at the 1% level, $^{**}p < 0.05$ denotes significance at the 5% level, and $^{*}p < 0.10$ denotes significance at the 10% level.

	$\mathbb{1}$**(Merged)** × 100			
	(1)	(2)	(3)	(4)
|Misconduct(Acq − Tar (All))|	-0.382***	-0.274***		
	(0.080)	(0.087)		
|Misconduct(Acq − Tar (EMS)|			-0.312***	-0.239***
			(0.077)	(0.084)
Retail clients		0.762***		0.799***
		(0.222)		(0.220)
|Ln(AUM Acq) − Ln(AUM Tar)|		-0.118		-0.123
		(0.096)		(0.097)
|Ln(Age Acq) − Ln(Age Tar)|		-0.101		-0.097
		(0.099)		(0.099)
|Ln(Emp Acq) − Ln(Emp Tar)|		-0.089		-0.120
		(0.110)		(0.109)
Same state		10.862***		10.859***
		(1.011)		(1.011)
Observations	18529	18529	18529	18529
Adjusted R^2	0.019	0.049	0.018	0.049
Year FE?	X	X	X	X
Matching Line of business FE?	X	X	X	X

Table VII: Characteristics of combined target and acquirer pre and post merger

This table reports statistics of investment advisory firms that were in a merger from 2004 to 2019. The table reports statistics for the combined advisory firms three years before and three years after the merger, *Post Merger*. Before the merger, we combine characteristics for the target and acquirer as follows: First, we combine *Employees*, *AUM*, and *Clients* by summing these characteristics for the target and acquirer in each year. Second, we combine *Employee misconduct (All)*, *Employee misconduct (EMS)*, *Disclosure growth (all)*, *Misconduct growth (EMS)*, *AUM growth*, and *Client growth* by taking the weighted average of each characteristic for the target and acquirer, weighted by the number of employees. Our sample of mergers ends in 2019 so that we have at least one year of data post merger. *Disclosure Growth* and *Misconduct growth* are calculated as the difference between the total number of disclosures for all employees in the current year and the previous year divided by the current number of employees working for the advisory firm. *Diff* is the standardized mean difference between a given characteristic for an acquirer and a target. Standardized differences facilitate comparison of differences across rows.

	Pre Merger		**Post Merger**		**Tests**	
	N = 389		**N = 389**			
	Mean	Std. Dev.	Mean	Std. Dev.	Diff	T-stat
# Employees	529.18	2070.82	571.90	2090.91	0.02	0.29
Employee disclosures (All)	2.09	3.05	1.56	2.69	-0.18	-2.56**
Employee misconduct (EMS)	0.88	1.63	0.58	1.20	-0.21	-2.95***
Disclosure growth (All)	0.67	1.09	0.47	0.98	-0.19	-2.62***
Misconduct growth (EMS)	0.28	0.54	0.16	0.40	-0.24	-3.39***
AUM ($ Billions)	25.54	70.36	36.76	97.96	0.13	1.83*
AUM growth	30.98	42.13	32.43	43.23	0.03	0.47
# Clients (000s)	38.32	142.84	49.33	162.70	0.07	1.00
Client growth	37.29	53.00	34.07	50.52	-0.06	-0.87

Table VIII: Characteristics of combined placebo target and acquirer pre and post merger

This table reports statistics pseudo merged firms. To create the sample, we first create the following variables: an indicator that equals one for firms with above median employee disclosures (Misconduct), above median change in disclosures (Misconduct Change), number of employees decile (Employee Decile), and state where the advisory firm is headquartered (State). Then we match each target or acquirer to advisory firms that were never in a merger on Misconduct, Misconduct Change, Employee Decile, State, and year, where year is the year of the merger. Within the set of matched firms, we keep the firm with the closest level of employee misconduct. We create pseudo mergers by combining the matched target to the matched acquiring firm. The sample size for the pseudo mergers is 17% lower than the number of real mergers because we could not find a match for every target-acquirer pair. The table reports statistics for these combined pseudo advisory firms three years before and three years following the merger, *Post Merger*. Before the merger, we combine characteristics for the target and acquirer as follows: First, we combine *Employees*, *AUM*, and *Clients* by summing these characteristics for the pseudo target and acquirer in each year. Second, we combine *Employee Disclosure (All)*, *Employee misconduct (EMS)*, *Disclosure growth (all)*, *Misconduct growth (EMS)*, *AUM growth*, and *Client growth* by taking the weighted average of each characteristic for the pseudo target and acquirer, where the weight is the number of employees. Our sample of mergers ends in 2019 so that we have at least one year of data post merger. *Disclosure growth* and *Misconduct growth* are calculated as the difference between the total number of disclosures for all employees in the current year and the previous year divided by the current number of employees working for the advisory firm. *Diff* is the standardized mean difference between a given characteristic for an acquirer and a target. Standardized differences facilitate comparison of differences across rows.

	Pre Merger		**Post Merger**		**Tests**	
	N = 322		**N = 322**			
	Mean	Std. Dev.	Mean	Std. Dev.	Diff	T-stat
# Employees	197.42	500.16	196.38	466.27	-0.00	-0.03
Employee disclosures (All)	3.31	4.62	3.01	4.51	-0.06	-0.82
Employee misconduct (EMS)	1.49	2.65	1.43	2.93	-0.02	-0.27
Disclosure growth (All)	1.06	1.66	0.96	1.60	-0.06	-0.81
Misconduct growth (EMS)	0.46	0.90	0.40	0.86	-0.08	-0.96
AUM ($ Billions)	16.74	44.14	21.52	58.39	0.09	1.17
AUM growth	45.67	78.42	20.42	24.57	-0.43	-5.51***
# Clients (000s)	11.91	31.45	14.42	35.23	0.08	0.95
Client growth	51.02	90.06	22.81	43.29	-0.40	-5.07***

Table IX: Post Merger Misconduct

This table reports estimates from a regression predicting disciplinary disclosures of the combined target and acquiring firm (***Merged***) relative to a pseudo merged firm. A unit of observation is a real or pseudo target-acquirer pair three years before and three years following the merger. To create the pseudo merged firm, we first create the following variables: an indicator that equals one for firms with above median employee disclosures (Disclosures), above median change in disclosures (Disclosure Change), employee decile (Employee Decile), and state where the advisory firm is headquartered (State). Then we match each target or acquirer to advisory firms that were never in a merger on Disclosure, Disclosure Change, Employee Decile, State, and year, where year is the year of the merger. Within the set of matched firms, we keep the firm with the closest level of employee misconduct. We create pseudo mergers by combining the matched target to the matched acquiring firm. The number of pseudo mergers are lower that the number of real mergers because we could not find a match for every target-acquirer pair. Each year, we combine misconduct of the merged pair by taking the weighted average employee misconduct of the target and acquiring firm. *Post* is an indicator for the years following the merger. *Flow Disclosure All* is the count of new disclosures (only in year t) in the 23 categories of disciplinary events from Egan et al. (2019), for each adviser in a given year divided by the total number of employees working for the advisory firm in that year. *Flow Disclosure EMS* includes only six (of the 23) categories of new disciplinary events (in year t) that Egan et al. (2019) consider to be most indicative of employee misconduct. We cluster standard errors, which we report in parentheses, by target-acquirer pair. $^{***}p < 0.01$ denotes significance at the 1% level, $^{**}p < 0.05$ denotes significance at the 5% level, and $^{*}p < 0.10$ denotes significance at the 10% level.

	Flow Disclosure All		**Flow Misconduct EMS**	
	(1)	(2)	(3)	(4)
Merged X Post	-0.299**	-0.366***	-0.158*	-0.186**
	(0.124)	(0.123)	(0.083)	(0.082)
Merged	-0.398***	-0.456***	-0.227***	-0.252***
	(0.081)	(0.084)	(0.055)	(0.056)
Post	0.452***	0.486***	0.258***	0.271***
	(0.147)	(0.145)	(0.097)	(0.097)
Ln(Employees)		0.530***		0.220***
		(0.049)		(0.027)
Observations	4048	4048	4048	4048
Adjusted R^2	0.053	0.121	0.034	0.065
Year FE?	X	X	X	X

Table X: How does M&A Discipline Employees? (Sample of Targets and Acquirers)

This table reports estimates from a linear probability model predicting the probability that a registered investment advisor leaves their current job. The dependent variable is *Separation*, an indicator set equal to one if a representative that worked for the target or acquirer in year t no longer works there in year $t+1$. The *Separation* indicator is zero for target firm employees that move to the acquiring firm following the merger. The sample includes all advisers working either for the target or acquirer in the three years preceding the merger year and the regressions are run at the individual advisor-year level. We estimate the model for years -3 to +3 relative to the merger event at t=0. Panel A shows results for the target firm employees and Panel B shows results for acquiring firm employees. *Employee Disclosure (All)* is an indicator that equals one if the adviser has a disclosure of any of the 23 categories of disciplinary events from Egan et al. (2019), over the past two years (including the current year). *Employee misconduct (EMS)* is an indicator that equals one if the adviser has a disclosure of any one of the six categories of disciplinary events defined as misconduct in Egan et al. (2019). *Post* is an indicator that equals one for the year of the merger and the three years following the merger. *Firm × Year FE* are target or acquiring firm by year fixed effects. We cluster standard errors, which we report in parentheses, by firm. $^{***}p < 0.01$ denotes significance at the 1% level, $^{**}p < 0.05$ denotes significance at the 5% level, and $^{*}p < 0.10$ denotes significance at the 10% level.

	$\mathbb{1}$**(Separation)**$_{t+1}$			
Panel A	**Target Employees**			
	(1)	(2)	(3)	(4)
Employee disclosures (All) × Post	1.079**	1.101**		
	(0.481)	(0.489)		
Employee misconduct (EMS) × Post			1.483***	1.526***
			(0.384)	(0.402)
Employee disclosures (All)	0.222	0.372		
	(0.343)	(0.348)		
Employee misconduct (EMS)			0.250	0.362
			(0.361)	(0.365)
Ln(experience)		-2.130***		-2.123***
		(0.349)		(0.345)
Ln(# Qualifications)		-0.700		-0.697
		(0.594)		(0.595)
Observations	143,619	143,619	143,619	143,619
Adjusted R^2	0.053	0.058	0.053	0.058
Target Firm × Year FE?	X	X	X	X
Panel B	**Acquirer Employees**			
Employee disclosures (All) × Post	0.615**	0.560*		
	(0.272)	(0.288)		
Employee misconduct (EMS) × Post			0.808	0.786
			(0.518)	(0.537)
Employee disclosures (All)	0.770**	0.948***		
	(0.309)	(0.299)		
Employee misconduct (EMS)			0.931**	1.046**
			(0.433)	(0.444)
Ln(experience)		-1.691***		-1.674***
		(0.587)		(0.583)
Ln(# Qualifications)		-1.223**		-1.223**
		(0.540)		(0.538)
Observations	734,822	734,822	734,822	734,822
Adjusted R^2	0.213	0.217	0.213	0.218
Acquiring Firm × Year FE?	X	X	X	X

Misconduct Synergies

Internet Appendix

Table A.1: Is the drop in misconduct value-relevant?

This table reports regression estimates of the relationship between past employee misconduct and the change in future AUM for our sample of mergers. The sample includes investment advisory firms in mergers from 2004 to 2019 for which we could collect data on employee misconduct from BrokerCheck or IAPD and AUM data from Form ADV. These regressions are for three years before the merger to three years following the merger. For these tests, we end our merger sample in 2019 so we have at least one year of post-merger data for 2019 mergers. The dependent variable is the percent *change* in assets under management from year t to year $t+1$ divided by assets in year t ($\Delta\mathbf{AUM}_{t+1}$). *Employee Disclosure (All)* is an indicator that equals one if the registered representative has any of the 23 categories of disciplinary events from Egan et al. (2019), over the past two years (including the current year). *Employee misconduct (EMS)* is an indicator that equals one if the representative has any of the six (of the 23) categories of disciplinary events defined as misconduct in Egan et al. (2019). These measures of misconduct are the change in misconduct from $t-1$ to t. *Line of business FE* are indicators for the advisory firm's line of business, as reported on Form ADV. We cluster standard errors, which we report in parentheses, by acquiring firm. $^{***}p < 0.01$ denotes significance at the 1% level, $^{**}p < 0.05$ denotes significance at the 5% level, and $^{*}p < 0.10$ denotes significance at the 10% level.

	$\Delta\mathbf{AUM}_{t+1}$			
	(1)	(2)	(3)	(4)
Δ Employee disclosures (All)	-1.336	-1.229		
	(0.823)	(0.812)		
Δ Employee misconduct (EMS)			-1.962**	-2.060**
			(0.909)	(0.881)
Retail Clients		3.408		3.413
		(3.290)		(3.282)
Ln(Firm Age)		-13.579***		-13.617***
		(3.219)		(3.219)
Ln(Number of employees)		3.178*		3.116*
		(1.734)		(1.732)
Observations	1427	1427	1427	1427
Adjusted R^2	0.088	0.165	0.089	0.167
Year FE?	X	X	X	X
Line of business FE?	X	X	X	X

Table A.2: How does M&A Discipline Employees? (Does Acquirer Misconduct Matter?)

This table reports estimates from a linear probability model, predicting the probability that a registered investment advisor leaves their current job. The dependent variable is *Separation*, an indicator set equal to one if a representative that worked for the target or acquirer in year t no longer works there in year $t+1$. The *Separation* indicator is zero for target firm employees that move to the acquiring firm following the merger. The sample includes all registered representatives working either for the target or acquirer in the three years preceding the merger year and the regressions are run at the individual advisor-year level. We estimate the model for years -3 to +3 relative to the merger event at t=0. Panel A shows results for the target firm employees and Panel B shows results for acquiring firm employees. *Employee Disclosure (All)* is an indicator that equals one if the registered representative has any of the 23 categories of disciplinary events from Egan et al. (2019), over the past two years (including the current year). *Employee misconduct (EMS)* is an indicator that equals one if the representative has any of the six categories of disciplinary events defined as misconduct in Egan et al. (2019). *Post* is an indicator that equals one for the year of the merger and the three years following the merger. Each merger year, we sort all acquirers on *Employee Disclosure (All)* measured in the year before the merger and define an indicator, *HDA* (high disclosures acquirer), that equals one if the acquirer has above median employee disclosures. Note that *HDA*×*Post* and *Post* are absorbed by target firm by year fixed effects, *Target Firm* × *Year FE*. We cluster standard errors, which we report in parentheses, by firm. $^{***}p < 0.01$ denotes significance at the 1% level, $^{**}p < 0.05$ denotes significance at the 5% level, and $^{*}p < 0.10$ denotes significance at the 10% level.

	$\mathbb{1}$**(Separation)**$_{t+1}$			
	(1)	(2)	(3)	(4)
Employees disclosures (All) × Post × HDA	2.632***	2.621***		
	(0.664)	(0.671)		
Employees misconduct (EMS) × Post × HDA			0.812	0.821
			(0.983)	(0.989)
Employees disclosures (All) × Post	-1.365***	-1.327***		
	(0.488)	(0.480)		
Employees misconduct (EMS) × Post			0.657	0.690
			(0.909)	(0.903)
Employees disclosures (All) × HDA	-1.501***	-1.510***		
	(0.490)	(0.499)		
Employees misconduct (EMS) × HDA			-1.249*	-1.364*
			(0.715)	(0.714)
Employees disclosures (All)	1.617***	1.779***		
	(0.381)	(0.378)		
Employees misconduct (EMS)			1.443**	1.667***
			(0.630)	(0.608)
Ln(experience)		-2.103***		-2.098***
		(0.367)		(0.363)
Ln(# Qualifications)		-0.757		-0.755
		(0.623)		(0.625)
Observations	143,619	143,619	143,619	143,619
Adjusted R^2	0.052	0.057	0.052	0.058
Target Firm × Year FE?	X	X	X	X

Table A.3: How does M&A Discipline Employees? (Acquirer sensitivity to disclosures)

This table reports estimates from a linear probability model, predicting the probability that a registered investment advisor leaves their current job. The dependent variable is *Separation*, an indicator set equal to one if a representative that worked for the target or acquirer in year t no longer works there in year $t+1$. The *Separation* indicator is zero for target firm employees that move to the acquiring firm following the merger. The sample includes all registered representatives working either for the target or acquirer in the three years preceding the merger year and the regressions are run at the individual advisor-year level. We estimate the model for years -3 to +3 relative to the merger event at t=0. Panel A shows results for the target firm employees and Panel B shows results for acquiring firm employees. *Employee Disclosure (All)* is an indicator that equals one if the registered representative has any of the 23 categories of disciplinary events from Egan et al. (2019), over the past two years (including the current year). *Employee misconduct (EMS)* is an indicator that equals one if the representative has any of the six categories of disciplinary events defined as misconduct in Egan et al. (2019). *Post* is an indicator that equals one for the year of the merger and the three years following the merger. Each merger year, we sort all targets on the how sensitive the acquiring firm is to employee disclosures and define an indicator, *HSD* (high sensitivity to disclosures), that equals one if the acquiring firm's disclosure layoff sensitivity is above-median. To construct the sensitivity to disclosure measure, for each acquirer, we run regressions predicting how sensitive the acquiring firm is to layoffs following disclosures using five years of pre-merger data at the employee-level and save the beta coefficient from a regression of year-ahead-separations on past employee disclosures. Note that *HSD*×*Post* and *Post* are absorbed by target firm by year fixed effects, *Target Firm* × *Year FE*. We cluster standard errors, which we report in parentheses, by firm. $^{***}p < 0.01$ denotes significance at the 1% level, $^{**}p < 0.05$ denotes significance at the 5% level, and $^{*}p < 0.10$ denotes significance at the 10% level.

	$\mathbb{1}$**(Separation)**$_{t+1}$			
	(1)	(2)	(3)	(4)
Employees disclosures (All) × Post × HSD	2.136***	2.132***		
	(0.600)	(0.589)		
Employees misconduct (EMS) × Post × HSD			1.948***	1.960***
			(0.684)	(0.673)
Employees disclosures (All) × Post	-0.479	-0.457		
	(0.506)	(0.493)		
Employees misconduct (EMS) × Post			-0.235	-0.209
			(0.626)	(0.612)
Employees disclosures (All) × HSD	-1.363***	-1.372***		
	(0.325)	(0.348)		
Employees misconduct (EMS) × HSD			-1.935***	-1.983***
			(0.586)	(0.578)
Employees disclosures (All)	1.319***	1.476***		
	(0.239)	(0.251)		
Employees misconduct (EMS)			1.959***	2.114***
			(0.542)	(0.527)
Ln(experience)		-2.132***		-2.126***
		(0.347)		(0.344)
Ln(# Qualifications)		-0.697		-0.699
		(0.593)		(0.595)
Observations	143,619	143,619	143,619	143,619
Adjusted R^2	0.053	0.058	0.054	0.059
Target Firm × Year FE?	X	X	X	X

Table A.4: How does M&A Discipline Employees? (Layoffs)

This table reports estimates from a linear probability model, predicting the probability that a registered investment advisor leaves their current job. The dependent variable is *Separation*, an indicator set equal to one if a representative that worked for the target or acquirer in year t no longer works there in year $t+1$. The *Separation* indicator is zero for target firm employees that move to the acquiring firm following the merger. The sample includes all registered representatives working either for the target or acquirer in the three years preceding the merger year and the regressions are run at the individual advisor-year level. We estimate the model for years -3 to +3 relative to the merger event at t=0. Panel A shows results for the target firm employees and Panel B shows results for acquiring firm employees. *Employee Disclosure (All)* is an indicator that equals one if the registered representative has any of the 23 categories of disciplinary events from Egan et al. (2019), over the past two years (including the current year). *Employee misconduct (EMS)* is an indicator that equals one if the representative has any of the six categories of disciplinary events defined as misconduct in Egan et al. (2019). *Post* is an indicator that equals one for the year of the merger and the three years following the merger. Each merger year, we sort all targets on the fraction of employees that are laid off following the merger and define an indicator, *HLO* (high layoffs), that equals one if the target has above median employee layoffs. Note that *HLO*×*Post* and *Post* are absorbed by target firm by year fixed effects, *Target Firm* × *Year FE*. We cluster standard errors, which we report in parentheses, by firm. $^{***}p < 0.01$ denotes significance at the 1% level, $^{**}p < 0.05$ denotes significance at the 5% level, and $^{*}p < 0.10$ denotes significance at the 10% level.

	$\mathbb{1}$**(Separation)**$_{t+1}$			
	(1)	(2)	(3)	(4)
Employees disclosures (All) × Post × HLO	0.358	0.271		
	(0.657)	(0.670)		
Employees misconduct (EMS) × Post × HLO			-0.621	-0.737
			(0.503)	(0.523)
Employees disclosures (All) × Post	0.739	0.796		
	(0.622)	(0.630)		
Employees misconduct (EMS) × Post			1.394***	1.487***
			(0.423)	(0.442)
Employees disclosures (All) × HLO	0.565	0.593		
	(0.381)	(0.391)		
Employees misconduct (EMS) × HLO			1.082***	1.106***
			(0.401)	(0.408)
Employees disclosures (All)	0.110	0.255		
	(0.344)	(0.345)		
Employees misconduct (EMS)			0.105	0.213
			(0.292)	(0.293)
Ln(experience)		-2.131***		-2.125***
		(0.350)		(0.347)
Ln(# Qualifications)		-0.697		-0.694
		(0.596)		(0.596)
Observations	143,619	143,619	143,619	143,619
Adjusted R^2	0.053	0.058	0.053	0.058
Target Firm × Year FE?	X	X	X	X