

ROUNDING PHENOMENON IN THE OTC MARKET

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ABSTRACT

This study investigates the rounding phenomenon in the over-the-counter (OTC) market and finds that similar to the firms listed in the major U.S. stock market, OTC listed firms tend to manipulate their reported earnings and revenues. The study also find that the rounding manipulation is more severe in the OTC market than in the major markets. Since 2000, the OTC Bulletin Board (OTCBB) market listed firms have been subject to mandated SEC disclosure requirements under the 1934 Securities Exchange Act. The study examines whether the mandatory disclosure requirements constrain the rounding manipulation phenomenon and finds evidence that the magnitude of rounding manipulations decreases after the enhanced regulations requirements. The results can help explain the existing findings that OTC investment return is severely negative.

Keywords: Rounding phenomenon, Benford's law, OTC market, financial disclosure.

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