Payout Financing and Announcements: How the Payout Gap Relates to the Market Reaction to Dividend Initiations and Omissions

DANIEL LUNDMARK

DEBARUN SENGUPTA

Master Thesis in Finance

Stockholm School of Economics

2026

Abstract:

Our thesis investigates the relationship between the existence of a payout gap, as defined by Farre-Mensa et al (2025), and the price reaction and the idiosyncratic volatility observed during dividend initiation and omission announcements. Analyzing publicly listed firms in the U.S. from 2005 to 2024 utilizing linear regressions, we find that the payout gap is moderately and negatively related to the three-day CAR, based on the definition by MacKinlay (1997), for initiation announcements. For omissions, we find some evidence that suggests firms with a payout gap in the prior year experience a less negative market reaction compared to firms without. Generally, the payout gap does not appear to be significantly related to idiosyncratic volatility, computed according to Ang et al (2006), for both initiations and omissions. However, the logarithmic value of the dividend amount last paid has a moderately significant and positive impact on idiosyncratic volatility observed during omissions. We also find evidence that the abnormal trading volume is significantly related to the three-day CAR and the idiosyncratic volatility observed for initiation and omission announcements.

Keywords:

Dividend Policy, Payout Financing, Price Reactions, Idiosyncratic Volatility, Trading Volume

Authors:

Daniel Lundmark (24901)

Debarun Sengupta (42882)

Tutor:

Riccardo Sabbatucci, Associate Professor, Department of Finance, Stockholm School of Economics

Examiner:

Gualtiero Azzalini, Assistant Professor, Department of Finance, Stockholm School of Economics

Acknowledgment:

We would like to express our genuine appreciation and gratitude to Riccardo Sabbatucci for his assistance and guidance throughout the research process.

Master Thesis

Master program in Finance

Stockholm School of Economics

Contents

1. Introduction

Consistent with conventional corporate payout theory, DeAngelo et al (2009) conclude after their review of the extensive literature on corporate payouts that payouts are mostly made by mature companies due to their strong and stable free cash flows. At the same time, relatively new research suggests that external sources of payout financing is a common phenomenon. In fact, Farre-Mensa et al (2025) find that, on average, as many as 43% of U.S. companies that distribute capital access external financing within the same year the payout took place. Moreover, not only do external sources of payout financing therefore mark a significant portion of firms' distributions, but the authors also find that the announcement returns upon dividend increases (cuts) are significantly lower (less negative) if such payouts have been consistently financed through debt in the past. We expand on Farre-Mensa et al (2025), who focus their market reaction analysis on announcements of payout increases and cuts in relation to the source of payout financing, by integrating a related strand of the literature, namely dividend initiations and omission announcements. Moreover, while Michaely et al (1995) find significantly positive (negative) returns for firms that announce the initiation (omission) of dividends more generally, we are interested in evaluating whether firms with a payout gap as defined by Farre-Mensa et al (2025) experience more subdued announcement returns than firms without a payout gap upon dividend initiations and omissions specifically.

In addition, we build on both the dividend initiation and omission literature as well as the payout financing literature by evaluating to what extent the existence of a payout gap is related to firms' idiosyncratic volatility, based on the methodology of Ang et al (2006), around its initiation and omission announcement dates. Moreover, we integrate a firm's abnormal trading volume during the event window to explain the market's behavior around the announcement event. As such, our paper makes three main contributions. First, we contribute to both the payout financing and dividend announcement literature. Here, we evaluate how the existence of a payout gap relates to the three-day cumulative abnormal return (CAR), which is computed based on the methodology by MacKinlay (1997), around the announcement of dividend initiations and omissions, specifically, as opposed to mere changes in the dividend level. Secondly, we also contribute to the literature on idiosyncratic volatility observed during firm announcements by evaluating if the source of payout financing is related to the idiosyncratic volatility upon such announcements. Third, by integrating

firms' abnormal trading volume during the three-day event window, we contribute to the literature on the relationship between trading volume and stock returns as well as volatility.

In this study, focusing on ordinary shares of listed firms incorporated in the US, we find evidence that may suggest that the existence of a payout gap in the year of dividend initiation is negatively and significantly related to the three-day CAR, around the announcement date. More specifically, we find evidence that firms with a payout gap in the year of initiation experience on average a 2.7 percentage points lower market-based three-day CAR, based on MacKinlay (1997), compared to firms without a payout gap, using a standard OLS specification. Furthermore, we also find evidence suggesting that the existence of a payout gap in the year preceding the dividend omission event is related to the announcement-window abnormal returns. More precisely, firms that omit their dividend and had a payout gap in the prior year experience on average a 4.8 percentage point higher three-day CAR in our fixed-effects regressions, utilizing the 3-factor model proposed by Fama and French (1993) rather than the market-based model. Moreover, we find that the abnormal trading volume is significantly and robustly related to the announcement abnormal returns for both our initiation and omission samples. Accordingly, we define the abnormal trading volume as the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. More so, every unit increase in the multiple is associated with an average three-day CAR increase of circa 1.3 percentage points for initiations, and a 2.6 to 2.9 percentage points lower three-day CAR for omission announcements.

Moreover, we find limited support that the existence of a payout gap is significantly related to idiosyncratic volatility around the announcement of initiations and omissions. However, the measure of abnormal trading volume is, in general, significantly and positively related to the idiosyncratic volatility observed during both initiation and omission announcements. Here, every unit increase in the abnormal trading volume multiple is associated with a higher idiosyncratic volatility of about 0.16-0.17 percentage points on average for the initiations, and around a 0.5-0.8 percentage point higher idiosyncratic volatility for omissions.

The remainder of this paper proceeds as follows. In section 2, we outline the related literature before describing the payout gap as a conceptual framework, based on the methodology

of Farre-Mensa et al (2025) in Section 3. Section 4 describes the data sources used, the sample selection procedure for each of the subsamples, and the empirical methodology in more detail. Section 5 outlines our findings and Section 6 provides a discussion of the results. Section 7 concludes our work.

2. Literature Review

As outlined in this section, the dividend literature is well substantiated with extensive research conducted in the past where numerous studies have examined reactions to dividend announcements, including first-time announcements (dividend initiations), dividend suspensions or omissions, and changes in the level of dividend paid. Complementary studies have investigated the underlying rationale for payout policy, with multiple theories being proposed to explain why firms pay dividends. Lintner (1956) was one of the first researchers who studied dividend policy and concluded that earnings drive the firm's dividend decisions. Building on the foundations of Lintner (1956), subsequent research has sought to characterize dividend-paying firms and dividend policy. Miller and Modigliani (1961) proposed that a company's dividend policy does not affect the stock value under perfect market conditions. Rather, the authors argue that the market reaction to dividend changes just reflects the earnings outlook held by the firm. Bhattacharya (1979) built on this premise and proposed that under informational asymmetry, cash dividends provide private information on expected cash flows.

Officer (2011) reports significantly higher abnormal returns upon announcements of dividend initiations for firms that exhibit operating cash flows (Tobin's Q) above (below) the industry median, compared to other firms that initiate dividends. These findings, highlighting common characteristics exhibited by large and mature firms, are consistent with the firm lifecycle theory as substantiated by Mueller (1972), which suggests that once a firm recognizes a lack of internal investment opportunities, it should start distributing cash to maximize shareholder value. The above supports the conventional view prevalent in the payout literature, which holds that dividends are primarily funded through internal cash flows (DeAngelo et al, 2009). Moreover, Fama and French (2001) document that, while the typical mature attributes of dividend-paying firms remained largely unchanged, the authors found a sharp decline from 66.5% to 20.8% in the fraction of firms that paid dividends during 1978-1999. This decrease can be contributed towards

an increase in the number of newly listed firms which have weaker profitability and high growth opportunities. Thus, we can observe that the general characteristics of publicly listed firms appear changed.

Given the observed shift in such characteristics, the extent to which external financing sustains payout activity in later time periods warrants further analysis. The findings of Farre-Mensa et al (2025), the study most closely related to our own, challenge the conventional view that companies finance distributions through internal cash. In particular, their observation that 43% of firms that distribute capital access external financing in the year of the payout, corresponding to 31% of the total distribution amount across listed companies in the U.S., demonstrates the scale of outside payout financing. The common occurrence of externally financed distributions therefore raises the question of whether the market treats dividend announcements from such firms differently compared to those that finance its distributions internally. Building on the analysis conducted by Farre-Mensa et al (2025) on dividend increases and cuts, this distinction motivates our empirical study on how the existence of a payout gap relates to announcements of dividend initiations and omissions.

There has been a consistent finding within the literature on the abnormal price reactions observed when firms change their payout policy, with initiations (omissions) announcements exhibiting positive (negative) returns. In a small sample of listed companies that have at least one traded bond, Dhillon and Johnson (1994) find upon announcements of dividend initiations a positive but insignificant standardized daily mean excess 2-day stock return and a significant negative return for omission announcements. In studying short-term price reactions upon dividend initiation and omission announcements based on a considerably larger sample, Michaely et al (1995) document three-day excess returns of around 3% for initiations and -7% for omissions, underscoring how differently the market interprets dividend omissions relative to initiations. This finding is consistent with Brav et al (2005), who highlight managerial concerns about adverse market reactions upon dividend decreases and omissions, marked by the low perceived flexibility of dividends compared to repurchases. More specifically, DeAngelo and DeAngelo (1990) highlight a higher managerial aversion to dividend omissions compared to dividend decreases. As such, this body of research suggests that the market reaction is particularly strong towards dividend omissions, and managers treat it as a last resort.

Earlier research by Healy and Palepu (1988) complements this evidence by showing that companies experience positive (negative) changes in earnings before and after dividend initiations (omissions). Moreover, in finding a decreased stock market reaction to announcements of earnings after the dividend policy was changed, the authors' conclusion that such policy events convey information to the market about managers' earnings forecasts is consistent with the above. Relatedly, investors also appear to take information about the financing source of prior dividends into account, as Farre-Mensa et al (2025) find a less positive market reaction upon announcements of dividend increases for companies that consistently used debt to fund their previous dividends. The above finding provides a motivation for studying the financing source for dividend initiations and omissions.

As the price reaction literature makes clear, dividend announcements constitute major information events. Moreover, Boudoukh et al (2019) show that firm-specific information is related to idiosyncratic volatility, and Engle et al (2021) extend this by demonstrating that the release of new information is linked to changes in idiosyncratic volatility. Earlier work by Ross (1989) and Andersen (1996) study the relationship between stock price volatility, volume, and information flow to the market, where they find that volume and volatility are driven by informational flow. This body of work motivates our examination of idiosyncratic, firm-specific risk during the announcement window, where the market processes new information about a firm's financing and payout decisions simultaneously.

3. The Payout Gap as a Conceptual Framework

A firm's total payout according to Farre-Mensa et al (2025) in a year is defined as the sum of regular dividends, share repurchases, and special dividends. To finance the payout, the firm can use its free cash flow, issue debt and new shares to shareholders and employees, and allow a change in the level of cash. As such, the total shareholder payout of a firm is defined by the authors as follows:

$$TP_{i,t} = FCF_{i,t} - CC_{i,t} + SI_{i,t} + EE_{i,t} \quad (1)$$

where: $TP_{i,t}$: Total Payout, $FCF_{i,t}$: Free Cash Flow, $CC_{i,t}$: Change in Cash, $SI_{i,t}$: Firm-initiated security issues, and $EE_{i,t}$: Employee-initiated equity issues for firm *i* in year *t*. We refer to Exhibit 1 within the Appendix for a thorough review of the underlying components required for these calculations.

Consistent with Farre-Mensa et al (2025), we measure the external capital the firm may require to at least partly finance its payouts as denoted by the total payout gap of the firm in a year, according to the following:

$$PGAP_{i,t} = \min\{\max\{TP_{i,t} - (FCF_{i,t} + CR_{i,t} + EE_{i,t}), 0\}, TP_{i,t}\} \quad (2)$$

where $PGAP_{i,t}$ is the total payout gap, and $CR_{i,t} = -\min\{CC_{i,t}, 0\}$, i.e., the potential reduction in a firm's level of cash as the cash level decreases if $CC_{i,t} < 0$. It should be noted that we measure the payout gap for omissions in the prior year in which the firm had a payout, given that a firm that omits a dividend in a particular year may not have a payout, and therefore no payout gap.

To illustrate how the payout gap works, we provide an example based on the above methodology. Say a firm has a total payout $TP_{i,t} = 100$, free cash flow $FCF_{i,t} = 25$, a security issue initiated by the firm $SI_{i,t} = 65$, and no employee-initiated issues ($EE_{i,t} = 0$). Then, it follows from *(1)* that: $CC_{i,t} = FCF_{i,t} - TP_{i,t} + SI_{i,t} + EE_{i,t} = 25 - 100 + 65 + 0 = -10$, i.e., cash is reduced by 10. Utilizing *(2)* the total payout gap is $PGAP_{i,t} = \min\{\max\{100 - (25 + 10 + 0), 0\}, 100\} = 65$, i.e., the required external financing is therefore 65, corresponding to the value of the firm-initiated security issue.

For this study, the above framework provides an easy way to differentiate between dividend-paying firms that require external financing versus those that do not, where the total payout gap for a firm that doesn't require external financing will be equal to zero.

4. Data and Methodology

4.1. Sample Selection

We start our sample selection process using the Distribution Information data from the Center for Research in Security Prices (CRSP), which we access from Wharton Research Data Services. We retrieve all historical dividends available for firms that are/were listed on the New York Stock Exchange, American Exchange and Nasdaq, covering the time period 1926-2026. Throughout our analysis, we focus on regular dividends. These are identified using the CRSP distribution codes for special dividends as laid out by Farre-Mensa et al (n.d.) and presented in Exhibit 1. Furthermore, consistent with Farre-Mensa et al (2025), we remove financial firms and utilities firms by excluding SIC codes 6 and 49, respectively. Both distribution codes and SIC codes are available in the data set mentioned above. More exactly, our focus is on common and ordinary share classes which we identify through the CRSP/Compustat-merged data set, Security Monthly, from Wharton Research Data Services. Moreover, we exclude non-US firms utilizing incorporation data in the CRSP/Compustat-merged data set, Fundamentals Annual, from the same source to ensure both closed-ended funds and American Depositary Receipts (ADRs) are excluded. The exclusion of ADRs allows us to avoid the cumbersome practice of determining dividend regularity for companies in foreign countries with varying dividend payment conventions (Michaely et al, 1995).

To determine the payout gap as presented in Section 3, and to construct the control variables for our regressions, we extract quarterly and annual fundamentals data in the CRSP/Compustat-merged files from Wharton Research Data Services. These files are complemented by credit rating data from S&P Capital IQ Pro (2026c) as well as the Compustat Rating data from Wharton Research Data Services, as the latter discontinued coverage in 2017. Moreover, the CRSP/Compustat-merged linking table data, available on Wharton Research Data Services has been used for the integration of datasets. We refer to Exhibit 1 for definitions of each component required to construct payout gaps and control variables used in our regression analyses. Consistent with Farre-Mensa et al (2025), we require each firm to have data on each variable required for our analysis to be included in our samples. Moreover, daily stock trading data from CRSP through Wharton Research Data Services is used to estimate three-day CAR, idiosyncratic

volatility, and abnormal trading volume. We complement this by utilizing daily factor data from the Kenneth French Data Library (Fama and French, 2024).

4.1.1. Selection of Initiation Sample

Based on Michaely et al (1995), a dividend initiation is defined as the first cash dividend available in the CRSP distribution file that meets the following inclusion criteria:

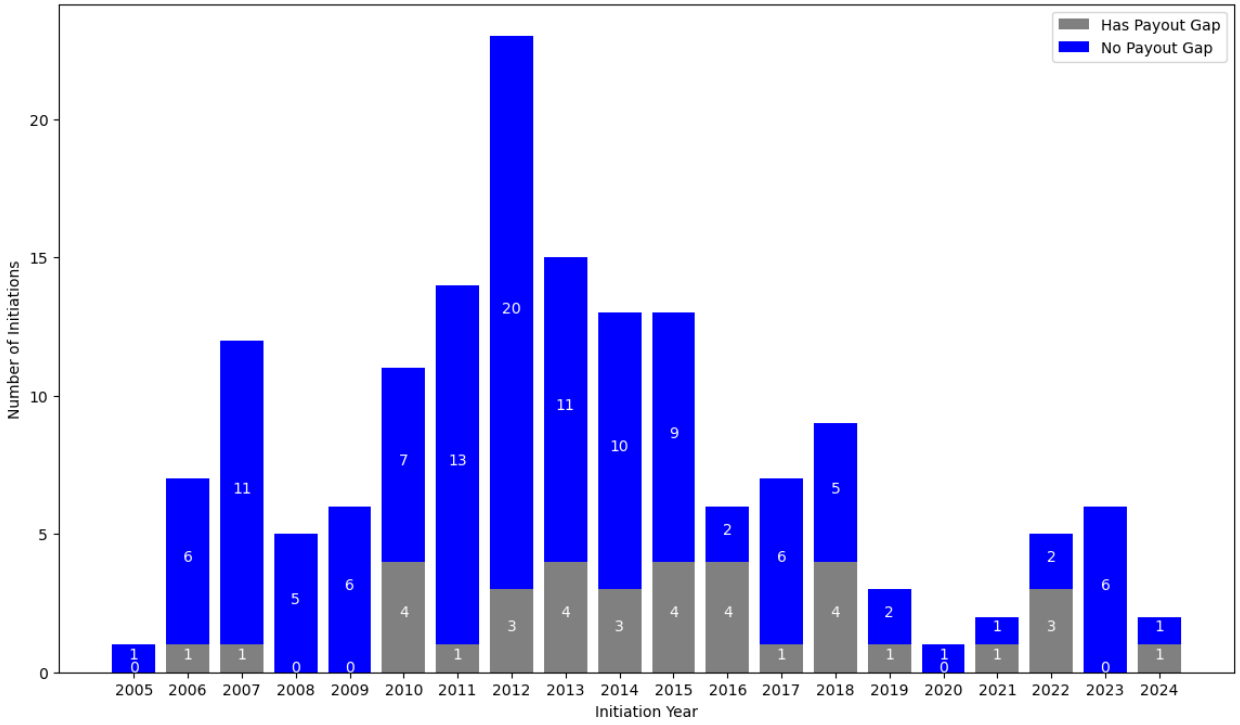
1) The company must have initiated its first cash dividend after at least two years of trading on the included exchange.
2) The entity cannot be a closed-end fund.
3) The company must be incorporated in the U.S.

To filter out firms in accordance with the first criterion, we exclude firms with less than two years of trading data prior to the dividend event, utilizing the CRSP Stock Header Information available on Wharton Research Data Services. In addition, by ensuring sufficient time between the initial public offering (IPO) and the dividend event, this eliminates the risk of treating capital raised in the IPO as new equity issues, as discussed by Farre-Mensa et al (2025).

Through the sample construction laid out in Section 4.1, the remaining two conditions are automatically fulfilled. After imposing the additional requirement of available data for all required variables in our analysis, the resulting sample contains 161 cash dividend initiation events. In Figure 1 below, we visualize the number of initiations by year and depending on whether the firm had a payout gap. As can be observed, the number of dividend initiation events are somewhat spread out across time although time-variation exists in the sample, with significant growth in initiations observed post-2008 which might be synonymous with a decrease in interest rates following the financial crisis.

Figure 1: Number of Initiations in the Sample Over Time

The figure shows the number of initiation events for each subsample over time. Grey bar splits indicate the subsample with a payout gap as defined by Farre-Mensa et al (2025) while blue bar splits indicate the subsample without a payout gap.



4.1.2. Selection of Omission Sample

As opposed to for initiations, announcement dates of dividend omissions are not available in the CRSP distribution file on Wharton Research Data Services. Thus, for a company to have a potential omission event, we utilize a methodology similar to Michaely et al (1995), where one of the following criteria must have occurred:

1) The company must have paid at least six consecutive quarterly cash dividends and then paid no cash dividends in the next calendar quarter.
2) The company must have paid at least three consecutive semi-annual cash dividends and then paid no cash dividends in the next six months.
3) The company must have paid at least two consecutive annual cash dividends and then paid no cash dividends in the next year.

In addition, we allow a firm to have paid each consecutive dividend within the next two to four, five to seven, and 11 to 13 months before the potential dividend omissions of quarterly, semi-

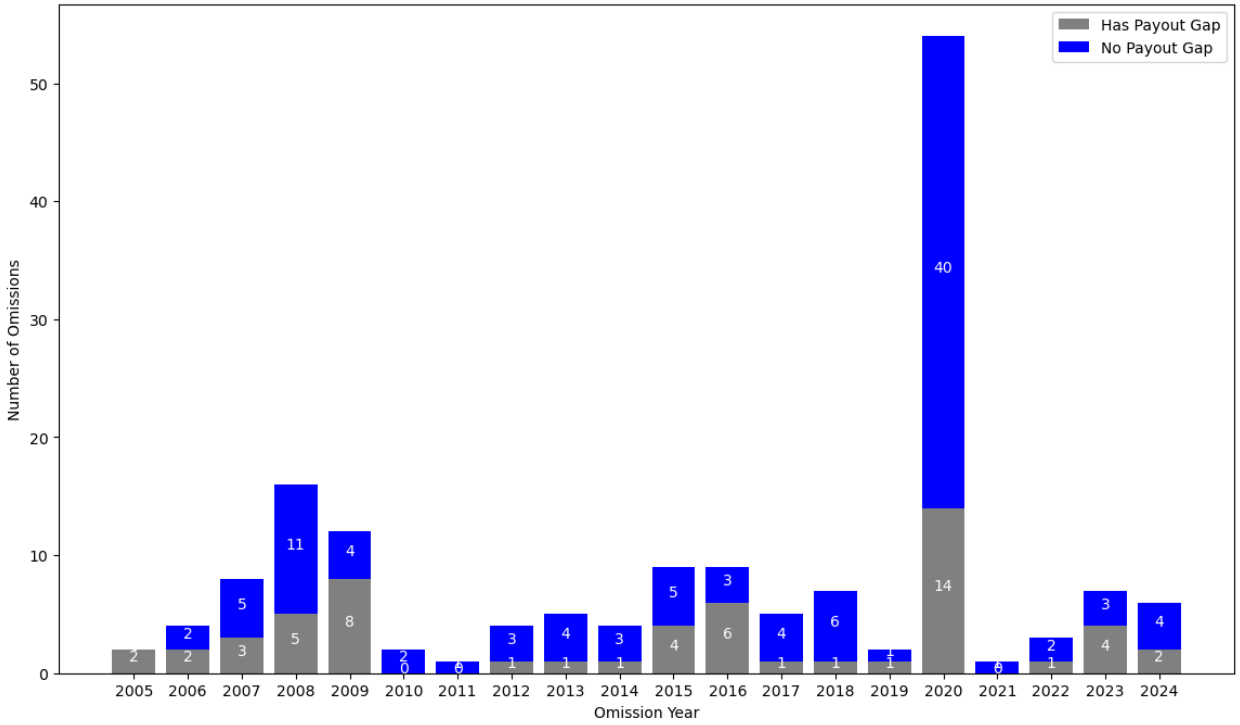
annual, and annual dividends, respectively. This is to avoid the risk of falsely classifying a missing dividend payment in a quarter as a potential omission that is due to calendar effects, such that the dividend is ultimately paid within a few days after the start of a new quarter. We also ensure that there are no common cash dividends paid in the next quarter, two quarters, and four quarters for quarterly, semi-annual, and annual dividends, respectively, utilizing the Fundamentals Quarterly accounting data in the CRSP/Compustat-merged dataset on Wharton Research Data Services. Through this procedure, we identified 664 potential omission events.

As the announcement date of dividend omissions is not reported in the CRSP file as mentioned above, we screen for data on dividend cancellations from S&P Capital IQ Pro (2026b) to match omission dates to our potential omission events. However, while the matching allows us to identify 236 omission dates, we keep in mind the incompleteness of reported events on S&P Capital IQ Pro. Hence, we proceed to manually review firm filings, 8-K filings in particular, on the EDGAR database (U.S. Securities and Exchange Commission, 2026) to identify further announcement dates. This search is complemented by manually reviewing the firm-specific pages on S&P Capital IQ Pro (2026a). We also use the company investor relations page (Fair Isaac Corporation, 2017; The Greenbrier Companies, 2009; The Manitowoc Company, Inc., 2009) and press release or news article published on online news platforms for identifying the date of potential omission (Reuters, 2009; Forbes, 2001) if we are unable to identify omission announcements using EDGAR or S&P Capital IQ Pro, as outlined above. In total, these procedures allowed us to identify 483 omission dates. Moreover, after requiring that there should be no missing values to construct all variables in our analysis, the complete dividend omission sample consists of 161 observations across 2005-2024.

In Figure 2 below, we display the number of dividend omission announcements in our sample across time and highlight the subset of firms that had a payout gap in the preceding year. As can be observed, a sizeable 34% of the total observed omissions occurred in 2020, concurrent with the COVID-19 pandemic. Similarly, Pettenuzzo et al (2023) also document a significant concentration of dividend omissions/suspensions announced in 2020 due to the pandemic.

Figure 2: Number of Omissions in the Sample Over Time

The figure shows the number of omission events for each subsample over time. Grey bar splits indicate the subsample with a payout gap as defined by Farre-Mensa et al (2025) while blue bar splits indicate the subsample without a payout gap.



4.2. Empirical Methodology

To study the potential relationship between the payout gap and both the three-day CAR and idiosyncratic volatility during the announcement window, we employ regression specifications similar to those of Farre-Mensa et al (2025) through a dummy variable approach. We require a firm's payout gap as a fraction of the total payout during the applicable year to be at least 1% for it to be considered a payout gap in the first place. This is to avoid the risk of falsely classifying a payout gap due to rounding errors, which is consistent with the approach of the authors who impose a similar requirement in relation to the determination of payout financing. In addition, since our focus is on initiation and omission events, as opposed to the authors' focus on payout increases and cuts, this impacts the relative timing at which the payout gap is observed for initiations and omissions. As such, we employ different specifications for the initiation and omission samples. Starting with the three-day CAR regressions, we utilize the following methodology, where *(3)* denotes the initiation sample and *(4)* denotes the omission sample.

$$CAR_{i,t,d-1\to d+1} = \alpha + \beta_1 Has\ Payout\ Gap_{i,t} + \beta_2 Log(Dividend\ Amount)_{i,d} + \beta_3 Average\ Abnormal\ Trading\ Volume\ Multiple_{i,d-1\to d+1} + \theta C_{i,t-1} + \varepsilon_{i,t,d-1\to d+1} \quad (3)$$

$$CAR_{i,t,\,d-1\to d+1} = \alpha + \beta_1 Has\ Payout\ Gap_{i,t-1} + \beta_2 Log(Dividend\ Amount)_{i,d-1} + \beta_3 Average\ Abnormal\ Trading\ Volume\ Multiple_{i,d-1\to d+1} + \theta C_{i,t-1} + \varepsilon_{i,t,d-1\to d+1} \quad (4)$$

where *i* denotes the firm while *d* and *t* denote the day and fiscal year of the announcement, respectively. $Has\ Payout\ Gap$ denotes whether the firm had a payout gap in the relevant year according to the above description, and *C* denotes the lagged control variables in Exhibit 1 consistent with Farre-Mensa et al (2025). $Log(Dividend\ Amount)$ represents the natural logarithm of the dividend amount to be paid for the initiation as announced on day *d*, or the last ordinary dividend paid before the omission was announced, estimated as the dividend amount per share times the average number of shares in the announcement quarter. Here, dividend per share data is from the Distribution Information dataset and data on shares outstanding is from the CRSP/Compustat-merged quarterly fundamentals data, accessed from Wharton Research Data Services. Moreover, we define the *3-Day CAR* for firm *i* during the event window around announcement date *d* in year *t* based on the methodology laid out by MacKinlay (1997), as follows:

$$CAR_{i,t,d-1\to d+1} = \sum_{d=\,d-1}^{d+1} AR_{i,t,d}$$

Where,

$$AR_{i,t,d} = R_{i,t,d} - E(R_{i,t,d}|X_{d,t})$$

As such, the estimated abnormal return is given by the following:

$$AR_{i,t,d} = R_{i,t,d} - \hat{\alpha}_i - \hat{\beta}_i R_{m,t,d}$$

In other words, $R_{i,t,d}$ represents the actual excess return over the risk-free rate for firm *i* during each day d in the event window that occurs in year *t*, and $E(R_{i,t,d}|X_{d,t})$ is the

corresponding expected excess return. For our main results, the abnormal return calculations are based on the market model (MacKinlay, 1997). More precisely, the expected excess returns for each firm *i* is estimated based on the market beta which we obtain by regressing the excess returns onto the market excess return during the 60 days immediately preceding the event window. In addition, we follow a similar procedure for our robustness regressions, utilizing the Fama-French 3-factor model proposed by Fama and French (1993). Moreover, we express the $Average\ Abnormal\ Trading\ Volume\ Multiple$ as follows:

$$Average\ Abnormal\ Trading\ Volume\ Multiple_{i,d-1\to d+1} = \frac{1}{3}\sum_{d=d-1}^{d+1} \frac{Trading\ Volume_{i,d}}{\frac{1}{60}\sum_{\lambda=d-60}^{d-1} Trading\ Volume_{i,\lambda}}$$

This measure gives us the average abnormal trading volume observed during the announcement period, where for each firm i, we divide the trading volume observed during a trading day d within the announcement period by the average trading volume observed within the 60 prior trading days. Then, we compute the average of the abnormal trading volume observed for each day within the announcement window to give us the average abnormal trading volume multiple.

Next, in evaluating the potential relationship between the payout gap and the firm's idiosyncratic volatility during the event window, the specifications laid out below are used where *(5)* applies to the initiation sample, and *(6)* applies to the omission sample. Moreover, the definitions used for $Log(Dividend\ Amount)$, $Average\ Abnormal\ Trading\ Volume\ Multiple$ and lagged control variables in *(3)* and *(4)* are also used in *(5)* and *(6)*.

$$\begin{aligned} IVOL_{i,t,d-1\to d+1} &= \alpha + \beta_1 Has\ Payout\ Gap_{i,t} + \beta_2 Log(Dividend\ Amount)_{i,d} \\ &+ \beta_3 Average\ Abnormal\ Trading\ Volume\ Multiple_{i,d-1\to d+1} + \theta C_{i,t-1} \\ &+ \varepsilon_{i,t,d-1\to d+1} \end{aligned} \tag{5}$$

$$\begin{aligned} IVOL_{i,t,d-1\to d+1} &= \alpha + \beta_1 Has\ Payout\ Gap_{i,t-1} + \beta_2 Log(Dividend\ Amount)_{i,d-1} \\ &+ \beta_3 Average\ Abnormal\ Trading\ Volume\ Multiple_{i,d-1\to d+1} + \theta C_{i,t-1} \\ &+ \varepsilon_{i,t,d-1\to d+1} \end{aligned} \tag{6}$$

In *(5)* and *(6)*, $IVOL_{i,t,d-1\rightarrow d+1}$ measures the average idiosyncratic volatility for firm *i* during the event window in year *t*. The daily idiosyncratic volatility is computed as the rolling five-day standard deviation of the residuals, which are obtained from utilizing *(7)* over the period spanning from 60 trading days before the event window until *d+1*. In other words, we measure idiosyncratic volatility for firm *i* during a given day *d* as follows, based on the methodology by Ang et al (2006):

$$IVOL_{i,d} = \sqrt{Var(\varepsilon_{i,d-4\rightarrow d})}$$

Where,

$$R_{i,d} = \alpha_i + \beta_i R_{m,d} + \varepsilon_{i,d} \quad (7)$$

For our main analysis, we use the market-based model and complement our methodology for robustness checks using the Fama-French 3-factor model (Fama and French, 1993).

4.3. Summary Statistics

Next, we show summary statistics for our final samples, starting with the initiation sample as laid out in Table 1. 22% of the total sample size of 161 initiators exhibited a payout gap in the year of initiation, which is consistent with Farre-Mensa et al (2025) who find that 21% of companies on average exhibited a 1-year payout gap during 1990-2019. Observing a similar proportion for dividend initiations should not be surprising. Given that managers are aware of the probable negative market reaction to a potential dividend decrease or omission (Brav et al, 2005), managers should be hesitant to initiate a dividend that it might be unable to sustain if its internal cash generation is insufficient. Accordingly, we observe that most firms in our sample have no payout gap. In addition, it should be noted that most firms with a payout gap finance their payouts in the year of initiation of their common dividend fully, rather than partially, as seen through the high mean and median payout gap fractions.

In terms of the market-based three-day CAR upon initiation announcements, the sample average for firms with a payout gap is negative (-1.5%), whereas it is positive for firms without a

payout gap (2.3%). This observation is in line with our hypothesis that firms with a payout gap in the year of initiation should exhibit a weaker price reaction. Furthermore, median values for the subsamples follow a similar pattern of –2.1% and 0.3%, respectively. Interestingly, the price reaction to the announcement of dividend initiations appears to be perceived negatively by the market if its full-year payouts result in a payout gap, indicating that investors do not react positively to firms using external financing for their payouts.

For the full sample, the average three-day CAR is positive at 1.5%, which indicates that initiations on average are favored by the market. However, the difference between the subsamples regarding idiosyncratic volatility is not as clear, with sample averages of 2.7% and 2.3%, and median values of 1.9% and 1.8%. Similarly, the abnormal trading volume during the three-day event window does not appear to differ between the subsamples as observed through mean (median) values of 2.0x (1.3x) and 1.9x (1.3x), respectively. Importantly, the sample multiples indicate the difference in trading volume during the event window compared to before it as the corresponding mean sample values exceed 1x.

In addition, we provide summary statistics for payout and payout gap as well as related components, including net debt and equity issues, free cash flow along with statistics relating to the control variables included in our regressions for reference. First, it should be noted that the values expressed in absolute terms among these variables have been adjusted to 2012 dollars using GDP data from the U.S. Bureau of Economic Analysis (2026) for comparability. This adjustment mechanism is consistent with Farre-Mensa et al (n.d). It should also be made clear that we here show the lagged control variables that are expressed in absolute terms differently compared to how they are used in the regressions. Rather than expressing such variables scaled by total assets or as a logarithm, the values showcased within the summary tables are only adjusted to 2012 dollars. The reason for this is to illustrate the underlying characteristics of the firms in the sample, including factors such as the size, cash, and cash flow for reference. In addition, we show aggregate characteristics for the full sample, and follow the procedures described in this paragraph also for the omission sample statistics presented later.

Table 1: Summary Statistics for the Initiations Sample

Summary statistics for the subsamples with a payout gap and without a payout gap, respectively, and for the full initiation sample. Mean, standard deviation, min, 25th quantile, median, 75th quantile, and max statistics are provided. "Initiation Year" represents the year of initiation announcement. "3-Day CAR (%)" is market-based and defined based on MacKinlay (1997). "Avg. 5-Day Idiosyncratic Volatility" is based on the methodology of Ang et al (2006) and represents the average idiosyncratic volatility during the event window, where the idiosyncratic volatility on each day is calculated based on the past 5 trading days, including the day itself. "Payout Gap" is based on Farre-Mensa et al (2025), adjusted to million 2012 USD using data from the U.S. Bureau of Economic Analysis (2026). "Payout Gap (%)" is the payout gap as a fraction of "Total Payout". "Avg. Abnormal Trading Vol. Multiple" is the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. Remaining variables are based on Farre-Mensa et al (n.d.), expressed in million 2012 USD except for "Sales Growth (%, lag)", "Market-to-Book (lag)" and "Leverage (lag)". We refer to Exhibit 1 for further descriptions.

Sub Sample: Has Payout Gap (N = 36)							
	Mean	**Std Dev**	**Min**	**q25**	**Median**	**q75**	**Max**
Initiation Year	2014.9	4.2	2006.0	2012.0	2015.0	2018.0	2024.0
3-Day CAR (%)	-1.5	8.1	-16.9	-6.3	-2.1	1.5	22.5
Avg. 5-Day Idiosyncratic Vol. (%)	2.7	2.2	0.4	1.5	1.9	2.8	7.8
Payout Gap	104.5	153.6	0.2	1.6	33.3	126.4	604.1
Payout Gap (%)	81.9	32.8	7.6	85.2	100.0	100.0	100.0
Total Payout	238.4	474.9	0.2	2.1	50.2	195.6	2269.7
Avg. Abnormal Trading Vol. Multiple	2.0	2.8	0.4	0.9	1.3	2.1	17.5
Net Debt Issues	233.3	350.5	0.0	12.5	92.7	326.9	1742.7
Equity Issues	66.8	172.8	0.0	0.1	3.6	48.4	973.4
Free Cash Flow	-77.5	499.7	-1881.2	-116.9	-10.4	-0.7	1158.0
Total Assets (lag)	4242.0	6084.4	14.9	143.7	2042.5	5556.1	27333.5
Sales Growth (%, lag)	18.7	36.5	-16.7	4.3	11.8	16.7	185.8
Operating Cash Flow (lag)	428.7	580.1	-12.1	6.7	157.7	687.6	2301.2
Market-to-Book (lag)	1.3	0.7	0.6	0.8	1.0	1.6	3.4
Leverage (lag)	0.2	0.2	0.0	0.0	0.1	0.3	0.7
Cash (lag)	447.6	765.8	0.8	13.8	83.6	433.2	3145.7
Sub Sample: No Payout Gap (N = 125)							
	Mean	**Std Dev**	**Min**	**q25**	**Median**	**q75**	**Max**
Initiation Year	2012.7	4.4	2005.0	2010.0	2012.0	2015.0	2024.0
3-Day CAR (%)	2.3	7.5	-12.8	-1.6	0.3	4.6	47.3
Avg. 5-Day Idiosyncratic Vol. (%)	2.3	1.9	0.4	1.2	1.8	2.7	13.4
Payout Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout Gap (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Payout	156.8	724.3	0.3	6.5	20.2	76.0	7694.7
Avg. Abnormal Trading Vol. Multiple	1.9	3.3	0.2	0.9	1.3	2.0	32.7
Net Debt Issues	-10.8	174.8	-521.1	-5.3	0.0	0.0	1536.1
Equity Issues	24.7	168.8	0.0	0.1	1.0	6.1	1865.1
Free Cash Flow	193.3	725.8	-103.4	6.1	29.4	119.4	7431.9
Total Assets (lag)	2970.1	9710.3	16.2	145.6	505.4	1371.1	84346.0
Sales Growth (%, lag)	14.5	34.7	-31.7	0.3	7.8	16.5	279.6
Operating Cash Flow (lag)	363.3	1299.6	-50.5	11.8	57.6	160.9	11589.4
Market-to-Book (lag)	1.8	1.6	0.2	0.8	1.2	2.2	9.6
Leverage (lag)	0.1	0.2	0.0	0.0	0.0	0.2	1.8
Cash (lag)	730.9	4220.3	0.0	24.8	104.0	281.3	44488.0
Full Sample (N = 161)							
	Mean	**Std Dev**	**Min**	**q25**	**Median**	**q75**	**Max**
Initiation Year	2013.2	4.5	2005.0	2010.0	2013.0	2016.0	2024.0
3-Day CAR (%)	1.5	7.8	-16.9	-2.1	0.1	4.2	47.3
Avg. 5-Day Idiosyncratic Vol. (%)	2.4	2.0	0.4	1.2	1.8	2.7	13.4
Payout Gap	23.4	84.1	0.0	0.0	0.0	0.0	604.1
Payout Gap (%)	18.3	37.5	0.0	0.0	0.0	0.0	100.0
Total Payout	175.1	676.1	0.2	4.9	22.8	93.5	7694.7
Avg. Abnormal Trading Vol. Multiple	1.9	3.2	0.2	0.9	1.3	2.0	32.7
Net Debt Issues	43.8	246.9	-521.1	-0.1	0.0	0.0	1742.7
Equity Issues	34.1	170.1	0.0	0.1	1.1	6.4	1865.1
Free Cash Flow	132.7	689.7	-1881.2	-1.3	15.6	89.5	7431.9
Total Assets (lag)	3254.5	9025.3	14.9	145.6	549.7	2477.6	84346.0
Sales Growth (%, lag)	15.4	35.1	-31.7	0.8	8.0	16.5	279.6
Operating Cash Flow (lag)	377.9	1176.1	-50.5	11.8	64.3	250.6	11589.4
Market-to-Book (lag)	1.7	1.5	0.2	0.8	1.2	1.9	9.6
Leverage (lag)	0.1	0.2	0.0	0.0	0.0	0.2	1.8
Cash (lag)	667.6	3734.4	0.0	22.0	104.0	291.2	44488.0

Turning to summary statistics for the omission sample (Table 2), it can be observed that the sample size coincidentally equals that of the initiations. Compared to the initiation sample, the fraction of firms that omit dividends and have payout gaps in the preceding fiscal year is comparatively large. In fact, out of the full sample size of 161 omissions, 57 had a payout gap while 104 had no payout gap, corresponding to 35% and 65%, respectively. The relatively larger fraction of firms with a payout cap in the case of omissions versus initiations have several reasonable explanations. First, an increased indebtedness stemming from previous external payout financing may lead to a credit crunch in the case of poor financial performance or repayment requirement, which may relate to the need to omit the dividend in the first place. Second, the presence of a payout gap may itself be related to the level of free cash flows produced. If internal cash flow is insufficient, it might be unsustainable to maintain regular payouts over a longer period. Third, a firm that omits its dividend while previously having a payout gap might have had a financial incentive to decrease payouts earlier but chose not to do so as dividend cuts tend to be perceived as a negative signal in financial markets as outlined in Brav et al (2005). Moreover, it can be observed that most firms that omit dividends and financed their payouts in the previous year through a payout gap, mostly did so fully rather than partially in line with the corresponding initiation subsample.

The negative price reaction upon announcement of dividend omissions is evident regardless of whether the firm had a payout gap in the prior year. This is seen through the mean (median) three-day CAR of –5.5% (-2.8%) and –5.0% (-3.1%) for each of the subsamples, respectively, and –5.2% (-2.9%) for the full sample. This suggests that the market reaction to omission announcements is larger compared to initiations, consistent with Michaely et al (1995), who observe that the magnitude of the price reaction is larger for omissions than for initiations. In addition, an omission event appears to involve a higher degree of idiosyncratic volatility than an average initiation event, as seen through the average idiosyncratic volatility upon omission announcements of 5.1% for the full sample. Moreover, the idiosyncratic volatility during the event window appears to be higher for the subsample with a payout gap compared to that without a payout gap, as supported by both mean and median values, indicating a relatively higher degree of firm specific risk. In contrast, the abnormal trading volumes for the subsamples show similar mean and median values, which suggests that there is no meaningful difference between the two

subsamples regarding the degree to which the shares are traded upon announcement. Comparing the full initiation and omission samples, the relatively higher multiples for the latter sample could indicate that the abnormal trading volume is larger in the case of omission announcements vis-á-vis for initiations, an observation that is likely related to the asymmetric market reactions for initiations and omissions as discussed above.

Table 2: Summary Statistics for the Omissions Sample

Summary statistics for the subsamples with a payout gap and without a payout gap, respectively, and for the full omissions sample. Mean, standard deviation, min, 25th quantile, median, 75th quantile, and max statistics are provided. "Omission Year" represents the year of omission announcement. "3-Day CAR (%)" is market-based and defined based on MacKinlay (1997). "Avg. 5-Day Idiosyncratic Volatility" is based on the methodology of Ang et al (2006) and represents the average idiosyncratic volatility during the event window, where the idiosyncratic volatility on each day is calculated based on the past 5 trading days, including the day itself. "Payout Gap (lag)" is based on Farre-Mensa et al (2025), adjusted to million 2012 USD using data from the U.S. Bureau of Economic Analysis (2026). "Payout Gap (%, lag)" is the payout gap as a fraction of "Total Payout (lag)". "Avg. Abnormal Trading Vol. Multiple" is the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. Remaining variables are based on Farre-Mensa et al (n.d.), expressed in million 2012 USD except for "Sales Growth (%, lag)", "Market-to-Book (lag)" and "Leverage (lag)". We refer to Exhibit 1 for further descriptions.

Sub Sample: Has Payout Gap (N = 57)							
	Mean	**Std Dev**	**Min**	**q25**	**Median**	**q75**	**Max**
Omission Year	2014.8	5.9	2005.0	2009.0	2016.0	2020.0	2024.0
3-Day CAR (%)	-5.5	15.9	-42.2	-16.8	-2.8	5.3	23.4
Avg. 5-Day Idiosyncratic Vol. (%)	6.0	3.9	0.8	3.1	5.2	7.5	19.2
Payout Gap (lag)	122.4	327.3	0.3	11.7	29.1	107.8	2351.1
Payout Gap (%, lag)	84.5	24.5	14.0	74.7	100.0	100.0	100.0
Total Payout (lag)	144.1	332.7	0.3	15.9	39.3	177.9	2351.1
Avg. Abnormal Trading Vol. Multiple	2.3	3.0	0.0	0.9	1.3	2.6	21.7
Net Debt Issues (lag)	283.4	725.1	-251.4	24.9	96.7	275.9	5274.8
Equity Issues (lag)	27.6	116.2	0.0	0.0	0.4	5.0	793.4
Free Cash Flow (lag)	-220.1	909.3	-6812.0	-194.1	-19.8	3.4	239.5
Total Assets (lag)	5343.9	19348.2	22.0	471.0	1757.0	3527.2	145858.6
Sales Growth (%, lag)	20.3	130.9	-43.2	-8.4	-1.2	8.4	973.2
Operating Cash Flow (lag)	312.2	1183.6	-319.0	-2.3	48.8	254.9	8733.8
Market-to-Book (lag)	0.9	0.5	0.3	0.6	0.8	1.1	3.8
Leverage (lag)	0.4	0.2	0.0	0.2	0.4	0.5	0.8
Cash (lag)	486.3	2546.1	0.0	5.0	35.6	98.6	19060.3
Sub Sample: No Payout Gap (N = 104)							
	Mean	**Std Dev**	**Min**	**q25**	**Median**	**q75**	**Max**
Omission Year	2016.2	5.3	2006.0	2012.0	2018.0	2020.0	2024.0
3-Day CAR (%)	-5.0	15.0	-73.5	-11.9	-3.1	3.7	44.4
Avg. 5-Day Idiosyncratic Vol. (%)	4.6	3.7	1.0	2.5	3.9	5.6	31.9
Payout Gap (lag)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout Gap (%, lag)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Payout (lag)	235.7	566.6	0.1	5.1	19.4	109.0	2694.8
Avg. Abnormal Trading Vol. Multiple	2.3	2.1	0.0	1.0	1.6	2.6	12.1
Net Debt Issues (lag)	49.8	1007.3	-2008.1	-12.4	0.0	0.0	9933.4
Equity Issues (lag)	12.1	49.1	-3.0	0.0	0.1	2.2	371.2
Free Cash Flow (lag)	285.4	719.3	-710.8	2.1	26.6	146.8	3349.1
Total Assets (lag)	7923.7	29675.8	10.2	141.3	597.2	3662.3	231698.4
Sales Growth (%, lag)	-3.8	15.9	-73.2	-10.8	-1.8	6.1	35.6
Operating Cash Flow (lag)	644.0	2083.1	-36.7	4.2	56.1	334.3	15848.2
Market-to-Book (lag)	1.4	1.1	0.3	0.7	1.0	1.5	8.0
Leverage (lag)	0.2	0.2	0.0	0.0	0.2	0.4	1.6
Cash (lag)	798.3	3437.6	0.2	15.9	71.8	376.2	31053.9
Full Sample (N = 161)							
	Mean	**Std Dev**	**Min**	**q25**	**Median**	**q75**	**Max**
Omission Year	2015.7	5.5	2005.0	2009.0	2017.0	2020.0	2024.0
3-Day CAR (%)	-5.2	15.3	-73.5	-14.1	-2.9	4.7	44.4
Avg. 5-Day Idiosyncratic Vol. (%)	5.1	3.8	0.8	2.8	4.3	6.4	31.9
Payout Gap (lag)	43.3	202.4	0.0	0.0	0.0	13.4	2351.1
Payout Gap (%, lag)	29.9	43.1	0.0	0.0	0.0	78.3	100.0
Total Payout (lag)	203.3	497.3	0.1	5.8	26.0	127.4	2694.8
Avg. Abnormal Trading Vol. Multiple	2.3	2.4	0.0	1.0	1.5	2.6	21.7
Net Debt Issues (lag)	132.5	921.8	-2008.1	-0.7	0.0	50.7	9933.4
Equity Issues (lag)	17.6	79.6	-3.0	0.0	0.3	3.3	793.4
Free Cash Flow (lag)	106.4	825.4	-6812.0	-11.1	6.9	63.5	3349.1
Total Assets (lag)	7010.3	26447.6	10.2	226.2	885.4	3527.2	231698.4
Sales Growth (%, lag)	4.8	79.3	-73.2	-9.7	-1.6	7.0	973.2
Operating Cash Flow (lag)	526.6	1819.1	-319.0	3.1	48.8	301.4	15848.2
Market-to-Book (lag)	1.2	1.0	0.3	0.7	0.9	1.4	8.0
Leverage (lag)	0.3	0.2	0.0	0.0	0.3	0.4	1.6
Cash (lag)	687.8	3146.2	0.0	10.0	44.2	222.0	31053.9

5. Results

Next, we present the findings from our analysis, proceeding as follows. First, we present our findings from the three-day CAR regressions for initiation and omission announcements using the market-based model. Then, we proceed by outlining the results from our idiosyncratic volatility regressions using the same factor model. Lastly, we test the robustness of our findings utilizing the Fama-French 3-factor model (Fama and French, 1993).

5.1. Price Reactions to Initiations and Omission Announcements

Starting with dividend initiations, it can be observed in Table 3 below that the existence of a payout gap in the fiscal year is negatively related to three three-day CAR. Moreover, statistical significance is observed at the 5% level for the standard OLS model when the measure of abnormal trading volume is included, and at the 10% level when it is excluded. As such, accounting for the abnormal trading volume during the event window, a firm with a payout gap experience on average a 2.71 percentage points lower three-day CAR. However, accounting for year and industry fixed effects, no statistical significance and a slightly lower magnitude can be observed. Furthermore, the abnormal trading volume is positively and significantly related to the price reactions upon initiation announcements. Every unit increase in the average abnormal trading volume multiple is associated with a 1.26 and 1.32 percentage points higher three-day CAR on average for our standard OLS and fixed effects regressions, respectively. The dividend amount to be paid by the firm does not seem to be significantly related to the price reactions. Rather, our results suggest a significant negative relationship between whether a firm has a payout gap and the abnormal return upon initiation announcement, although this relationship is unobservable when including industry and year fixed effects. Moreover, as is clear in Exhibit 2 where all control variables are made visible, it can be observed that the measure of lagged operating cash flow, scaled by total assets in accordance with Farre-Mensa et al (n.d.), has a strong positive and significant relationship with the abnormal returns within the announcement period. Across columns 1-4 therein, every percentage point increase in the measure of lagged scaled operating cash flows is associated with a 12 to 18 percentage points higher three-day CAR on average.

For omissions, we generally observe a positive but no significant relationship between the existence of a payout gap in the fiscal year preceding the omission and its abnormal returns upon

announcement. As observed in columns 7 and 8, the three-day CAR in the event window is significantly and negatively related to the abnormal trading volume measure. In fact, every unit increase in the average abnormal trading volume multiple is associated with a three-day CAR that is on average 2.70 and 2.89 percentage points lower for the standard OLS and fixed effect regressions, respectively. Moreover, columns 5 and 6 suggest that the dollar amount of dividend last paid is significantly and negatively related to the three-day CAR. As such, every 1% increase in the dollar dividend amount (USD millions) previously paid is associated with a 2.43 and 2.82 percentage points lower announcement CAR on average for the corresponding regressions, respectively. This relationship, however, is somewhat muted when the measure of abnormal trading volume is included, both in terms of relative magnitudes as well as significance. Moreover, as Exhibit 2 makes clear when all control variables are shown, the measure of lagged scaled operating cash flow is again strongly significant and positively related to the abnormal returns observed during omission announcements. Across columns 5-8 therein, a unit increase in the measure of operating cash flow is associated with a 28 to 37 percentage points higher three-day CAR upon announcement of dividend omissions. This result suggests that the market generally reacts less negatively to firms with a relatively higher operating cash flow in the prior year. As such, our results indicate that the abnormal trading volume and the dividend amount last paid, to some extent, drive the market reaction together with lagged operating cash flow. To summarize, we cannot therefore conclude that firms with a payout gap show significantly different abnormal returns than those without a payout gap upon omission announcements.

Table 3: 3-Day CAR Regressions for Initiations and Omissions

The dependent variable is the market-based 3-Day CAR (MacKinlay, 1997) around the announcement date, expressed in percent. Columns 1-4 represent regressions for initiation announcements, and 5-8 represent regressions for omission announcements. Even columns include year and industry fixed effects, for which the intercepts represent the baseline group. Robust standard errors are shown in parentheses. "Has Payout Gap" is a dummy variable taking the value of one if the firm has a payout gap, as defined by Farre-Mensa et al (2025), and zero otherwise. "log (Dividend Amount)" is the logarithmic value of the estimated dividend amount based on average shares outstanding in the quarter of announcement, expressed in 2012 million USD using data from the U.S. Bureau of Economic Analysis (2026). "Average Abnormal Trading Volume Multiple" is defined as the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. We refer to Exhibit 1 for an overview of included control variables. Following Farre-Mensa et al (2025), these include the log of lagged firm size, lagged operating cash flow, lagged Market-to-Book, lagged leverage, lagged cash, dummy variables for low and middle tercile lagged sales growth, and lagged investment grade rating dummy variable. Exhibit 2 displays the same regressions showing the control variables.

	Dependent variable: 3-Day CAR (%)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Has Payout Gap	-2.35*	-2.04	-2.71**	-1.88	-0.28	1.04	1.57	2.93
	(1.31)	(1.39)	(1.21)	(1.28)	(3.08)	(3.04)	(2.68)	(2.51)
log(Dividend Amount)	0.84	0.70	0.27	0.16	-2.43**	-2.82**	-1.85*	-1.86
	(0.63)	(0.85)	(0.55)	(0.67)	(1.18)	(1.34)	(1.06)	(1.22)
Average Abnormal Trading Volume Multiple			1.26***	1.32***			-2.70***	-2.89***
			(0.20)	(0.20)			(0.80)	(0.79)
Intercept	8.17**	5.84	0.40	1.50	-16.58**	-5.58	-10.94	-4.52
	(4.09)	(4.77)	(3.18)	(4.00)	(8.29)	(12.41)	(7.13)	(10.36)
Year + Industry FE	No	Yes	No	Yes	No	Yes	No	Yes
Additional Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	161	161	161	161	161	161	161	161
R^2	0.16	0.27	0.41	0.50	0.08	0.25	0.25	0.38
Adjusted R^2	0.11	0.06	0.36	0.35	0.02	0.03	0.19	0.19
Note:								*p<0.1; **p<0.05; ***p<0.01

5.2. Idiosyncratic Volatility observed during Initiation and Omission Announcements

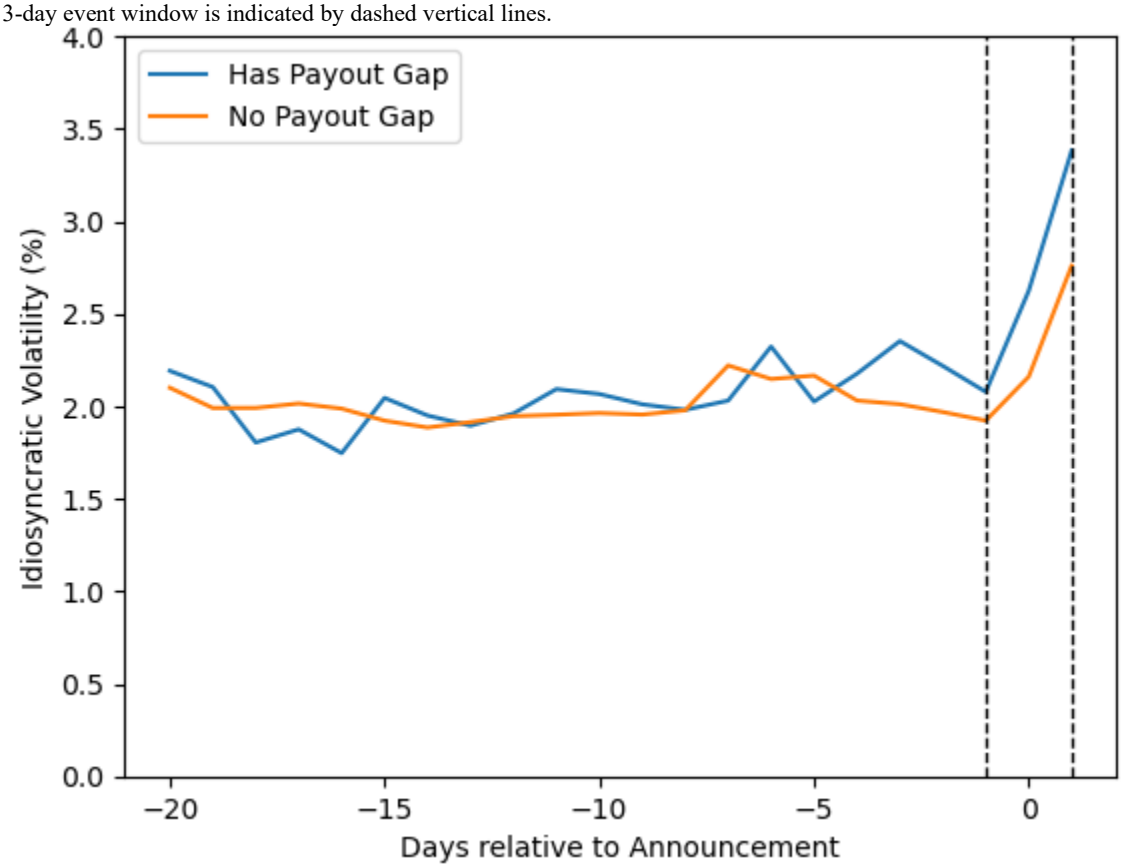
Before showing the regression results for the idiosyncratic risk, we plot the sample means of the idiosyncratic volatility before and during the announcement window for both initiations and omissions, separately for firms with and without a payout gap.

As observed below in Figure 3 for the initiation sample, there appears to be a difference between the subsample with a payout gap versus firms with no payout gap during the announcement window, as opposed to during the preceding days. The summary statistics do

provide some hints regarding differences in the average idiosyncratic volatility during the announcement window, with sample means of 2.7% (2.3%) for firms with (without) a payout gap. A common theme for both subsamples observed is the jump in the idiosyncratic volatility upon announcement of dividend initiations. However, one needs to be careful not to draw early conclusions regarding the relationship between the existence of a payout gap and the idiosyncratic volatility during the event window. In fact, the summary statistics for the initiation sample do suggest that a certain degree of variability within the subsamples exists. This is indicated by sample standard deviation values of 2.2% (1.9%) for firms with (without) a payout gap.

Figure 3: Average 5-day Idiosyncratic Volatility around the 3-day Initiation window

Subsample means of the market-based average 5-day idiosyncratic volatility, based on the methodology of Ang et al (2006), are displayed from 20 days prior to announcement date until the day after announcement. The blue line corresponds to the subsample with a payout gap as defined by Farre-Mensa et al (2025) while the orange line corresponds to the subsample without a payout gap. The 3-day event window is indicated by dashed vertical lines.

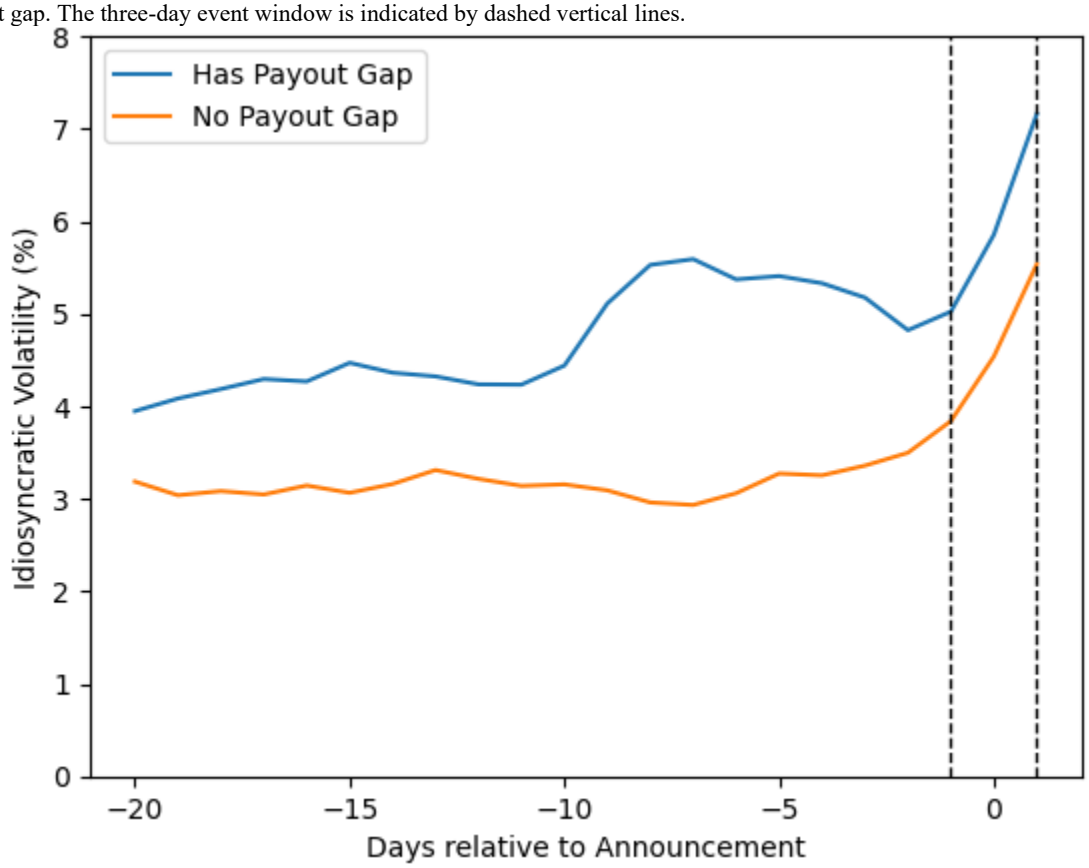


The corresponding plot for the dividend omission sample provided below (Figure 4) shows a consistent gap between the subsample that had a payout gap in the prior year and firms that had no payout gap. In contrast to the relatively similar levels of idiosyncratic volatility before initiation

announcements, this sample difference in the mean average idiosyncratic volatility appears to exist already before the event window in the case of omissions. While a clear increase in the sample mean idiosyncratic volatility can be observed for both omission subsamples around the announcements, the difference in the level of idiosyncratic volatility appears to largely remain. The summary statistics also indicate such differences with the mean average five-day idiosyncratic volatility for firms with a payout gap being 6.0% compared to 4.6% for those without. Moreover, the summary statistics also suggest that variability in the level of idiosyncratic volatility exists within the respective subsamples, with values for the 25^{th} and 75^{th} quantiles of 3.1% (2.5%) and 7.5% (5.6%) for firms with (without) a payout gap, respectively. When comparing both graphs, firms in our sample that announce dividend omissions generally appear to showcase a higher degree of idiosyncratic volatility than firms that initiate dividends. This could be driven by selling pressure, given that the mean three-day CARs are negative (Table 2) and the strong negative association between abnormal announcement returns and abnormal trading volume evidenced in Table 3. For both initiations and omissions, we observe that there is a rise in idiosyncratic volatility during the announcement period. This is consistent with Engle et al (2021) which show that the release of new information is linked to changes in idiosyncratic volatility.

Figure 4: Average 5-day Idiosyncratic Volatility around the 3-day Omission window

Subsample means of the market-based average 5-day idiosyncratic volatility, based on the methodology Ang et al (2006), are displayed from 20 days prior to the announcement date until the day after announcement. The blue line corresponds to the subsample with a payout gap as defined by Farre-Mensa et al (2025) while the orange line corresponds to the subsample without a payout gap. The three-day event window is indicated by dashed vertical lines.



Next, we present our regression results in Table 4 below. Starting with the initiation sample, we generally do not observe that the payout gap holds a significant relationship with the idiosyncratic volatility across columns 1-4, except a slightly positive coefficient that is significant at the 10% level in column 1. Moreover, the coefficients change signs when accounting for industry and year fixed effects, suggesting that unobservable industry characteristics and time differences may relate to the idiosyncratic volatility. This result may also be driven by the relatively small sample size, especially in the case of dividend-initiating firms that have a payout gap. Furthermore, just like in Table 3 for dividend initiations for the three-day CAR regressions, the amount of dividend to be paid does not appear to be related to the idiosyncratic volatility observed during initiation announcements. However, the abnormal trading volume multiple exhibits a positive and strongly significant relationship with idiosyncratic volatility, where a unit jump in the abnormal trading volume measure is associated with a 0.17 percentage point higher

average five-day idiosyncratic volatility on average. Furthermore, the corresponding regression table displaying all included control variables (Exhibit 3) indicates that firms with a lower lagged leverage and a higher lagged cash level as a fraction of total assets experience a higher idiosyncratic volatility around initiation announcements.

For omissions, we can observe that the existence of a payout gap in the prior year generally holds a positive relationship with idiosyncratic volatility, although no significant relationship can be observed. Rather, the dollar amount of dividend last paid is generally positively and significantly related to idiosyncratic volatility, except in column 8, and with weaker significance in column 7. As such, the coefficients in columns 5-7 suggest that a 1% increase in the dividend amount (denoted in USD million) is associated with a higher idiosyncratic volatility of 0.4-0.54 percentage points on average. This indicates that firms that paid larger dividend amounts before they announced a dividend omission tend to experience a relatively higher degree of idiosyncratic volatility. However, as column 8 indicates, only the abnormal trading volume is statistically significant when accounting for industry and announcement-year fixed effects. In addition, Exhibit 3 generally shows that firms with a higher fraction of lagged cash relative to total assets experience a significantly lower idiosyncratic volatility on average.

Table 4: Idiosyncratic Volatility Regressions for Initiations and Omissions

The dependent variable is the market-based average five-day idiosyncratic volatility during the event window, based on the methodology of Ang et al (2006). Columns 1-4 represent regressions for initiation announcements, and 5-8 represent regressions for omission announcements. Even columns include year and industry fixed effects, for which the intercepts represent the baseline group. Robust standard errors are shown in parentheses. "Has Payout Gap" is a dummy variable taking the value of one if the firm has a payout gap, as defined by Farre-Mensa et al (2025), and zero otherwise. "log (Dividend Amount)" is the logarithmic value of the estimated dividend amount based on average shares outstanding in the quarter of announcement, expressed in 2012 million USD using data from the U.S. Bureau of Economic Analysis (2026). "Average Abnormal Trading Volume Multiple" is defined as the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. We refer to Exhibit 1 for an overview of included control variables. Following Farre-Mensa et al (2025), these include the log of lagged firm size, lagged operating cash flow, lagged Market-to-Book, lagged leverage, lagged cash, dummy variables for low and middle tercile lagged sales growth, and lagged investment grade rating dummy variable. Exhibit 3 displays the same regressions showing the control variables.

	Dependent variable: Average 5-Day Idiosyncratic Volatility (%)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Has Payout Gap	0.44*	-0.13	0.39	-0.11	0.47	0.31	0.12	-0.21
	(0.26)	(0.32)	(0.25)	(0.31)	(0.79)	(0.75)	(0.83)	(0.72)
log(Dividend Amount)	-0.04	-0.10	-0.11	-0.17	0.51**	0.54**	0.40*	0.28
	(0.12)	(0.15)	(0.11)	(0.13)	(0.24)	(0.24)	(0.23)	(0.23)
Average Abnormal Trading Volume Multiple			0.17***	0.17***			0.51*	0.79***
			(0.03)	(0.03)			(0.27)	(0.26)
Intercept	3.65***	2.03	2.63***	1.47	6.77***	3.03	5.70***	2.74
	(0.98)	(1.27)	(0.98)	(1.26)	(2.00)	(2.22)	(1.92)	(2.10)
Year + Industry FE	No	Yes	No	Yes	No	Yes	No	Yes
Additional Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	161	161	161	161	161	161	161	161
R^2	0.21	0.42	0.27	0.48	0.13	0.30	0.22	0.46
Adjusted R^2	0.16	0.25	0.22	0.32	0.07	0.10	0.17	0.30
Note:								*p<0.1; **p<0.05; ***p<0.01

5.3. Robustness Tests

We now proceed to test the robustness of our findings presented in section 5.1. and 5.2., utilizing the Fama-French 3-factor model (Fama and French, 1993) to account for size and value factors. This is because our samples naturally include firms of different characteristics, as observed in the

summary statistics, which could affect the expected excess returns relative to the market-based model.

Starting with the dividend initiation sample, the results of our robustness tests for the three-day CAR regressions are largely consistent with the main regressions, as observed below in Table 5. As aforementioned, the coefficients are all negative for the payout gap dummy variable despite slightly smaller magnitudes. Moreover, the corresponding levels of statistical significance remain largely unchanged. As such, when the abnormal trading volume multiple is included and the standard OLS model is used, firms that have a payout gap in the year of initiation experience on average a 2.57 percentage points lower three-day CAR during the event window compared to firms with no payout gap. Moreover, and similar as mentioned before, the dividend amount to be paid does not appear statistically related to the three-day CAR upon initiation announcements. However, the relationship between abnormal trading volume and the three-day CAR remains strongly robust as shown through columns 3 and 4. We observe that, on average, every unit increase in the abnormal trading volume is associated with a higher three-day CAR of similar magnitudes as before (1.27 and 1.34 percentage points for the OLS and fixed effects regressions, respectively).

Similarly to the results of the robustness tests for the initiation sample, the results of the robustness tests for the omission sample (Table 5) are largely consistent with our main results. While we find no significant relationship between whether the firm had a payout gap in the prior year and the three-day CAR during the announcement window in columns 5-7, consistent with our prior regressions, we do observe statistical significance in column 8. Here, firms that had a payout gap in the prior year experience on average a 4.79 percentage points higher cumulative abnormal return during the three-day window versus firms without a payout gap. This suggests that the market may anticipate the omission event to a larger extent if the firm has recently financed distributions with a payout gap and therefore does not react as negatively upon announcement. Moreover, the market's reaction to a firm's omission announcement appears to be negatively related to the logarithmic dollar amount of dividend previously paid, with statistical significance observed in columns 5 and 6, suggesting that firms that previously paid larger dividends receive a more negative reaction from the market. However, this finding is mixed as the statistical significance fully disappears accounting for abnormal trading volume. Moreover, our robustness tests for the omission sample reiterate our finding that the abnormal trading volume multiple is

significantly and negatively related to the announcement-period abnormal returns. A unit increase in the abnormal trading volume is associated with a three-day CAR that is 2.59 and 2.72 percentage points lower on average, as seen through the OLS and fixed effects regressions in columns 7 and 8, respectively.

Table 5: 3-Day CAR Robustness Regressions for Initiations and Omissions

The dependent variable is the three-day CAR around the announcement date (expressed in percent), based on the methodology of MacKinlay (1997) and utilizing the Fama-French 3-factor model (Fama and French, 1993). Columns 1-4 represent regressions for initiation announcements, and 5-8 represent regressions for omission announcements. Even columns include year and industry fixed effects, for which the intercepts represent the baseline group. Robust standard errors are shown in parentheses. "Has Payout Gap" is a dummy variable taking the value of one if the firm has a payout gap, as defined by Farre-Mensa et al (2025), and zero otherwise. "log (Dividend Amount)" is the logarithmic value of the estimated dividend amount based on average shares outstanding in the quarter of announcement, expressed in 2012 million USD using data from the U.S. Bureau of Economic Analysis (2026). "Average Abnormal Trading Volume Multiple" is defined as the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. We refer to Exhibit 1 for an overview of included control variables. Following Farre-Mensa et al (2025), these include the log of lagged firm size, lagged operating cash flow, lagged Market-to-Book, lagged leverage, lagged cash, dummy variables for low and middle tercile lagged sales growth, and lagged investment grade rating dummy variable. Exhibit 4 displays the same regressions showing the control variables.

	Dependent variable: 3-Day CAR (%)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Has Payout Gap	-2.22*	-1.73	-2.57**	-1.57	0.43	3.02	2.21	4.79**
	(1.31)	(1.39)	(1.22)	(1.28)	(2.92)	(2.83)	(2.55)	(2.27)
log(Dividend Amount)	0.71	0.69	0.13	0.13	-2.14*	-2.72**	-1.58	-1.82
	(0.61)	(0.83)	(0.53)	(0.63)	(1.12)	(1.29)	(1.01)	(1.16)
Average Abnormal Trading Volume Multiple			1.27***	1.34***			-2.59***	-2.72***
			(0.22)	(0.21)			(0.77)	(0.74)
Intercept	7.14*	4.99	-0.70	0.57	-13.36*	-1.69	-7.93	-0.70
	(4.12)	(4.71)	(3.22)	(3.85)	(7.80)	(11.85)	(6.71)	(9.88)
Year + Industry FE	No	Yes	No	Yes	No	Yes	No	Yes
Additional Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	161	161	161	161	161	161	161	161
R^2	0.15	0.27	0.39	0.50	0.09	0.32	0.26	0.44
Adjusted R^2	0.09	0.05	0.35	0.35	0.03	0.12	0.20	0.27
Note:								*p<0.1; **p<0.05; ***p<0.01

Turning to the results from the robustness test for the average five-day idiosyncratic volatility regressions, the results for the initiation sample are largely consistent with the results from the main regressions. We cannot observe that the payout gap holds a significant relationship with the idiosyncratic volatility, except at the 10% level when a simple OLS configuration is utilized and the measure of abnormal trading volume is excluded. Moreover, the logarithmic dollar amount of dividend to be paid holds a negative and insignificant relationship with idiosyncratic volatility, which is consistent with the prior regressions. Furthermore, the abnormal trading volume holds a positive and statistically significant relationship with the idiosyncratic volatility as before. On average, a unit jump in the abnormal trading volume multiple is associated with a 0.16-0.17 percentage point higher average five-day idiosyncratic volatility during the announcement period.

For omissions, the results are largely consistent with our main regressions. We can observe that the payout gap generally holds a positive relationship with idiosyncratic volatility, albeit with no statistical significance. In line with earlier regressions, the logarithmic value of the dollar amount of dividend holds a positive and significant relationship, except in column 8 and with weaker significance at the 10% level in column 7. As such, we again find evidence in columns 5-7 suggesting that a 1% increase in the dividend amount previously paid is associated with a higher idiosyncratic volatility, of around 0.35-0.5 percentage points on average. In addition, our robustness tests confirm the significant and positive relationship between the abnormal trading volume and the idiosyncratic volatility upon omission announcements.

Table 6: Idiosyncratic Volatility Robustness Regressions for Initiations and Omissions

The dependent variable is the average five-day idiosyncratic volatility during the event window, based on the methodology of Ang et al (2006) and utilizing the Fama-French 3-factor model (Fama and French, 1993). Columns 1-4 represent regressions for initiation announcements, and 5-8 represent regressions for omission announcements. Even columns include year and industry fixed effects, for which the intercepts represent the baseline group. Robust standard errors are shown in parentheses. "Has Payout Gap" is a dummy variable taking the value of one if the firm has a payout gap, as defined by Farre-Mensa et al (2025), and zero otherwise. "log (Dividend Amount)" is the logarithmic value of the estimated dividend amount based on average shares outstanding in the quarter of announcement, expressed in 2012 million USD using data from the U.S. Bureau of Economic Analysis (2026). "Average Abnormal Trading Volume Multiple" is defined as the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. We refer to Exhibit 1 for an overview of included control variables. Following Farre-Mensa et al (2025), these include the log of lagged firm size, lagged operating cash flow, lagged Market-to-Book, lagged leverage, lagged cash, dummy variables for low and middle tercile lagged sales growth, and lagged investment grade rating dummy variable. Exhibit 5 displays the same regressions showing the control variables.

	Dependent variable: Average 5-Day Idiosyncratic Volatility (%)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Has Payout Gap	0.42*	-0.12	0.38	-0.10	0.37	0.05	0.01	-0.46
	(0.25)	(0.32)	(0.24)	(0.30)	(0.73)	(0.67)	(0.77)	(0.63)
log(Dividend Amount)	0.00	-0.07	-0.07	-0.15	0.46**	0.51**	0.35*	0.25
	(0.13)	(0.15)	(0.12)	(0.14)	(0.22)	(0.22)	(0.21)	(0.21)
Average Abnormal Trading Volume Multiple			0.16***	0.17***			0.53**	0.78***
			(0.03)	(0.03)			(0.26)	(0.24)
Intercept	4.02***	2.47*	3.01***	1.91	6.64***	3.54	5.54***	3.25
	(0.99)	(1.27)	(1.00)	(1.27)	(1.80)	(2.26)	(1.69)	(2.12)
Year + Industry FE	No	Yes	No	Yes	No	Yes	No	Yes
Additional Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	161	161	161	161	161	161	161	161
R^2	0.21	0.42	0.28	0.48	0.12	0.32	0.24	0.51
Adjusted R^2	0.16	0.25	0.23	0.32	0.06	0.13	0.18	0.36
Note:								*p<0.1; **p<0.05; ***p<0.01

6. Discussion

For the three-day CAR reactions to initiation and omission announcements, we observe a negative and weakly significant relationship between the payout gap and the three-day CAR for the initiation sample, with more significance observed once we incorporate abnormal trading volume in our standard OLS model. In general, our observation is that the average initiating firm that has

a payout gap tends to have a more muted market reaction compared to firms with no payout gap. This relationship is broadly consistent with Farre-Mensa et al (2025), who also reported a negative but insignificant relation between the three-day CAR and firms that financed their dividends with debt in the prior year, for dividend increases. We would attribute the weak significance in our initiation sample to sample size limitations and the possibility that investors perhaps are not able to deduce the firm's source of payout financing upon announcement in the initial year of payout. Moreover, if investors are unable to digest the information provided by the payout gap, as it could be considered complex, they may instead rely more on the information provided in the public announcement itself. This interpretation is supported by Odean (1998) who posits that investors underreact to complex information and overreact to more noticeable information.

For dividend omissions, we generally see a positive relationship between the three-day CAR and the payout gap, with no statistical significance except in column 8 within our robustness regression. We believe that the positive relationship between the payout gap and the announcement returns for omissions could be attributed to the market understanding the rationale for firms omitting dividends to conserve internal cash, especially as DeAngelo and DeAngelo (1990) find that firms that omit dividends tend to perform quite poorly in the year preceding the omission. This in turn could act as a positive signal for investors on the future growth of the firm as preserved cash can be used for growth opportunities. The mean free cash flow for omitting firms with a payout gap in our sample is -$220.1 million, adjusted for inflation, which suggests that externally financed payouts would not be sustainable over the long term. Moreover, the positive relationship observed suggests that the market to some extent already expects an omission from these firms. The weak significance could be attributed to sample size limitations. There is also the possibility that investors do not see any additional benefits of differentiating between firms with or without a payout gap, particularly since omitting firms more generally exhibit adverse financial circumstances already before the omission event as outlined by DeAngelo and DeAngelo (1990).

We also observe a negative relationship between the amount of dividend last paid and the three-day CAR, which can provide a suitable justification for the negative market reaction upon omission announcements. This is supported by Bhattacharya (1979), whose framework holds that the dividend level provides information about the company's expected cash flows. As such, a firm that omits its dividend and had previously paid out a relatively larger amount may signal a

comparatively more meaningful change in their expected cash flows going forward. The proposition that changes in the dividend amount is informative of managers' outlook is strongly supported by our findings when we exclude the year of 2020 (Exhibit 6). Compared to Table 3, the dividend amount last paid appears to exhibit a stronger and more significant relationship with the three-day CAR. As such, in the sample where 2020 is included, it is possible that investors were more concerned with the general market downturn due to the pandemic compared to what the level of information that the dividend amount would provide. Accordingly, for omissions excluding 2020, which are arguably more representative of a normal state of the world, the robust findings on the relationship between the dividend amount and the cumulative abnormal return in Exhibit 6 clearly highlights the above conclusion made by Bhattacharya (1979). Moreover, it is possible that the large number of omissions occurring in 2020, as shown in Figure 2, contributed to investors anticipating more omissions during the year than in normal times, thus muting the relationship between the dividend level and the price reactions observed upon firms' omission announcements.

We also find that the abnormal trading volume is significantly related to the three-day CAR during initiation announcements. This is consistent with previous studies, including Richardson et al (1988) who observed strongly significant increases in trading volume in the week of the initiation announcement, and Karpoff (1987) which documents the positive relationship between volume and magnitude of change in price. Moreover, although not directly comparable, the coefficient estimates on the relationship between our measure of abnormal trading volume and the three-day CAR are relatively larger for omissions compared to initiations. Such an observation should not be surprising given the larger magnitude of price reactions observed for omissions versus initiations (-5.2% versus 1.5% as provided in the respective summary statistics), consistent with Michaely et al (1995). This is further supported by managers treating dividend omissions as a last resort, as outlined in Brav et al (2005), given the anticipation of an adverse market reaction to such a decision.

In our study of idiosyncratic volatility during initiation and omission announcements, we observe in column 1 in Table 4 and Table 6 that the dividend-initiating firms with a payout gap may exhibit more idiosyncratic volatility compared to those that don't have a payout gap. In general, however, we cannot conclude that the existence of a payout gap meaningfully contributes

to the idiosyncratic volatility observed. The reason for this could be that investors pay more attention to the highly publicized announcement itself rather than the complex information captured by the payout gap, which is in line with Odean (1998) regarding the market's overreaction to events that are more pronounced compared to information that could be considered more complex. Moreover, we generally observe that the dividend amount last paid for omissions does have a positive and somewhat significant relation with idiosyncratic volatility, a finding that is consistent also when the year of 2020 is excluded (Exhibit 7), while no such significance is observed for initiations regarding the amount to be paid. As such, it is possible that the dividend omission leads to uncertainty among investors, especially for firms that previously paid a relatively larger dividend, which in turn translates into more idiosyncratic volatility upon announcement. This uncertainty should not be surprising considering the strong negative market reactions to dividend omissions, as demonstrated by Michaely et al (1995). Moreover, we suppose that the dividend reduction informs the market about managers revising their forecasts downward, consistent with the work of Bhattacharya (1979) on the signaling value of dividends, which should accentuate investor uncertainty.

The abnormal trading volume appears to be a primary reason for the idiosyncratic volatility spike for both initiations and omissions. This should be expected since we have already documented a positive and significant relationship between the magnitude of abnormal returns and trading volume, and since Odean (1998) establishes that the change in price is a strong driver of volatility. Moreover, the positive relationship between abnormal returns and idiosyncratic volatility is further supported by Lee and Mauck (2016) who find a significant relationship at the 1% level for initiating firms. In line with the above, we would attribute the relatively higher level of idiosyncratic volatility in the sample of omissions compared to initiations, as shown in Figure 3 and Figure 4, to the relatively larger magnitude of price reactions to omission announcements.

7. Conclusion

Within the relatively broad dividend literature, our study fills the existing research gap regarding the difference in market reactions between firms that have a payout gap, as defined by Farre-Mensa et al (2025), and those that do not. We find some statistical evidence suggesting that the existence of a payout gap is related to the three-day CAR around announcements of dividend initiations and omissions. In particular, our results for initiations suggest that firms with a payout gap experience a comparatively more subdued price reaction, and for omissions, we propose that the market may anticipate the omission to a larger extent if the firm had a payout gap in the preceding year. While we cannot conclude that there is a relationship between the idiosyncratic volatility around initiation and omission announcements and whether the firm exhibited a payout gap, our results suggest a statistically positive relationship between the idiosyncratic volatility and amount of dividend previously paid for omissions. Moreover, for both initiations and omissions, we found the abnormal trading volume to be significantly correlated with the three-day cumulative abnormal return. Thus, we propose that the rise in idiosyncratic volatility during the announcement period is primarily driven by the price reaction and abnormal trading volume for both initiations and omissions. Future researchers may attempt to broaden the understanding of the effect of public announcements on the stock return volatility by comparing the idiosyncratic volatility between initiating firms and non-payers, as well as between omitting firms and those that continue to pay dividends, around the event period. As mentioned earlier, this research is restricted to a small sample of firms incorporated within the U.S. Hence, it could also be worthwhile to broaden the understanding of payout financing by highlighting the contrast between the sources of payout financing prevalent within different market geographies.

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Appendix

Exhibit 1: Supplementary Variable Definitions

Throughout Exhibit 1, we follow Farre-Mensa et al (n.d.) and provide additional item descriptions based on Wharton Research Data Services.

Ordinary dividends are found by characterizing special dividends with CRSP distribution codes (CRSP item: distcd): 1202, 1214, 1215, 1218, 1219, 1262, 1263, 1264, 1268, 1272, 1273, 1274, 1278, 1279, 1280, 1282, 1292, 1294, 1312, 1314, 1362, 1368, 1372, 1392, 1705, 1712, 1713, 1772, 1812, 1813, 1814, 1872.

Total payout = cash dividends (Compustat item: dv) + repurchases (Compustat item: prstkc).

Net debt issues = Long-term debt issues (Compustat item: dltis) - reduction in long-term debt (Compustat item: dltr) + current debt change (Compustat item: dlcch).

Equity issues are classified as Firm-initiated equity issues if the amount of equity raised (Compustat item: sstky) divided by the firm's market value of equity is at least 2.5%, where market value of equity = share price at the end of the quarter (Compustat item: prccq) * shares outstanding at end of quarter (Compustat item: cshoq) + preferred/preference stock capital (Compustat item: pstkq).

Employee-initiated equity issues = Equity Issues (Compustat item: sstk) - Firm-initiated equity issues.

Free cash flow = operating cash flow (Compustat item: oancf) + Exchange rate effect (Compustat item: exre) + stock options excess tax benefit (Compustat item: txbcof) + investment cash flow (Compustat item: ivncf) + other financing activities (Compustat item: fiao).

Change in Cash = cash and cash equivalents change (Compustat item: chech).

Cash reduction = - min{Change in Cash, 0}

Control variables:

Log(Firm size) = log(total assets), where total assets is Compustat item at, converted to 2012 U.S. dollars using data from the U.S. Bureau of Economic Analysis (2026).

Operating Cash Flow = (operating cash flow (Compustat item: oancf) + exchange rate effect (Compustat item: exre) + stock options excess tax benefit (Compustat item: txbcof)) / Total assets (Compustat item: at)

Market-to-Book = (share price at fiscal year-end (Compustat item: prcc_f) * shares outstanding (Compustat item: csho) + Liquidating value of preferred stock (Compustat item: pstkl) + Total long-term debt (Compustat item: dltt) + total current debt (Compustat item: dlc) - deferred taxes and investment tax credit (Compustat item: txditc)) / Total assets (Compustat item: at).

Low (Middle) Sales Growth Tercile: dummy variable if a given firm's sales growth belongs to the lower (middle) tercile in the sample, where sales growth is computed using Compustat item: sale.

Leverage = (Total long-term debt (Compustat item: dltt) + total current debt (Compustat item: dlc)) / Total assets (Compustat item: at).

Cash = cash (Compustat item: che) / Total assets (Compustat item: at).

Investment-grade rating is a dummy variable for whether the firm has an investment grade credit rating as defined by Standard & Poor's. Compustat data item splticrm is used until 2017, after which S&P Capital IQ Pro (2026c) is utilized.

Exhibit 2: 3-Day CAR Regressions for Initiations and Omissions

The dependent variable is the market-based 3-Day CAR (MacKinlay, 1997) around the announcement date, expressed in percent. Columns 1-4 represent regressions for initiation announcements, and 5-8 represent regressions for omission announcements. Even columns include year and industry fixed effects, for which the intercepts represent the baseline group. Robust standard errors are shown in parentheses. "Has Payout Gap" is a dummy variable taking the value of one if the firm has a payout gap, as defined by Farre-Mensa et al (2025), and zero otherwise. "log (Dividend Amount)" is the logarithmic value of the estimated dividend amount based on average shares outstanding in the quarter of announcement, expressed in 2012 million USD using data from the U.S. Bureau of Economic Analysis (2026). "Average Abnormal Trading Volume Multiple" is defined as the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. We refer to Exhibit 1 for an overview of included control variables. Following Farre-Mensa et al (2025), these include the log of lagged firm size, lagged operating cash flow, lagged Market-to-Book, lagged leverage, lagged cash, dummy variables for low and middle tercile lagged sales growth, and lagged investment grade rating dummy variable. Exhibit 2 corresponds to the regressions in Table 3, showing the control variables.

	Dependent variable: 3-Day CAR (%)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Has Payout Gap	-2.35*	-2.04	-2.71**	-1.88	-0.28	1.04	1.57	2.93
	(1.31)	(1.39)	(1.21)	(1.28)	(3.08)	(3.04)	(2.68)	(2.51)
log(Dividend Amount)	0.84	0.70	0.27	0.16	-2.43**	-2.82**	-1.85*	-1.86
	(0.63)	(0.85)	(0.55)	(0.67)	(1.18)	(1.34)	(1.06)	(1.22)
Average Abnormal Trading Volume Multiple			1.26***	1.32***			-2.70***	-2.89***
			(0.20)	(0.20)			(0.80)	(0.79)
Intercept	8.17**	5.84	0.40	1.50	-16.58**	-5.58	-10.94	-4.52
	(4.09)	(4.77)	(3.18)	(4.00)	(8.29)	(12.41)	(7.13)	(10.36)
Log(Firm Size) (lag)	-1.16	-1.14	-0.26	-0.37	2.27**	2.49**	1.76*	1.90
	(0.71)	(0.81)	(0.55)	(0.60)	(1.08)	(1.25)	(0.93)	(1.15)
Operating Cash Flow (lag)	18.12***	14.84**	13.45***	12.02**	29.59**	28.18**	30.43***	36.99***
	(5.40)	(6.25)	(4.51)	(5.09)	(11.73)	(12.80)	(11.27)	(10.57)
Market-to-Book (lag)	-0.77	-0.58	-0.25	-0.18	0.08	0.55	-0.27	0.20
	(0.58)	(0.56)	(0.46)	(0.41)	(1.66)	(1.28)	(1.39)	(1.07)
Leverage (lag)	0.59	1.08	-0.50	-0.14	-5.29	-5.75	-3.72	-4.78
	(2.41)	(2.57)	(2.04)	(2.23)	(6.89)	(7.70)	(5.66)	(6.97)
Cash (lag)	-2.61	-1.02	-1.18	0.40	-4.78	1.72	9.96	9.95
	(2.76)	(3.19)	(2.44)	(2.75)	(8.59)	(8.82)	(9.52)	(8.75)
Low Sales Growth Tercile (lag)	-0.15	-1.91	0.43	0.21	-4.17	-1.13	-3.43	-1.58
	(1.92)	(1.79)	(1.70)	(1.35)	(2.83)	(2.94)	(2.63)	(2.74)
Middle Sales Growth Tercile (lag)	2.12	1.47	1.33	0.77	1.46	3.55	2.75	4.46*
	(1.60)	(1.85)	(1.14)	(1.38)	(3.27)	(2.84)	(2.75)	(2.61)
Investment Grade Rating (lag)	-2.54*	-2.65	-3.23**	-1.78	1.47	-1.16	0.45	-2.43
	(1.52)	(2.07)	(1.52)	(1.89)	(3.37)	(3.48)	(3.18)	(3.32)
Year + Industry FE	No	Yes	No	Yes	No	Yes	No	Yes
Additional Controls	No	No	No	No	No	No	No	No
Observations	161	161	161	161	161	161	161	161
R^2	0.16	0.27	0.41	0.50	0.08	0.25	0.25	0.38
Adjusted R^2	0.11	0.06	0.36	0.35	0.02	0.03	0.19	0.19
Note:								*p<0.1; **p<0.05; ***p<0.01

Exhibit 3: Idiosyncratic Volatility Regressions for Initiations and Omissions

The dependent variable is the market-based average five-day idiosyncratic volatility during the event window, based on the methodology of Ang et al (2006). Columns 1-4 represent regressions for initiation announcements, and 5-8 represent regressions for omission announcements. Even columns include year and industry fixed effects, for which the intercepts represent the baseline group. Robust standard errors are shown in parentheses. "Has Payout Gap" is a dummy variable taking the value of one if the firm has a payout gap, as defined by Farre-Mensa et al (2025), and zero otherwise. "log (Dividend Amount)" is the logarithmic value of the estimated dividend amount based on average shares outstanding in the quarter of announcement, expressed in 2012 million USD using data from the U.S. Bureau of Economic Analysis (2026). "Average Abnormal Trading Volume Multiple" is defined as the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. We refer to Exhibit 1 for an overview of included control variables. Following Farre-Mensa et al (2025), these include the log of lagged firm size, lagged operating cash flow, lagged Market-to-Book, lagged leverage, lagged cash, dummy variables for low and middle tercile lagged sales growth, and lagged investment grade rating dummy variable. Exhibit 3 corresponds to the regressions in Table 4, showing the control variables.

	Dependent variable: Average 5-Day Idiosyncratic Volatility (%)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Has Payout Gap	0.44*	-0.13	0.39	-0.11	0.47	0.31	0.12	-0.21
	(0.26)	(0.32)	(0.25)	(0.31)	(0.79)	(0.75)	(0.83)	(0.72)
log(Dividend Amount)	-0.04	-0.10	-0.11	-0.17	0.51**	0.54**	0.40*	0.28
	(0.12)	(0.15)	(0.11)	(0.13)	(0.24)	(0.24)	(0.23)	(0.23)
Average Abnormal Trading Volume Multiple			0.17***	0.17***			0.51*	0.79***
			(0.03)	(0.03)			(0.27)	(0.26)
Intercept	3.65***	2.03	2.63***	1.47	6.77***	3.03	5.70***	2.74
	(0.98)	(1.27)	(0.98)	(1.26)	(2.00)	(2.22)	(1.92)	(2.10)
Log(Firm Size) (lag)	-0.23*	-0.15	-0.12	-0.05	-0.37	-0.35	-0.28	-0.19
	(0.13)	(0.15)	(0.12)	(0.14)	(0.28)	(0.27)	(0.25)	(0.26)
Operating Cash Flow (lag)	-2.84**	-1.48	-3.45***	-1.85*	1.20	-2.47	1.04	-4.87
	(1.13)	(1.14)	(1.10)	(1.09)	(2.30)	(3.08)	(2.17)	(3.18)
Market-to-Book (lag)	0.10	0.08	0.17	0.13	-0.39*	-0.10	-0.32	-0.01
	(0.25)	(0.23)	(0.24)	(0.22)	(0.23)	(0.30)	(0.20)	(0.25)
Leverage (lag)	-0.29	-1.02*	-0.43	-1.18**	3.17	2.56	2.88	2.30
	(0.67)	(0.54)	(0.60)	(0.52)	(2.36)	(2.38)	(1.92)	(1.67)
Cash (lag)	1.31	1.61**	1.50*	1.80**	-3.71**	-4.21*	-6.51***	-6.45***
	(0.82)	(0.79)	(0.79)	(0.77)	(1.77)	(2.35)	(2.47)	(2.35)
Low Sales Growth Tercile (lag)	-0.22	-0.36	-0.15	-0.08	0.56	-0.22	0.42	-0.09
	(0.41)	(0.40)	(0.40)	(0.38)	(0.69)	(0.79)	(0.66)	(0.74)
Middle Sales Growth Tercile (lag)	-0.14	-0.12	-0.25	-0.21	0.35	-0.09	0.10	-0.34
	(0.29)	(0.32)	(0.26)	(0.29)	(0.87)	(0.78)	(0.77)	(0.70)
Investment Grade Rating (lag)	0.17	-0.09	0.08	0.02	-1.70*	-1.89*	-1.51*	-1.55*
	(0.42)	(0.58)	(0.41)	(0.56)	(0.93)	(1.07)	(0.84)	(0.91)
Year + Industry FE	No	Yes	No	Yes	No	Yes	No	Yes
Additional Controls	No	No	No	No	No	No	No	No
Observations	161	161	161	161	161	161	161	161
R^2	0.21	0.42	0.27	0.48	0.13	0.30	0.22	0.46
Adjusted R^2	0.16	0.25	0.22	0.32	0.07	0.10	0.17	0.30
Note:								*p<0.1; **p<0.05; ***p<0.01

Exhibit 4: 3-Day CAR Robustness Regressions for Initiations and Omissions

The dependent variable is the three-day CAR around the announcement date (expressed in percent), based on the methodology of MacKinlay (1997) and utilizing the Fama-French 3-factor model (Fama and French, 1993). Columns 1-4 represent regressions for initiation announcements, and 5-8 represent regressions for omission announcements. Even columns include year and industry fixed effects, for which the intercepts represent the baseline group. Robust standard errors are shown in parentheses. "Has Payout Gap" is a dummy variable taking the value of one if the firm has a payout gap, as defined by Farre-Mensa et al (2025), and zero otherwise. "log (Dividend Amount)" is the logarithmic value of the estimated dividend amount based on average shares outstanding in the quarter of announcement, expressed in 2012 million USD using data from the U.S. Bureau of Economic Analysis (2026). "Average Abnormal Trading Volume Multiple" is defined as the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. We refer to Exhibit 1 for an overview of included control variables. Following Farre-Mensa et al (2025), these include the log of lagged firm size, lagged operating cash flow, lagged Market-to-Book, lagged leverage, lagged cash, dummy variables for low and middle tercile lagged sales growth, and lagged investment grade rating dummy variable. Exhibit 4 corresponds to the regressions in Table 5, showing the control variables.

	Dependent variable: 3-Day CAR (%)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Has Payout Gap	-2.22*	-1.73	-2.57**	-1.57	0.43	3.02	2.21	4.79**
	(1.31)	(1.39)	(1.22)	(1.28)	(2.92)	(2.83)	(2.55)	(2.27)
log(Dividend Amount)	0.71	0.69	0.13	0.13	-2.14*	-2.72**	-1.58	-1.82
	(0.61)	(0.83)	(0.53)	(0.63)	(1.12)	(1.29)	(1.01)	(1.16)
Average Abnormal Trading Volume Multiple			1.27***	1.34***			-2.59***	-2.72***
			(0.22)	(0.21)			(0.77)	(0.74)
Intercept	7.14*	4.99	-0.70	0.57	-13.36*	-1.69	-7.93	-0.70
	(4.12)	(4.71)	(3.22)	(3.85)	(7.80)	(11.85)	(6.71)	(9.88)
Log(Firm Size) (lag)	-0.99	-1.07	-0.08	-0.29	1.84*	2.19*	1.34	1.64
	(0.72)	(0.80)	(0.55)	(0.58)	(1.02)	(1.21)	(0.87)	(1.12)
Operating Cash Flow (lag)	17.92***	13.96**	13.22***	11.09**	30.27***	32.97***	31.08***	41.24***
	(5.72)	(6.48)	(4.79)	(5.20)	(11.25)	(12.34)	(10.73)	(9.16)
Market-to-Book (lag)	-0.70	-0.64	-0.18	-0.23	-0.25	0.03	-0.58	-0.30
	(0.58)	(0.59)	(0.47)	(0.43)	(1.49)	(1.11)	(1.22)	(0.92)
Leverage (lag)	0.38	0.68	-0.72	-0.56	-7.10	-9.09	-5.59	-8.18
	(2.43)	(2.64)	(2.09)	(2.29)	(6.62)	(6.95)	(5.41)	(6.09)
Cash (lag)	-1.98	-0.55	-0.54	0.90	-4.70	4.17	9.49	11.90
	(2.75)	(3.13)	(2.43)	(2.67)	(8.18)	(8.35)	(9.07)	(8.17)
Low Sales Growth Tercile (lag)	-0.09	-1.71	0.50	0.45	-5.20*	-0.54	-4.49*	-0.96
	(1.98)	(1.79)	(1.76)	(1.32)	(2.75)	(2.64)	(2.58)	(2.42)
Middle Sales Growth Tercile (lag)	1.90	1.26	1.10	0.54	0.69	3.43	1.93	4.29*
	(1.61)	(1.85)	(1.15)	(1.36)	(3.06)	(2.56)	(2.54)	(2.31)
Investment Grade Rating (lag)	-2.06	-1.91	-2.75**	-1.03	4.12	0.88	3.14	-0.31
	(1.40)	(2.09)	(1.39)	(1.90)	(3.27)	(3.19)	(3.06)	(3.04)
Year + Industry FE	No	Yes	No	Yes	No	Yes	No	Yes
Additional Controls	No	No	No	No	No	No	No	No
Observations	161	161	161	161	161	161	161	161
R^2	0.15	0.27	0.39	0.50	0.09	0.32	0.26	0.44
Adjusted R^2	0.09	0.05	0.35	0.35	0.03	0.12	0.20	0.27
Note:								*p<0.1; **p<0.05; ***p<0.01

Exhibit 5: Idiosyncratic Volatility Robustness Regressions for Initiations and Omissions

The dependent variable is the average five-day idiosyncratic volatility during the event window, based on the methodology of Ang et al (2006), utilizing the Fama-French 3-factor model (Fama and French, 1993). Columns 1-4 represent regressions for initiation announcements, and 5-8 represent regressions for omission announcements. Even columns include year and industry fixed effects, for which the intercepts represent the baseline group. Robust standard errors are shown in parentheses. "Has Payout Gap" is a dummy variable taking the value of one if the firm has a payout gap, as defined by Farre-Mensa et al (2025), and zero otherwise. "log (Dividend Amount)" is the logarithmic value of the estimated dividend amount based on average shares outstanding in the quarter of announcement, expressed in 2012 million USD using data from the U.S. Bureau of Economic Analysis (2026). "Average Abnormal Trading Volume Multiple" is defined as the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. We refer to Exhibit 1 for an overview of included control variables. Following Farre-Mensa et al (2025), these include the log of lagged firm size, lagged operating cash flow, lagged Market-to-Book, lagged leverage, lagged cash, dummy variables for low and middle tercile lagged sales growth, and lagged investment grade rating dummy variable. Exhibit 5 corresponds to the regressions in Table 6, showing the control variables.

	Dependent variable: Average 5-Day Idiosyncratic Volatility (%)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Has Payout Gap	0.42*	-0.12	0.38	-0.10	0.37	0.05	0.01	-0.46
	(0.25)	(0.32)	(0.24)	(0.30)	(0.73)	(0.67)	(0.77)	(0.63)
log(Dividend Amount)	0.00	-0.07	-0.07	-0.15	0.46**	0.51**	0.35*	0.25
	(0.13)	(0.15)	(0.12)	(0.14)	(0.22)	(0.22)	(0.21)	(0.21)
Average Abnormal Trading Volume Multiple			0.16***	0.17***			0.53**	0.78***
			(0.03)	(0.03)			(0.26)	(0.24)
Intercept	4.02***	2.47*	3.01***	1.91	6.64***	3.54	5.54***	3.25
	(0.99)	(1.27)	(1.00)	(1.27)	(1.80)	(2.26)	(1.69)	(2.12)
Log(Firm Size) (lag)	-0.30**	-0.20	-0.18	-0.10	-0.38	-0.35	-0.28	-0.19
	(0.13)	(0.16)	(0.13)	(0.15)	(0.26)	(0.24)	(0.23)	(0.24)
Operating Cash Flow (lag)	-2.23*	-0.81	-2.84**	-1.18	0.04	-3.24	-0.13	-5.60**
	(1.21)	(1.17)	(1.22)	(1.17)	(1.98)	(2.81)	(1.84)	(2.66)
Market-to-Book (lag)	0.03	0.01	0.10	0.07	-0.38*	-0.03	-0.31*	0.07
	(0.24)	(0.23)	(0.24)	(0.22)	(0.23)	(0.28)	(0.19)	(0.22)
Leverage (lag)	-0.25	-0.91*	-0.39	-1.07**	2.76	2.06	2.46	1.79
	(0.65)	(0.54)	(0.59)	(0.52)	(2.24)	(2.24)	(1.77)	(1.55)
Cash (lag)	1.36*	1.71**	1.55*	1.90**	-3.34**	-4.21*	-6.21***	-6.42***
	(0.82)	(0.80)	(0.79)	(0.78)	(1.64)	(2.18)	(2.34)	(2.19)
Low Sales Growth Tercile (lag)	-0.25	-0.35	-0.18	-0.08	0.63	-0.13	0.49	-0.01
	(0.38)	(0.38)	(0.37)	(0.36)	(0.61)	(0.68)	(0.58)	(0.62)
Middle Sales Growth Tercile (lag)	-0.23	-0.19	-0.33	-0.28	0.08	-0.29	-0.17	-0.53
	(0.29)	(0.32)	(0.26)	(0.29)	(0.78)	(0.66)	(0.66)	(0.56)
Investment Grade Rating (lag)	0.30	-0.01	0.21	0.11	-1.62*	-1.57	-1.42*	-1.23
	(0.40)	(0.57)	(0.39)	(0.55)	(0.87)	(0.97)	(0.77)	(0.80)
Year + Industry FE	No	Yes	No	Yes	No	Yes	No	Yes
Additional Controls	No	No	No	No	No	No	No	No
Observations	161	161	161	161	161	161	161	161
R^2	0.21	0.42	0.28	0.48	0.12	0.32	0.24	0.51
Adjusted R^2	0.16	0.25	0.23	0.32	0.06	0.13	0.18	0.36
Note:								*p<0.1; **p<0.05; ***p<0.01

Exhibit 6: 3-Day CAR Regressions for Omissions excluding 2020

The dependent variable is the 3-day CAR during the event window for omissions based on the methodology of MacKinlay (1997). The CARs are market-based in columns 1-4 and based on the Fama-French 3-factor model (Fama and French, 1993) in columns 5-8. Even columns include year and industry fixed effects, for which the intercepts represent the baseline group. Robust standard errors are shown in parentheses. "Has Payout Gap" is a dummy variable taking the value of one if the firm has a payout gap, as defined by Farre-Mensa et al (2025), and zero otherwise. "log (Dividend Amount)" is the logarithmic value of the estimated dividend amount based on average shares outstanding in the quarter of announcement, expressed in 2012 million USD using data from the U.S. Bureau of Economic Analysis (2026). "Average Abnormal Trading Volume Multiple" is defined as the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. We refer to Exhibit 1 for an overview of included control variables. Following Farre-Mensa et al (2025), these include the log of lagged firm size, lagged operating cash flow, lagged Market-to-Book, lagged leverage, lagged cash, dummy variables for low and middle tercile lagged sales growth, and lagged investment grade rating dummy variable.

	Dependent variable: 3-Day CAR (%)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Has Payout Gap	2.17	3.86	3.97	7.25**	1.22	4.55	2.92	7.81***
	(4.17)	(4.00)	(3.51)	(3.11)	(4.00)	(3.82)	(3.41)	(2.90)
log(Dividend Amount)	-4.22**	-4.85**	-3.47**	-3.62**	-3.68**	-4.74**	-2.96**	-3.55**
	(1.61)	(2.00)	(1.42)	(1.80)	(1.55)	(1.90)	(1.38)	(1.71)
Average Abnormal Trading Volume Multiple			-2.71***	-3.15***			-2.56***	-3.04***
			(0.77)	(0.76)			(0.75)	(0.72)
Intercept	-19.13**	-10.04	-14.23*	-11.65	-14.90	-8.87	-10.26	-10.42
	(9.61)	(16.68)	(7.99)	(13.91)	(9.05)	(15.79)	(7.62)	(13.03)
Year + Industry FE	No	Yes	No	Yes	No	Yes	No	Yes
Additional Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	107	107	107	107	107	107	107	107
R^2	0.11	0.28	0.28	0.44	0.11	0.35	0.28	0.51
Adjusted R^2	0.01	-0.07	0.20	0.15	0.02	0.03	0.20	0.26

Note: *p<0.1; **p<0.05; ***p<0.01

Exhibit 7: Idiosyncratic Volatility Regressions for Omissions excluding 2020

The dependent variable is the average five-day idiosyncratic volatility during the event window, based on the methodology of Ang et al (2006). The dependent variable is market-based in columns 1-4 and based on the Fama-French 3-factor model (Fama and French, 1993) in columns 5-8. Even columns include year and industry fixed effects, for which the intercepts represent the baseline group. Robust standard errors are shown in parentheses. "Has Payout Gap" is a dummy variable taking the value of one if the firm has a payout gap, as defined by Farre-Mensa et al (2025), and zero otherwise. "log (Dividend Amount)" is the logarithmic value of the estimated dividend amount based on average shares outstanding in the quarter of announcement, expressed in 2012 million USD using data from the U.S. Bureau of Economic Analysis (2026). "Average Abnormal Trading Volume Multiple" is defined as the trading volume observed during each trading day in the event window over the average trading volume the 60 prior days, expressed as the three-day average. We refer to Exhibit 1 for an overview of included control variables. Following Farre-Mensa et al (2025), these include the log of lagged firm size, lagged operating cash flow, lagged Market-to-Book, lagged leverage, lagged cash, dummy variables for low and middle tercile lagged sales growth, and lagged investment grade rating dummy variable.

	Dependent variable: Average 5-Day Idiosyncratic Volatility (%)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Has Payout Gap	0.69	0.30	0.38	-0.46	0.61	0.23	0.31	-0.52
	(0.98)	(0.82)	(1.03)	(0.81)	(0.94)	(0.78)	(0.97)	(0.77)
log(Dividend Amount)	0.49*	0.88***	0.36	0.60**	0.50*	0.84***	0.37	0.57**
	(0.29)	(0.28)	(0.28)	(0.30)	(0.27)	(0.26)	(0.26)	(0.28)
Average Abnormal Trading Volume Multiple			0.47*	0.70***			0.46*	0.69***
			(0.27)	(0.26)			(0.25)	(0.25)
Intercept	5.46***	0.38	4.62**	0.74	5.42***	0.65	4.59**	1.00
	(2.02)	(2.83)	(2.10)	(2.76)	(1.83)	(2.75)	(1.88)	(2.70)
Year + Industry FE	No	Yes	No	Yes	No	Yes	No	Yes
Additional Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	107	107	107	107	107	107	107	107
R^2	0.17	0.42	0.26	0.56	0.18	0.43	0.28	0.58
Adjusted R^2	0.08	0.13	0.17	0.33	0.09	0.14	0.20	0.36
Note:								*p<0.1; **p<0.05; ***p<0.01

Acknowledgements

Data Acknowledgement

Wharton Research Data Services (WRDS) was used in preparing this work (Payout Financing and Announcements: How the Payout Gap Relates to the Market Reaction to Dividend Initiations and Omissions). This service and the data available thereon constitute valuable intellectual property and trade secrets of WRDS and/or its third-party suppliers.

AI Disclosure

For this thesis, only the Grammarly plug-in tool, which may utilize AI technology, has been used for fixing minor grammatical errors, such as spacing errors, commas, etc. within the document for increased readability. No particular insights or risks were identified using Grammarly in the process. Otherwise, no AI tools have been used for writing our thesis or collecting sample data.