Exodus: The Economics of Independent Director Dissent and Exit

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Abstract

We examine the economics of independent directors' resignation decisions by taking advantage of a natural setting: The revised Securities Law of the People's Republic of China, which took effect on March 1, 2020 (hereafter New Securities Law or NSL), and the first successful class-action securities lawsuit on November 12, 2021. We argue that by increasing 18-fold the penalties to directors of firms that misreport, NSL reduces by the same factor the maximum probability of getting caught at which director positions remain economically viable. We predict and find that in the short run when director compensation is fixed, NSL leads to more frequent voluntary resignations, particularly in firms that have a higher ex-ante likelihood of financial misreporting, and in firms where director compensation is lower. We also find that independent director dissent that arises primarily as a result of directors' inability to establish whether their firms' financial reports are reliable is a significant antecedent to voluntary resignations post NSL. Finally, analyzing the fraction of Chinese publicly traded firms that purchase director and officer liability (D&O) insurance, we find that independent directors are less likely to resign pre NSL but more likely to resign post NSL. This finding suggests that firms with higher misreporting risk self-select pre NSL into such contracts. Given directors' valuable monitoring role, we expect to observe in the long run both increased independent director compensation and increased D&O insurance coverage.

JEL classification: G31; G32; G34; M40.
Keywords: independent director resignations, director dissensions, D&O insurance

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1. Introduction

The role of independent directors in corporate governance has been a central theme in financial economics research for at least four decades. Indeed, a rich body of research evaluates independent directors' appointments and scrutinizes their biographical details to test conjectures about directors' independence, incentives, and effectiveness.[1] Yet studies of independent director resignations are both more recent and less common. In their examination of voluntary director departures, Fahlenbrach, Low, and Stulz (2017) show that most are retirements plausibly due to age (70+ years); that some occur (1) as a result of appointments to other boards, (2) following CEO turnover, (3) in firms with weak recent performance, and (4) due to death; and that unexpected resignations tend to anticipate bad news. Gupta and Fields (2009) and Dewally and Peck (2010) show that independent director resignations convey a negative signal to market participants, especially when the resigning director is critical of the firm. Studies of mandatory departures exploit regulatory changes that mandate independent director resignations in Chinese publicly traded companies. Such studies aim to establish whether academic directors or other independent directors enhance firm value and to assess the value of government connections and financing (e.g., Xu, 2018; Chen, Garel, and Tourani-Rad, 2019; Pang, Zhang, and Zhou, 2020).

We extend this literature by considering the economics of directors' voice and exit decisions in the wake of two recent regulatory changes affecting Chinese publicly traded companies. These regulations made it more costly to serve as an independent director and had the potential to generate a massive independent director exodus. The first regulatory change occurred on March 1, 2020, when

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[1] These studies examine whether firm performance and observable outcomes of decision contexts where agency conflicts are potentially more acute (i.e., CEO turnover, CEO compensation, and corporate restructuring) are related to who appointed the directors (i.e., are they co-opted?), whether directors cross-serve on boards (i.e., are they interlocked?), whether directors are "busy" (i.e., do they have time to monitor?) and whom directors know (i.e., are they socially connected to the CEO?). See, for example, Coles et al. (2014), Fields et al. (2012), and Core et al. (1999).

the revised Securities Law of the People's Republic of China (New Securities Law or NSL) took effect and resulted in an 18-fold increase in the regulatory fines to directors of firms that are charged with misreporting (from 0.6 to 10 million Yuan). The second occurred on November 12, 2021, when decisions by the Supreme Court and several lower courts culminated in the first successful class-action suit.

Empirical leverage for our analyses arises from three sources. First, to our knowledge, these recent regulatory changes have not been previously studied; they also involve *voluntary* rather than *mandatory* resignations. Second, these changes enable us to look at voice (Jiang, Wan, and Zhao, 2016; Ding, Lin, Schmid, and Weisbach, 2021) and exit in a dynamic setting. To the extent that most director dissension is related to the reliability of the firm's financial information, voice is a likely an antecedent to exit (Edmans, Fang, and Zur, 2013; McCahery, Sauntner, and Starks, 2016; Broccardo, Hart, and Zingales, 2020).[2] Third, the regulatory changes provide a context that alleviates the well-known empirical challenge that the size and composition of boards are endogenously determined (e.g., Hermalin and Weisbach, 2003; Harris and Raviv, 2008). These director resignations occur after the new penalties are imposed on firms whose firm and director characteristics remain unchanged before and after the new law takes effect. That is, they do not occur because of sudden poor performance or the sudden need for a different type of expert on the board.

We expect an exodus of independent directors after each regulatory change. If directors behave rationally, they expect their compensation and other benefits as directors (C) to exceed their expected cost if the firm misreports and gets caught ($F*p$), where F is up to the maximum fine under

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[2] Institutional investors could affect firm decisions through voice or exit. Edmans, Fang, and Zur (2013) focus on the effect of liquidity on blockholders' governance mechanisms and show that liquidity reduces the likelihood that blockholders govern through voice and increases the likelihood that they use the channel of exit. The survey conducted by McCathery, Sauntner, and Starks (2016) shows the complementarity of voice and exit for institutional investors, documenting that intervention typically occurs prior to an exit. In the context of promoting socially desirable outcomes in companies, Broccardo, Hart, and Zingales (2020) show that exit is less effective than voice in a competitive world.

the law (or, after November 2021, the sum of the regulatory fine and the expected costs of private litigation) and p is the probability of being charged with misreporting. As NSL increases the maximum fine 18-fold, it proportionately lowers the probability threshold above which directors ought to resign, such that the resignation is informative about the likelihood that the firm will be charged with misreporting.[3] The second regulatory change relates to the implementation of NSL. Because the new law enables private litigation and thereby increases expected costs over and above the regulatory penalties, it is likely to further lower the probability threshold over which it becomes too costly to remain on the board.

We exploit a natural setting in which firm and director characteristics do not change *a priori*, so we can infer from independent directors' resignations their perceived likelihood of misreporting at the firm on whose board they serve. The difference between the first and the second regulatory changes relates to the role of Directors & Officers liability insurance (D&O insurance). Chinese public companies infrequently purchase D&O insurance, which typically covers private litigation costs but not regulatory penalties. We thus expect the moderating effect of D&O insurance on resignations to be larger in the context of the second regulatory change. We validate our tests by considering alternative measures of the probability of fraud but relying principally on the Beneish (1999) M-Score, which Beneish and Vorst (2022) show to be the most economically viable model for investors among seven fraud prediction models.

Our results are based on a sample of 18,796 independent directors serving on the boards of 4,812 listed firms in China over the period of January 1, 2018 to December 31, 2021. Our tests span

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[3] Using the maximum penalty and the average annual cash compensation for directors (80,000 Yuan) allows us to illustrate this statement. Before the change in securities law, C> F*p meant that 80,000>600,000*p; thus, as long as p<13.3%, the directorship provides an expected benefit. After the change in securities law, C> F*p means that 80,000>10,000,000*p, so that p<0.8%; thus, the director should resign from boards of firms in which the director perceives the probability of being charged with misreporting to be higher than 8/10s of 1%.

independent directors' dissent and exit decisions for two reasons. First, our analysis of dissension reveals, similar to Ding et al. (2021), that the vast majority of dissents relate to the reliability of the firms' financial reports. This implies that dissent and exit are likely related inasmuch as exit is an extreme occurrence of dissent, in which case, prior dissent is likely an antecedent to exit. Second, dissent enables us to distinguish the role of D&O insurance in directors' decisions. D&O insurance typically covers private litigation costs but not regulatory penalties, so the purchase of D&O insurance by a limited number of Chinese public companies is likely to reduce the likelihood of exit but unlikely to affect the likelihood of dissent.

Our results include the following. First, we find a slight increase in dissensions, and marked increases in both the number of resignations and the number of firms purchasing D&O insurance after NSL takes effect. Whereas the number of proposals with a dissenting vote increases from an average of 29 per month in the pre-NSL period (Jan 2018-March 2020) to an average of 30 per month in the post-NSL period prior to the second regulatory change (April 2020-October 2021), the number of resignations per month increases by 35% from an average of 115 pre NSL to an average of 155 post NSL. Coinciding with the second regulatory change, the number of resignations averages 172 per month in November and December 2021. Although this represents a further 11% increase in resignations, the period over which these data are observed is short. In addition, the number of firms that purchased D&O insurance for the first time during our sample period more than tripled from 143 pre NSL to 439 post NSL (April 2020-December 2021).

Second, we find that dissension occurs in firms that present a riskier profile: they are smaller, less profitable, and less cash-rich, and they have a higher ex-ante likelihood of misreporting. Consistent with this riskier profile, they are more likely to have purchased D&O insurance in the post-NSL period. Overall, the profile presented by firms in which dissension occurs is one where the

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risk of a reporting failure is higher. We also show that independent directors alter their voting behavior after NSL takes effect. Although dissension remains rare, we estimate that the likelihood of dissension increases by 50% post NSL. This consistent with the notion that independent directors are more willing to dissent to potentially avoid the higher regulatory penalties enacted by NSL.

Third, we find that independent director resignations occur post NSL among riskier firms: these firms are smaller, less profitable, and less cash-rich, and they are more likely to have purchased D&O insurance. Consistent with predictions, we find that resignations are higher post NSL in firms that have a higher ex-ante likelihood of financial misreporting as measured by the M-Score. We also find that NSL is more likely to increase voluntary resignations among directors with lower compensation from other firms. Finally, we find that dissent and exit are likely related inasmuch as exit is an extreme occurrence of dissent. That is, consistent with predictions, we find that dissent is a likely antecedent to independent directors' exit.

The remainder of the paper is organized in five sections. Section 2 presents our empirical framework and outlines our predictions. Sections 3 and 4 describe our data and our empirical specifications. We present our results in Section 5 and our conclusions in Section 6.

2. Empirical Framework

2.1 Institutional Background

The past two decades have seen an increase in regulation aimed at strengthening corporate governance in Chinese publicly traded firms. Beginning in 2001, the China Securities Regulatory Commission (CSRC) required a listed firm to have at least one-third independent directors on its board, with at least one independent director with financial expertise. In December 2004, in an effort to increase the transparency of listed firms' governance, the CRSC mandated and the Shanghai and Shenzhen Stock Exchanges adopted stock listing rules requiring the disclosure of directors' votes on

proposals brought to the board. These rules required disclosures in firms' annual reports of the identity of the dissenting directors and their reasons for dissenting, which accounts for our ability to observe and study dissent (e.g., Jiang et al., 2016; Ding et al., 2021). In October 2013, the Organization Department of the Central Committee of the Communist Party of China (CPC) issued a depoliticization regulation aimed at restraining corruption and mandated that government officials resign from corporate boards (Rule 18). In November 2015, China's Ministry of Education issued a clarification of Rule 18, in which it mandated that professors who serve as deans, university presidents, or administrators with the same rank as deans or above abide by Rule 18. The last two changes triggered resignation waves of government officials and academics who served as independent directors on boards and provided a setting for prior research to examine the effects of the mandatory resignations on firm value (Xu, 2018; Chen et al., 2019; Hu et al., 2020; Pang et al., 2020).

2.2 The New Securities Law and the First Successful Class-Action Lawsuit

On December 28, 2019, the 15th Session of the Standing Committee of the 13th National People's Congress adopted the revised Securities Law of the People's Republic of China (hereafter the New Securities Law or NSL), which took effect on March 1, 2020. The law increased directors' penalty for fraud from 0.6 to 10 million Yuan. It also sought to enhance investor protection and improve disclosure by "establishing an information disclosure system for the public commitment of issuers and their controlling shareholders, ultimate controlling shareholders, directors, supervisors, and senior managers."[4] This regulatory change was followed by the Supreme Court's and lower courts' decisions that culminated in the first successful class-action suit on November 12, 2021.

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[4] See http://www.npc.gov.cn/englishnpc/c23934/202109/9886ca6f805e4663a9a725d6f72066dd.shtml for details.

Kangmei Pharmaceuticals and its officers and directors were ordered to pay investors 2.46 billion Yuan as compensation for their losses in the company's stock due to financial reporting fraud.

These more recent changes to the corporate governance environment in China are the object of our study for three reasons. First, they differ from previously studied regulatory changes because director resignations are *voluntary* rather than mandatory, and the cost of assent (or rather the cost of not dissenting) has risen, both in terms of regulatory and private-litigation penalties. Second, the changes enable us to look at voice and exit on a continuum. To the extent that most dissension is related to the reliability of a firm's financial information, voice is a way to escape regulatory penalties and likely an antecedent to exit. Third, the regulatory changes provide a context that alleviates a well-known empirical challenge that the size and composition of the board are endogenously determined (e.g., Hermalin and Weisbach, 2003; Harris and Raviv, 2008). In our setting, director resignations occur after the new penalties are imposed on firms whose financial and director characteristics remain unchanged before and after the new law takes effect. That is, they do not occur because of sudden poor performance or the sudden need for a different type of expert on the board.

2.3 Estimating the Probability of Financial Statement Fraud

An important component of our analysis is the probability of financial statement fraud. Although we consider alternatives, we focus on the M-Score as this model has been shown to be the most economically viable model for investors in equity markets (Beneish and Vorst, 2022).[5] After

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[5] Beneish and Vorst (2022) evaluate the ability of seven fraud detection models to identify firms that are subsequently subject to SEC accounting and enforcement actions. These include the M-Score (Beneish, 1997, 1999), the Cecchini et al. (2010) model based on support vector machines (SVM), the F-Score (Dechow et al., 2011), an extended F-Score model that incorporates a measure of financial statement divergence based on how the distribution of first digits differs from Benford's Law (Amiram et al., 2015), the Adjusted Benford Score from Chakrabarty et al. (2020), the misrepresentation model from Alawadhi et al. (2020), and finally the Bao et al. (2020) fraud prediction model developed using a machine learning approach. Previously, Beneish (1997) showed that the M-Score's ability to predict earnings manipulation compared favorably to that of accrual expectation models: the M-Score correctly classified 64% of firms charged with financial reporting violations, whereas accrual expectation models identified between 23% and 30% of such firms.

profiling firms that manipulate earnings (either firms charged by the SEC or firms that admit to manipulation in the public press), Beneish (1997, 1999) uses forensic accounting expertise to develop a statistical model that differentiates manipulators from non-manipulators. After the publication of the original study (which used data from 1982 to February 1993), the model began attracting attention when a group of MBA students at Cornell University posted the earliest warning about Enron's accounting manipulation score using the Beneish (1999) model a full year before the first professional analyst reports (Morris, 2009).[6] More importantly, the M-Score flags Kangmei Pharmaceutical as early as 2017. Like the Enron scandal, which led to new regulation in the U.S., the Kangmei Pharmaceutical scandal is considered one of the triggers for new regulation in China. The new law increased the regulatory penalties for financial fraud (effective March 2020), and it enabled China's first successful class-action lawsuit involving corporate fraud (the case against Kangmei Pharmaceutical decided in November 2021).[7]

In this paper, we use the unweighted probit model presented in Beneish (1999), which relies exclusively on financial statement data and whose usefulness in assessing the likelihood of fraud has been established by academics and professionals:

$$\text{M-SCORE}_{it} = -4.840 + 0.920\text{DSRI}_{it} + 0.528\text{GMI}_{it} + 0.404\text{AQI}_{it} + 0.892\text{SGI}_{it} + 0.115\text{DEPI}_{it}$$

$$- 0.172\text{SGAI}_{it} + 4.679\text{TATA}_{it} - 0.327\text{LGVI}_{it} \tag{1}$$

where, for firm i and year t:

DSRI = Day's Sales in Receivable Index = $(\text{AR}_t/\text{REV}_t)/(\text{AR}_{t-1}/\text{REV}_{t-1})$;
GMI = Gross Margin Index

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[6] This episode in American financial history is preserved in the Enron exhibit at the Museum of American Finance, New York (www.moaf.org) and is also recounted in Gladwell (2009). The M-Score has been featured in financial statement analysis textbooks and in articles directed at auditors, certified fraud examiners, and investment professionals (e.g., Ciesielski, 1998; Merrill Lynch, 2000; Wells, 2001; DKW, 2003; Harrington, 2005). It produces accurate results in a number of countries.

[7] Kangmei Pharmaceutical is a Chinese publicly traded company that was involved in financial reporting fraud from 2016 and 2018. The M-Score classifies a firm as a potential manipulator if the M-Score exceeds -1.78. Kangmei's M-Scores from 2015 to 2019 are -2.200, -2.298, -1.102, -1.139, and -3.220. These scores suggest that Kangmei Pharmaceuticals was engaging in manipulation in 2017 and 2018.

$$= [(REV_{t-1} - CGS_{t-1})/REV_{t-1}]/[(REV_t - CGS_t)/REV_t];$$

AQI = Asset Quality Index

$$= (1 - [Current\ Assets_t + PPE_t]/AT_t)/(1 - [Current\ Assets_{t-1} + PPE_{t-1}]/AT_{t-1});$$

SGI = Sales Growth Index = REV_t / REV_{t-1};

DEPI = Depreciation Index

$$= (Depreciation_{t-1}/[Depreciation_{t-1} + PPE_{t-1}])/(Depreciation_t/[Depreciation_t + PPE_t]);$$

SGAI = Sales, General, and Administrative expenses Index

$$= (SGA_t/REV_t)/(SGA_{t-1}/REV_{t-1});$$

TATA = Total Accruals to Total Assets = $(IBC_t - CFO_t)/AT_t$; and

LGVI = Leverage Index

$$= ([Long\text{-}Term\ Debt_t + Cur.\ Liab_t]/AT_t)/([Long\text{-}Term\ Debt_{t-1} + Cur.Liab_{t-1}]/AT_{t-1}).$$

3. Sample Construction and Descriptive Statistics

Our final sample has 356,119 firm-quarter-director observations between January 2018 and December 2021. It covers 4,812 listed firms and 18,796 independent directors in China. As described below, we obtain financial and director data from China Stock Market Accounting Research (CSMAR) financial and CSMAR governance databases, and we hand-collect data from various sources (e.g., annual reports and board meeting disclosures) on independent director voice and exit, and on whether firms purchase D&O insurance.

3.1. Independent Director Voice (Dissension)

Independent directors can express the following five types of opinions on proposals: they can consent, express reservations, object, abstain, or suggest postponement. Because both objections and abstentions are public statements by a director against a particular proposal, we classify these as votes against the proposal (which we refer to as "dissension votes"). This classification is consistent with the findings of Jiang et al. (2016) and Ding et al. (2021), who document that abstention and objection have similar effects. We also categorize postponement as a dissension vote.[8] Panel A in Table 1 illustrates the distribution of types of dissension votes.

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[8] Excluding the six postponements leaves our results unchanged. We include them because it is a category specifically disclosed in firms' annual reports. Appendix E gives an example of a postponement in the "dissension by independent directors" section of an annual report.

The vast majority of the 1,968 dissenting votes are either abstentions (1,123) or objections (839).

As there is no readily available database on the voting behavior of independent directors, we collect the data using board meeting disclosures and annual reports via the Wind Financial Terminal.[9] We follow the method described in Appendix A in Ding et al. (2021). We begin by downloading 19,641 annual reports and 227,943 board meeting disclosures from January 1, 2018 to December 31, 2021. Since firms typically do not disclose the names of the directors who vote in favor of a proposal, we cannot directly collect director-level votes in favor of proposals. We assume that all director votes are in favor of a proposal if we find no indication of dissensions in the annual reports and board meeting disclosures.[10] Next, we use the method of Ding et al. (2021) and filter out 393 annual reports and 3,416 board meeting disclosures that potentially contain dissension votes.[11] We examine each of these documents manually and record the dissenting votes of independent directors. After removing duplicates between the annual reports and board meeting disclosures, we end up with 1,968 dissenting votes from independent directors on 1,403 unique proposals.

Panel B in Table 1 provides an overview of the distribution of the proposal topics. Using keyword matching, we classify proposals into the following three categories: financial, governance, and personnel. Financial proposals include those related to accounting treatment,

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[9] The Wind Financial Terminal provides investment professionals with the data they need to understand China's complex capital markets and economy. The terminal integrates the most comprehensive and accurate market data, fundamental data, research, news, and analytics tools across all asset classes in China (https://www.wind.com.cn/en/wft.html).

[10] Board meeting disclosures include the meeting dates, the contents of the discussed proposals, and the numbers of directors' votes in favor of or against the proposals. If there is a dissension, the disclosure includes the name of the dissenting director and the reason for the dissension. Such a disclosure requirement applies to board meetings that discuss material business decisions. In addition, the CSRC mandates that Chinese listed firms disclose any dissension by directors during the fiscal year in their annual reports. Our study focuses solely on the votes cast by independent directors.

[11] We search for any signs of dissension in all the annual reports and board meeting disclosures downloaded using the regular expressions (Python "re" package) to extract text that potentially contains a dissension vote. Specifically, we use regular expression to extract text such as "\d+票反对", where "\d+" is a regular expression that means any nonnegative Arabic numbers and "票反对" means objection votes. Similarly, we also use expressions such as "弃权票 2" (abstention votes: 2) and "反对人数 3" (number of directors with objection: 3).

financial reporting, financing decisions, and investment decisions. Governance proposals include proposals related to internal control, related-party transactions, business strategy, CSR, and protection of shareholders' interests (e.g., payout policies). Personnel proposals include hiring, promotion, and dismissal of directors and top managers, as well as compensation-related issues. The remaining 14 proposals are classified as Other. Financial dissensions are the largest category, accounting for 49.39% of all dissensions. During our sample period of 2018–2021, there are 720,816 proposals in total; of these proposals, only 1,403 have at least one dissenting vote (0.2%=1,403/720,816). Hence, dissensions are extreme ways for directors to express displeasure with management (Jiang et al., 2016; Ding et al., 2021).

3.2. Independent Director Exit (Resignation)

We obtain detailed information on independent directors from the CSMAR Corporate Governance database, which includes the dates when independent directors join and leave the firm. Listed firms in China must disclose information on their independent directors in a standardized format in their annual reports, which are then compiled by CSMAR. During our sample period between 2018 and 2021, there are in total 18,796 independent directors and 9,594 departures. Panel A of Table 2 provides the distribution of the types of independent directors' departures. "Term-related" departure is the largest category, followed by "resigned for personal reasons."

Panel B of Table 2 describes the subset of 6,398 departures that we treat as resignations. This subset excludes categories of health, death, retirement, and directors who reached the maximum term of continuous six-year service on a board. There are several types of resignations that we can either infer or discern: (1) resignation during the general election by a director with less than six years of continuous board service, (2) resignation for personal reasons: i.e., the firm filing provides no details beyond a statement that the director "resigned for personal reasons" (see the example in Appendix

C)[12], (3) "resignation without specific reasons," including resignations with no stated reasons and resignations for "other" reasons as characterized by CSMAR, and (4) resignation "for job-related reasons" without further explanation (see an example in Appendix D).[13] Term-related voluntary departures (4,036 in total) account for most independent director exits because an intended departure of an independent director is not effective until a replacement is elected at the general election of the board if such a departure would otherwise cause the fraction of independent directors to go below the mandatory one-third.

3.3. D&O Insurance

D&O insurance provides essential cover for a company's senior leadership, including independent directors. It protects them from private litigation costs but not regulatory penalties. In the U.S. capital market, where private shareholder litigation is more common, every listed firm in the U.S. subscribes to D&O insurance. By contrast, in the Chinese capital market, investors rely primarily on regulators to protect their interest; hence there is little incentive for public firms to purchase D&O insurance. The regulatory change brought by NSL, which strengthened the legal rights of shareholders and potentially facilitated future shareholder litigation, could lead more listed firms in China to purchase D&O insurance.

In the absence of a comprehensive database of whether listed companies purchase D&O insurance, we collect these data manually using the Wind Financial Terminal. We do so by using the advanced search function, which accesses the complete text of the CRSC firm filings, and by

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[12]The following article (in Chinese) states that after the Kangmei case, many independent directors resigned. Although the stated reason for these departures is "for personal reasons," people generally believe the Kangmei case was the real cause. Hence, director resignations for "personal reasons" are most likely voluntary resignations. For details, please see https://www.zhihu.com/question/386914872/answer/2248721456?utm_campaign=shareopn&utm_content=group3_An swer&utm_medium=social&utm_oi=79231489500555520&utm_source=wechat_session&s_r=0.

[13] Our results remain robust when we exclude (1) term-related departure at 3 years, when most independent directors complete their first term, (2) resignations for personal reasons, (3) resignations for other reasons, or (4) resignations for job-related reasons.

imposing three filters: (1) the time range is from January 1, 2018 to December 31, 2021; (2) the full text must contain any of the following keywords: "责任险" (general liability insurance), "董责险" (directors and officers liability insurance), or "责任保险" (liability insurance); (3) the announcement type is "董事会公告" (board meeting disclosure), "股东大会" (general meeting of shareholders), or "个股其他公告" (other company announcements). After we apply these filters, the Wind Financial Terminal returns a list of links that contain a total of 8,860 disclosure statements.

After retrieving these statements that may disclose the purchase of D&O insurance, we use Python to extract text that contains keywords such as "保险费用" (insurance premium), "保险期限" (insurance period), etc. We obtain 3,893 disclosure statements of listed companies that potentially purchased D&O insurance, and we manually check the statements one by one. In addition, some firms disclose in their annual general meeting minutes the purchase of D&O insurance without providing details on the insurance premium and coverage. Our final sample includes 582 listed companies that purchased D&O insurance.

Figure 2 shows the annual number of firms that purchase D&O insurance for the first time during the period of January 2018 to December 2021. The number of firms that first time purchase D&O insurance increases dramatically after NSL took effect, as well as after November 12, 2021, when the Guangzhou Intermediate People's Court made a first-instance ruling on the first securities class-action lawsuit in China.

4. Empirical Specification

To identify the causal impact of NSL on independent director voice (dissent) and exit, we follow Ding et al. (2021) and conduct our dissent regression analysis at the director-firm-quarter level rather than at the proposal or meeting level. Although we have director-level data on dissenting votes, firms do not usually disclose voting details if all attending directors voted in favor of the

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proposals.[14] In the dissension regressions, we code our main dependent variable, $Dissention_{i,j,q}$, as one if independent director i voted against at least one proposal in firm j during quarter q. $Dissention_{i,j,q}$ is set to zero if we do not detect any dissension of director i in firm j during the quarter. $Financial\ Dissention_{i,j,q}$ is coded similarly, but for independent directors' dissensions on financial proposals only. In the resignation regressions, the dependent variable is $Resignation_{i,j,t}$, which equals one if independent director i resigned from firm j during quarter t and zero if independent director i is still at firm j during quarter t. Specifically, we estimate the following model:

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\begin{aligned}
Z_{i,j,q} =\ & \beta_0 + \beta_1 Post + \beta_2 X_{j,y} + \beta_3 X_{i,j,q} \\
& + \beta_4 Second\ Term_{i,j,q} + \beta_5 Five\ Boards_{i,q} + \delta_i + \delta_j + \delta_y + \varepsilon_{i,j,q}
\end{aligned} \tag{2}
$$

where $Z_{i,j,q}$ is the dependent variable as described above, and i, j, y, and q indicate director, firm, year, and quarter, respectively. $Post$ is an indicator variable that equals one for year-quarters from the second quarter of 2020 onwards and zero otherwise, because NSL took effect on March 1st, 2020. $X_{j,y}$ is a vector of time-varying firm characteristics. These firm characteristics include firm *Size* (the natural logarithm of total assets at the end of last fiscal year); *Cash Ratio*, as measured by one-year lagged cash and cash equivalents divided by total assets; *ROA*, defined as EBITDA divided by total assets at the end of last fiscal year, to measure firm's profitability; and *Leverage*, as measured by one-year lagged long-term debt divided by total assets. We calculate *CF Volatility* as a measure of the operational risk, which is the standard deviation of past five years' operating cash flow, scaled by total assets at the end of last fiscal year. We define *High CF Volatility* equal to one if a firm has above-median CF Volatility in that year and zero

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[14] Ding et al. (2021) explain, "Because not all directors attend all board meetings and participate in voting on all proposals, we cannot distinguish whether a director voted in favor of a proposal, or was absent during a meeting, or was absent due to conflict of interests. Thus, we cannot conduct our analysis on the proposal level but have to collapse to the director-firm-quarter level, assuming that each director attends at least one board meeting per quarter…. It would be unusual for an independent director not to attend any board meeting in a quarter since, at very least, the quarterly financial report needs to be approved by the board, which requires the independent directors to present."

otherwise. *High Coverage* is an indicator variable that equals one if the firm has an above-median number of analysts that issue forecasts on the firm in a year. X_i is a vector of independent director characteristics.

The CSMAR dataset includes directors' short biographies. We include the following classifications of independent directors: *Age*, the age of the director; *Male*, an indicator variable that equals one if the director is male and zero if she is female; *Second Term*, an indicator variable that equals one if the director is in the second term (director tenure between 4 and 6 years) of independent directorship at this firm and zero otherwise; *Five Boards*, an indicator variable that equals one if director's total number of independent directorships (including the focal firm) in a quarter reaches five.

We further include the professional backgrounds of independent directors based on their biographies. To determine the professional background of an independent director, we search for keywords in his/her biography. We identify the following backgrounds: academic, accounting, judicial, and governmental. Multiple backgrounds can apply to the same independent director. For example, if the phrase "accounting professor" appears in the biography, we classify this person as having an accounting and academic background. We define a director as having an academic background if keywords such as "professor", "lecturer", or "research fellow" are present in the director's biography. A director has an accounting background if keywords such as "audit", "ACCA", or "CPA" are found. A director a has financial background if keywords such as "finance", "insurance", "CFA", "financial advisor", or "banker" are found. A director has a judicial background if keywords such as "lawyer", "judge", "prosecutor", or "legal study" are found. A director has a government background if keywords such as "mayor", "party secretary", "director-general of XX office (主任)", "section chief (科长)", "director (处长)", "director-general of XX department (局长)", "minister (部长)" and "director of XX research institute（研究所所长）" are found.

Director fixed effects δ_i control for any time-invariant director characteristics. Firm fixed effects δ_j control for any time-invariant firm characteristics. Year fixed effects δ_y control for any year-specific effects. In most of our specifications, we include firm-year fixed effects $\delta_{j,y}$ in replace of firm fixed effects (δ_j) and year fixed effects (δ_y) to control for unobservable firm-level characteristics that are constant within a year. We report t-statistics based on standard errors that are clustered at the director level.

In subsequent cross-sectional analyses, we estimate the following model:

$$
\begin{aligned}
Z_{i,j,q} = \ & \beta_0 + \beta_1 Post + \beta_2 Post * CS\text{-}Measure + \beta_3 X_{i,j,q} \\
& + \beta_4 Second\ Term_{i,j,q} + \beta_5 Five\ Boards_{i,q} + \delta_i + \delta_{j,y} + \varepsilon_{i,j,q}
\end{aligned}
\tag{3}
$$

where $Z_{i,j,q}$ is the dependent variable as described above, and i, j, y and q indicate director, firm, year, and quarter, respectively. The cross sectional measure, *CS-Measure*, includes two measures at the firm-year level: *D&O Insurance* and *M-Score*, and three measures at the director-firm-quarter level: *Ln(Director Pay)*, *Ln(Total Other Director Pay)*, and *Prior Dissension*. For the director-firm-quarter level measures, we also include each individual measure in the regression.

5. Empirical Results

5.1. Effects of NSL on Independent Director Voice

We begin by presenting a graphical analysis of trends of dissension votes from independent directors in Figure 1, Panel A. This figure shows monthly dissension rates across all listed firms in China over time from 2018 to 2021. The dissension rate is calculated as the ratio of the total number of proposals that have at least one dissension vote by an independent director over the total number of all proposals in the month. The dissension rate increases substantially in January of 2020 after the announcement of NSL on December 28, 2019 (represented by the dashed line). After NSL took effect on March 1, 2020 (represented by the solid line), there are also three peaks in the dissension rate that are much higher than its highest pre-NSL peaks. This graph provides some initial evidence

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that independent directors are more likely to dissent to avoid potential regulatory penalties after the passage of NSL, which increased the regulatory penalties to directors of firms that misreport.[15]

In Table 3, Panel A, we examine firms with more than one dissenting vote by independent directors and firms with no dissenting votes in a given year for the pre-NSL period (January 2018 to March 2020) and the post-NSL period (April 2020 to December 2021) separately. Our comparison of firm characteristics in the subsamples partitioned based on dissension reveals the following. Dissension occurs in firms that are slightly smaller, are less cash-rich, have a lower ROA and have lower analyst coverage in both the pre- and post-NSL periods, which is consistent with a riskier profile and a poorer information environment. To the extent that this result reflects risk-based self-selection, these firms are more likely to have purchased D&O insurance in the post-NSL period. Overall, dissension tends to occur at firms with a higher risk of a reporting failure.

Table 3, Panel B presents descriptive statistics for the director characteristics that we use as control variables at the director-firm-year level when comparing firms with and without dissenting votes for the pre- and post-NSL periods separately. We find that dissenting directors are more likely to be younger in both pre- and post-NSL periods. In addition, directors with judicial backgrounds are more likely to dissent in the pre-NSL period—which is unsurprising, given attorneys' tendency toward risk aversion. The difference disappears in the post-NSL period. Moreover, female directors and directors receive less compensation for serving on other boards are more likely to dissent.

We use Equation (2) to estimate the impact of NSL on independent director dissent and use $Dissension_{i,j,q}$ as the outcome variable to measure independent director dissension. We report the results of three specifications in Panel C of Table 3: column (1) includes firm fixed effects and year fixed effects; column (2) adds director fixed effects; and column (3) includes

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[15] Appendix F provides an example of how dissension helps independent directors avoid regulatory penalties.

firm-year interactive fixed effects and director fixed effects. The coefficient estimates for the *Post* indicator are 0.001 for all three columns and are statistically significantly different from zero at the 1 percent level for columns (2) and (3) and at the 5 percent level for column (1). This finding suggests that directors do alter their voting behavior after NSL takes effect. Because the overall dissension rate in our sample is only 0.2% (=1,403/720,816),[16] such public dissents are an extreme way for independent directors to express their displeasure with management (Ding et al., 2021). The coefficient estimate implies that the dissension probability increases by 50% (=0.001/0.002) in relative terms. Hence, it meaningfully implies that independent directors are more willing to dissent to avoid potentially high regulatory penalties after NSL takes effect.

The coefficients of time-varying firm-level characteristics are generally consistent with the findings from Panel A of Table 3. Dissensions are more likely to occur in firms with lower cash ratio, lower ROA, higher cash flow volatility, and lower analyst coverage, which further suggests that dissent occurs in firms where the risk of a reporting failure is higher. Interestingly, firm size correlates positively with dissension, which suggests that larger firms have more dissent. Regarding independent director characteristics, dissenting directors are younger.

In Table 4, we present cross-sectional analyses of the impact of NSL on independent director dissent in five specifications. Column 1 to 5 use the dependent variable *Financial Dissension* equals one if the director dissents on financial proposals in the firm during the quarter and zero otherwise. We systematically find that the coefficient on *Post* is significantly positive and ranges from .001 to .005, which is consistent with an increase in the number of dissensions post NSL. In the second specification, we consider whether the purchase of D&O insurance plays a role. D&O insurance typically shields directors from private ligation outcomes but does not cover regulatory penalties.

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[16] There are 720,816 proposals in total, and 1,403 proposals have at least one dissension vote during our sample period (see Table 1, Panel B).

Thus, the decision to dissent ought to be independent of whether the firm purchases D&O insurance. However, to the extent that there is adverse selection in that firms that purchase D&O insurance are the riskiest, D&O insurance could also be associated with more dissensions. We use Equation (3) for the estimation and replace *CS-Measure* by $D\&O\ insurance_{j,y}$. In column (2) of Table 4, the coefficient of the interaction term of $Post$ times $D\&O\ insurance_{j,y}$ is not statistically distinguishable from zero, which is in line with our prediction that whether the firm purchased D&O insurance does not affect independent director dissent after NSL takes effect.

In the third specification, we examine director compensation. The rationale is that independent directors with lower director compensation would be more likely to dissent post NSL, as lower compensation makes it more difficult to cover the expected regulatory penalty. We use Equation (3) for the estimation and replace *CS-Measure* by $Ln(Director\ Pay)_{i,j,q}$ and $Ln(Total\ Other\ Director\ Pay)_{i,q}$. In columns (3) and (5) of Table 4, both the interaction term of $Post$ times $Ln(Director\ Pay)_{i,j,q}$ and $Post$ times $Ln(Total\ Other\ Director\ Pay)_{i,q}$ are not significant, suggesting that directors' compensation is unlikely to affect whether they dissent or not on financial proposals post NSL.

In Column 4 and 5 of Table 4, we evaluate the hypothesis that NSL results in more dissensions from independent directors, particularly in firms that have a higher ex-ante likelihood of financial misreporting. We use Equation (3) to estimate the above prediction and validate our tests by considering alternative measures of the probability of fraud. However, we rely principally on the Beneish (1999) M-Score.

Our regression analysis is constructed at the director-firm-quarter level. We adopt a three-month rule to ensure that independent directors have access to financial information for calculating the M-Score. Financial information becomes available to independent directors three months after

the fiscal year end. Thus, for the first quarter of 2020, we assume that the most recent observable M-Score is based on 2017 and 2018 financial data. For quarters 2 to 4 of 2020, independent directors have access to the financial data through December 2019, so the most recent M-Score is based on 2018 and 2019 financial data (see the timeline in Appendix B for more details). The interaction term of $Post$ times $M\text{-}Score_{j,y}$ is significantly positive at the 1 percent level, consistent with our prediction that NSL leads to more dissensions from independent directors, particularly in firms that have a higher ex-ante likelihood of financial misreporting.

Column 5 of Table 4 presents the estimates where we pool all the above interaction terms in this section in one regression. The results are qualitatively similar to those reported in the previous four columns.

Column 6 to 10 use the dependent variable *Non-Financial Dissension* equals one if the director dissents on non-financial proposals in the firm during the quarter and zero otherwise. We systematically find that the coefficient on *Post* is insignificant except for Column (8), which is consistent with an increase in the number of dissensions post NSL is primarily focused on financial proposals.

In columns 8 and 10 of Table 4, the significant negative coefficients on the interaction term of $Post$ times $Ln(Director\ Pay)_{i,j,q}$ are consistent with our prediction that NSL is more likely to increase dissension among independent directors with lower compensation at the focal firm. By contrast, the interaction term of $Post$ times $Ln(Total\ Other\ Director\ Pay)_{i,q}$ is not significant, suggesting that directors' other compensation is unlikely to affect whether they dissent or not post NSL.

5.2. Effects of NSL on Independent Director Exit

In this section, we examine the effects of NSL on independent director resignations. We start by depicting in Figure 1, Panel B the trend of independent director resignations by month over the period of 2018–2021. Figure 2 suggests that director resignations increase substantially in 2020 and 2021 following the adoption of NSL compared with the pre-NSL years of 2018 and 2019. This graphical evidence provides some initial indication that NSL leads to more frequent resignations of independent directors.

In Table 5, Panel A, we compare firms with any independent director resignation in a given year with firms in which there is no independent director resignation for the pre- and post-NSL periods separately. As in our comparison of firms in the subsamples partitioned based on dissensions, independent director resignation occurs in firms that are slightly smaller and have lower ROA in both periods. In addition, firms in which independent directors' resignation pre NSL are less levered have higher cash ratio and lower cash flow volatility. Firms with more than one resignation have less cash post NSL. There's no difference in leverage post NSL. The evidence is in general consistent with a riskier financial profile and lower profitability. To the extent that it reflects risk-based self-selection, firms in which resignation occurs are more likely to have purchased D&O insurance in the post-NSL period, although resignations are less likely occur in firms that have purchased D&O insurance in the pre-NSL period. The profile presented by firms in which independent director resignation occurs is one of higher risk, particularly post NSL.

Table 5, Panel B presents descriptive statistics for the director characteristics that we use as control variables at the director-firm-year level when comparing firms partitioned on whether independent director resignation occurs for the pre- and post-NSL periods separately. We find that resigned directors have a similar profile to dissenting directors: they are less likely to be government officials or academics. In addition, directors who are serving their second term and those who receive

lower compensation are more likely to resign. Post NSL, younger directors who have greater reputational concerns are more likely to resign.

We use Equation (2) to estimate the effect of NSL on independent director resignations and report the results in Panel C of Table 5. The coefficient estimates for the *Post* indicator range from 0.013 to 0.018 across three columns and are statistically significantly different from zero at the 1 percent level for all specifications using different fixed effects. Because the overall voluntary departure rate in our sample is 6.58% (=6,398/97,249),[17] the coefficient estimate implies that the resignation probability increases in relative terms by 20% (=0.013/0.066) to 27% (=0.018/0.066). This finding confirms our prediction that independent directors are more likely to resign from boards post NSL because the 18-fold increase in the penalties to misreporting directors reduces by the same factor the maximum probability of getting caught at which director positions remain economically viable. The coefficients of time-varying firm characteristics and director characteristics reveal findings consistent with those in Panel A and Panel B of Table 5: independent directors are more likely to resign from firms with less cash and from less profitable firms; they are also more likely to resign when they reach the five boards limit because the opportunity costs of not departing is the highest for these independent directors or are in their second term.

We examine the cross-sectional effect of NSL on independent director resignation using Equation (3). In Table 6, we present the results in five specifications that use voluntary departure as the dependent variable. We find that the coefficient on *Post* is significantly positive at the 1 percent level in all specifications and ranges from .017 to .091, which is consistent with an increase in voluntary resignations by independent directors post NSL. In the first specification, we consider

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[17] There are 97,249 unique director-firm-year observations in our sample period (unique director-firms for 2018 through 2021 are 22,578, 23,932, 25,299, and 25,440), of which 6,398 have director resignations.

whether the purchase of D&O insurance plays a role. As we explained in section 5.1, D&O insurance typically shields directors from private litigation outcomes but does not cover regulatory penalties. Thus, the decision by directors to exit ought to be independent of whether the firm purchases D&O insurance. However, to the extent that there is adverse selection in that firms that purchase D&O insurance are the riskiest, D&O insurance could also reflect a higher incidence of voluntary resignations post NSL. In the first column of Table 6, the coefficient of the interaction term of $Post$ times $D\&O\ insurance_{j,y}$ is significantly positive at the 5 percent level. In an unreported regression where we use firm fixed effects and year fixed effects instead of firm-year fixed effects, the coefficient of $D\&O\ insurance_{j,y}$ itself is negatively significant at the 1 percent level, and $Post$ times $D\&O\ insurance_{j,y}$ is significantly positive at the 1 percent level. These results indicate that when firms have D&O insurance, independent directors are less likely to resign pre NSL but more likely to resign post NSL, suggesting that firms with higher financial misreporting risk self-select into such contracts post NSL.

In the second specification of Table 6, we evaluate the hypothesis that NSL results in more resignations from independent directors particularly in firms that have a higher ex-ante likelihood of financial misreporting. Column 2 shows that the interaction term of $Post$ times $M\text{-}Score_{j,y}$ is positively significant at the 1 percent level, which confirms our prediction that NSL leads to more voluntary resignations from independent directors particularly in firms that have a higher ex-ante likelihood of financial misreporting as measured by higher M-Score.

In the third specification, we examine director compensation. We predict that the lower their director compensation, the more likely independent directors are to resign from firms, as lower compensation makes it more difficult to cover the expected penalty for misreporting. The effect is expected to be stronger post NSL. We find that the coefficient estimate for $Ln(Director\ Pay)_{i,j,q}$ is

negative and statistically significant at the 5 percent level in column 3 and 1 percent level in column 5 of Table 6, which confirms our prediction that the lower their director compensation, the more likely independent directors are to resign from firms. Additionally, the coefficient of the interaction term of $Post$ times $Ln(Total\ Other\ Director\ Pay)_{i,q}$ is significantly negative at the 1 percent level in both column 3 and column 5 in Table 6, suggesting that the higher the director compensation from other firms, the less likely a director would voluntarily resign from the focal firm post NSL.

In the fourth specification, we examine directors' prior dissensions. Our analysis of dissent reveals that most dissents are related to the reliability of the firms' financial reports. This implies that dissent and exit are likely related inasmuch as exit is an extreme occurrence of dissent; hence, we predict that prior dissent is likely an antecedent to exit for independent directors. In column 4 of Table 6, the coefficient of $Prior\ Dissension_{i,j,q}$ is significantly positive at the 1 percent level, which confirms our prediction that independent director dissent that arises primarily as a result of directors' inability to establish whether their firms' financial reports are reliable is a significant antecedent to voluntary resignations. The coefficient of the interaction term of $Post$ times $Prior\ Dissension_{i,j,q}$ is insignificant, which suggests that the relationship between resignation and prior dissension does not change post NSL.

Column 5 of Table 6 presents the estimates where we pool all the above interaction terms in this section in one regression. The results are similar to those in the previous columns. In all of these five columns, the coefficients of *Second Term* and *Five Boards* are positively significant at the 1 percent level. These findings are consistent with those in Table 5, which indicates that directors are more likely to resign when they reach the five boards limit because the opportunity costs of not departing is the highest for these independent directors or are in their second term.

6. Conclusion

We exploit two recent regulatory changes that increase independent directors' expected costs as a natural setting to examine the economics of independent directors' dissension and resignation decisions. We argue that by increasing 18-fold the penalties to directors in misreporting firms, NSL reduces by the same factor the maximum probability of getting caught at which director positions remain economically viable. We predict and find that in the short run when director compensation is fixed, NSL leads to more frequent director resignations, particularly in firms that have a higher ex-ante likelihood of financial misreporting and in firms where director compensation is lower. We also find that independent director dissent, which results primarily from directors' inability to establish whether their firms' financial reports are reliable, is a significant antecedent to resignations post NSL. Finally, analyzing the fraction of Chinese publicly traded firms that purchase D&O insurance, we find that independent directors are less likely to resign pre NSL but more likely to resign post NSL, which suggests that firms with higher misreporting risk self-select post NSL into buying such contracts. Given directors' valuable monitoring role, we expect to observe in the long run both increased independent director compensation and increased D&O insurance coverage.

Our paper adds to the literature in two ways. First, whereas mandatory director resignations among listed firms in China have been studied (e.g., Xu, 2018; Chen et al., 2019; Pang et al., 2020), voluntary resignations have not. As in the settings of previous work, these regulatory changes provide a context that alleviates a well-known empirical challenge: that the size and composition of board directorships are endogenously determined. Unlike the settings of previous work, this setting enables us to consider the trade-offs independent directors make regarding voice vs. exit and the costs vs. the benefits of board membership. Second, we add to the limited literature on independent director resignations: whereas Falenbrach et al. (2017), among others, show that unexpected

voluntary departures anticipate bad news, our evidence suggests that post-NSL voluntary departures

signal a higher risk of misreporting.

Figure 1. Monthly Rate of Independent Director Dissension & Number of Independent Director Resignation

Our sample period covers January 2018 to December 2021. Panel A shows the monthly dissension rate across all listed firms in China. The dissension rate is calculated as the ratio of the total number of proposals that have any dissenting vote by an independent director over the total number of all proposals in the month. Panel B shows the monthly number of resigned independent directors. Director resignations include (1) resignation during the general election of the board by a director with less than six years of continuous service, (2) resignation for personal reasons: the firm filing provides no details beyond a statement that the director "resigned for personal reasons," (3) resignation for job-related reasons: the firm filing provides no details beyond a statement that the director "resigned for job-related reasons," and (4) resignation for no stated reason or for "other" reasons as characterized by CSMAR. On December 28, 2019, the 15th Session of the Standing Committee of the 13th National People's Congress deliberated and adopted the revised Securities Law of the People's Republic of China (dashed line), which took effect on March 1, 2020 (solid line).

Panel A
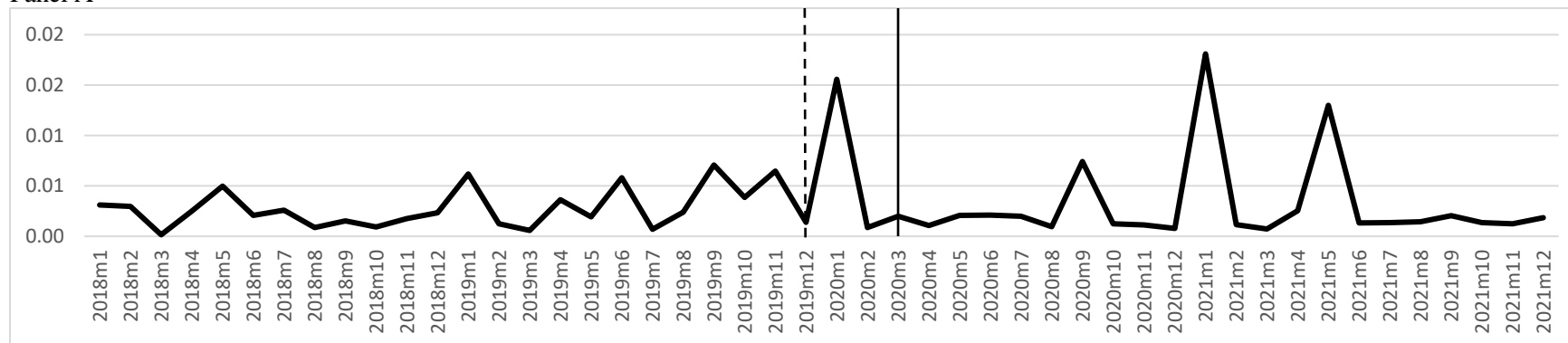
Panel B
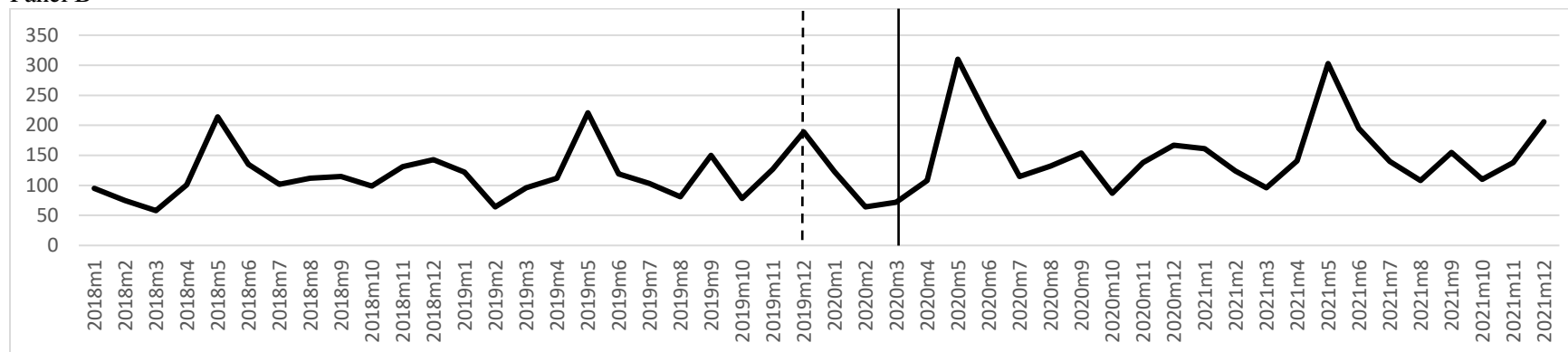
Figure 2. Annual Number of Firms that Purchase the D&O Insurance for the First Time
This figure shows the annual number of firms that purchase D&O insurance for the first time during the period of January 2018 to December 2021. On December 28, 2019, the 15th Session of the Standing Committee of the 13th National People's Congress deliberated and adopted the revised Securities Law of the People's Republic of China (dashed line), which took effect on March 1, 2020 (solid line).
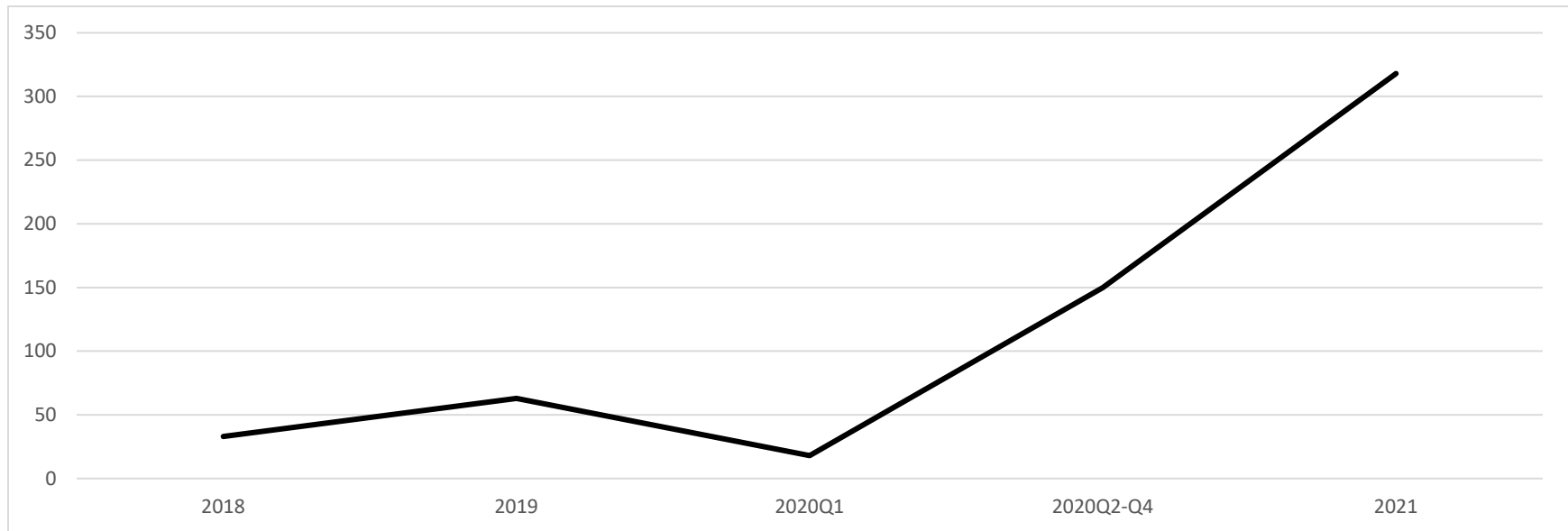
Table 1. Voting and Proposal Type Distribution
This table describes independent director dissension votes during 2018 to 2021. In Panel A, both abstentions and objections are public statements by a director against a particular proposal (Ding et al., 2021; Jiang et al., 2016). In addition, we consider the votes of directors who suggested postponing the discussion of a proposal as dissension votes. Panel B shows the distribution of four proposal types. Financial proposals include proposals related to investment decisions, accounting treatment, financing decisions, and financial reporting. Governance proposals include proposals related to internal control, related-party transactions, business strategy, CSR, and protection of shareholders' interests (e.g., payout policies). Personnel proposals include hiring, promotion, and dismissal of directors and top managers, as well as compensation. We carefully examine proposals that cannot be captured by our keywords and classify them as Other. All classifications are done by keyword matching.

Panel A. Voting type distribution

Type of Votes	Frequency	Percentage	Cumulative Percentage
Abstention	1,123	57.06	57.06
Objection	839	42.63	99.70
Suggested postponement	6	0.30	100.00
Total	1,968	100.00	

Panel B. Proposal type distribution

Type of Proposals	Frequency	Percentage	Cumulative Percentage
Financial	693	49.39	49.39
Governance	387	27.58	76.97
Personnel	287	20.46	97.43
Other	36	2.57	100.00
Total	1,403	100.00	

Table 2. Independent Director Departures
Panel A reports the reasons for independent director departures from January 2018 to December 2021. Panel B focuses on voluntary independent director departures (i.e., resignations).

Panel A. All independent director departures

Type of Departure	Frequency	Percentage	Cumulative Percentage
Term-related	6,811	71.00	71.00
Resigned for personal reasons	1,376	14.34	85.34
Resigned without specific reasons	602	6.27	91.61
Resigned for job-related reasons	383	3.99	95.60
Unknown	274	2.86	98.46
Death	38	0.40	98.86
Health	31	0.32	99.18
Policy	27	0.29	99.47
Fired	14	0.15	99.62
Change of ownership	13	0.14	99.76
Retired	7	0.07	99.83
For firm's development	6	0.06	99.89
Violation	6	0.06	99.95
For independent director's independence	5	0.05	100.00
Total	9,594	100.00	

Panel B. Independent director resignations

Type of Departure	Frequency	Percentage	Cumulative Percentage
Term-related	4,036	63.08	63.08
Resigned for personal reasons	1,376	21.51	84.59
Resigned without specific reasons	602	9.41	94.00
Resigned for job-related reasons	384	6.00	100.00
Total	6,398	100.00	

Table 3. Independent Director Dissension: Univariate Analysis and Baseline Regression

This table presents descriptive statistics for the firm financials that we use as control variables at the firm-year level. Panel A compares dissension (more than one dissension vote from independent directors in the firm-year) vs. no dissension for the pre- and post-NSL periods separately. The pre-NSL period starts in January 2018 and ends in March 2020; the post-NSL period starts in April 2020 and ends in December 2021. Panel B presents descriptive statistics for the director characteristics that we use as control variables at the director-firm-year level and compares dissension vs. no dissension for the pre- and post-NSL periods separately. Panel C presents estimates on how NSL affects the voting behavior of independent directors at the director-firm-quarter level. The dependent variable *Dissension* equals one if the independent director dissents at least once during a quarter and zero otherwise. *Post* equals one starting in the second quarter of 2020 and zero otherwise. All variables are defined in Appendix A. Continuous variables are winsorized at the 1st and 99th percentiles. The standard errors are clustered at the director level. We report t-statistics in parentheses. ***, **, and * denote significance levels of 1%, 5%, and 10%.

Panel A. Firm characteristics at the firm-year level

	Pre-NSL			Post-NSL		
	Dissension (N= 80)	No Dissension (N= 13,215)		Dissension (N= 37)	No Dissension (N= 9,549)	
	Mean	Mean	P-value	Mean	Mean	P-value
Size	21.972	22.294	0.048	21.936	22.286	0.060
Cash Ratio	0.110	0.168	0.000	0.111	0.180	0.000
ROA	-0.118	0.049	0.000	-0.107	0.047	0.000
Leverage	0.039	0.037	0.846	0.038	0.038	0.939
D&O Insurance	0.013	0.024	0.498	0.169	0.072	0.002
High CF Volatility	0.700	0.613	0.111	0.692	0.610	0.175
High Coverage	0.175	0.497	0.000	0.061	0.429	0.000
M-Score	-1.946	-2.072	0.234	-2.222	-2.259	0.774

Panel B. Director characteristics at the director-firm-year level

	Pre-NSL			Post-NSL		
	Dissension (N= 271)	No Dissension (N= 68,609)		Dissension (N= 218)	No Dissension (N= 50,135)	
	Mean	Mean	P-value	Mean	Mean	P-value
Male	0.815	0.817	0.922	0.743	0.814	0.007
Official	0.491	0.585	0.004	0.533	0.577	0.263
Academic	0.500	0.561	0.064	0.539	0.568	0.459
Accounting	0.459	0.434	0.443	0.435	0.435	0.984
Financial	0.263	0.252	0.705	0.239	0.249	0.764
Judicial	0.272	0.195	0.003	0.208	0.194	0.649
Age	52.457	55.234	0.000	53.466	56.037	0.000
Second Term	0.236	0.212	0.346	0.151	0.165	0.594
Director Pay	0.007	0.007	0.817	0.007	0.007	0.586
Total Other Director Pay	0.009	0.010	0.115	0.008	0.010	0.050
Five Boards	0.160	0.155	0.830	0.127	0.136	0.683

Panel C. Regression analysis

Dependent variable:	Dissension		
	(1)	(2)	(3)
Post	0.001**	0.001***	0.001***
	(2.19)	(2.77)	(2.89)
Size	0.003***	0.001**	
	(3.56)	(2.46)	
Cash Ratio	-0.006***	-0.002	
	(-2.76)	(-1.34)	
ROA	-0.023***	-0.015***	
	(-5.74)	(-5.20)	
Leverage	0.010**	0.004	
	(2.14)	(1.19)	
High CF Volatility	0.001***	0.001**	
	(3.51)	(2.20)	
High Coverage	-0.001***	-0.001***	
	(-4.14)	(-2.76)	
Age	-0.000***		
	(-4.23)		
Male	-0.000		
	(-0.58)		
Official	-0.000		
	(-0.84)		
Academic	0.000		
	(0.13)		
Accounting	-0.000		
	(-0.99)		
Financial	-0.000		
	(-0.57)		
Judicial	0.000		
	(0.01)		
Second Term	0.000	0.000	0.000
	(1.43)	(1.41)	(0.84)
Five Boards	0.000	0.001	0.001
	(0.47)	(1.56)	(1.00)
Firm FE	Y	Y	
Year FE	Y	Y	
Firm-year FE			Y
Director FE		Y	Y
Observations	231,397	323,813	284,123
Adjusted R^2	0.074	0.163	0.207

Table 4. Independent Director Dissension: Cross-Sectional Analysis

This table examines how NSL affects independent director dissensions. Column 1 to 5 use the dependent variable *Financial Dissension* equals one if the director dissents on financial proposals in the firm during the quarter and zero otherwise. Financial proposals include proposals related to investment decisions, accounting treatment, financing decisions, and financial reporting. Column 6 to 10 use the dependent variable *Non-Financial Dissension* equals one if the director dissents on non-financial proposals in the firm during the quarter and zero otherwise. *Post* equals one for year-quarters from the second quarter of 2020 onwards and zero otherwise. *D&O* equals one if the company has Directors and Officers insurance coverage during the year and zero otherwise. *M-Score* is the M-Score calculated based on firm financials two years prior for the first quarter of a year, and calculated based on firm financials one year prior for the second to the fourth quarters of the year. *Director Pay* is director compensation at the focal firm in a year in 10,000,000 Yuan. *Total Other Director Pay* is the total annual compensation of a director from all other firms in the year in 10,000,000 Yuan. All variables are defined in Appendix A. Our sample is at the director-firm-quarter level. Continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered at the director level. We report t-statistics in parentheses. ***, **, and * denote significance levels of 1%, 5%, and 10%.

Dependent variable:	Financial Dissension					Non-Financial Dissension				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Post	0.001***	0.001***	0.001**	0.004***	0.005***	0.000	0.000	0.001*	-0.000	0.002
	(3.13)	(2.85)	(2.25)	(2.86)	(2.89)	(1.40)	(1.04)	(1.94)	(-0.32)	(0.95)
Post × D&O insurance		0.000			0.001		0.001			0.003
		(0.49)			(1.00)		(0.96)			(1.24)
Post × M-Score				0.002***	0.002***				-0.000	-0.000
				(2.65)	(2.89)				(-0.33)	(-0.10)
Post × Director Pay			-0.068		-0.054			-0.079		-0.242**
			(-1.22)		(-0.70)			(-1.58)		(-2.51)
Post × Total Other Director Pay			-0.005		0.002			-0.019		-0.007
			(-0.38)		(0.09)			(-1.28)		(-0.38)
Director Pay			0.063		0.081			0.124**		0.188**
			(0.94)		(0.80)			(2.15)		(2.45)
Total Other Director Pay			0.049**		0.059**			0.024		0.026
			(2.47)		(2.13)			(1.20)		(1.00)
Second Term	0.000	0.000	-0.000	0.000**	-0.000*	0.000	0.000	-0.000	0.000	-0.000
	(1.47)	(1.47)	(-1.16)	(2.21)	(-1.77)	(0.03)	(0.04)	(-1.55)	(0.40)	(-0.99)
Five Boards	0.000	0.000	-0.001	0.000	-0.001	0.000	0.000	-0.000	-0.000	-0.000
	(0.92)	(0.92)	(-1.11)	(0.16)	(-1.20)	(0.23)	(0.23)	(-0.28)	(-0.12)	(-0.34)
Firm-year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Director FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	284,123	284,123	221,885	185,986	140,378	284,203	284,203	221,951	186,041	140,428
Adjusted R^2	0.194	0.194	0.227	0.210	0.237	0.164	0.164	0.193	0.200	0.218

Table 5. Independent Director Resignation: Univariate Analysis and Baseline Regression

This table presents descriptive statistics for firm financials that we use as control variables at the firm-year level. Panel A compares resignations (more than one resignation by independent directors in the firm-year) vs. all others (zero resignations by independent directors in the firm-year) for the pre- and post-NSL periods separately. The pre-NSL period starts in January 2018 and ends in March 2020; the post-NSL period starts in April 2020 and ends in December 2021. Panel B presents descriptive statistics for the director characteristics that we use as control variables at the director-firm-year level. It compares resignations vs. all others for the pre- and post-NSL periods separately. Panel C presents estimates on how the treatment law affects the resignation of independent directors. The dependent variable *Resignation* is defined in Appendix A. *Post* equals one for year-quarters from 2020 Q2 and afterwards and zero otherwise. All variables are defined in Appendix A. Our sample is at the director-firm-quarter level. Continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered at the director level. We report t-statistics in parentheses. ***, ** , and * denote significance levels of 1%, 5%, and 10%.

Panel A. Firm characteristics at the firm-year level

	Pre-NSL			Post-NSL		
	Resignation (N= 768)	No Resignation (N= 12,527)		Resignation (N= 809)	No Resignation (N= 8,777)	
	Mean	Mean	P-value	Mean	Mean	P-value
Size	21.879	22.322	0.000	22.188	22.292	0.059
Cash Ratio	0.175	0.167	0.075	0.172	0.181	0.086
ROA	0.030	0.049	0.000	0.019	0.048	0.000
Leverage	0.028	0.038	0.000	0.036	0.038	0.496
D&O Insurance	0.010	0.025	0.011	0.105	0.069	0.000
High CF Volatility	0.565	0.616	0.004	0.604	0.611	0.704
High Coverage	0.504	0.494	0.623	0.420	0.427	0.715
M-Score	-2.019	-2.075	0.074	-2.249	-2.260	0.687

Panel B. Director characteristics at the director-firm-year level

	Pre-NSL			Post-NSL		
	Resignation (N= 3,101)	No Resignation (N= 65,779)		Resignation (N= 3,297)	No Resignation (N= 47,056)	
	Mean	Mean	P-value	Mean	Mean	P-value
Male	0.816	0.818	0.779	0.807	0.814	0.360
Official	0.561	0.586	0.007	0.556	0.578	0.028
Academic	0.480	0.566	0.000	0.522	0.572	0.000
Accounting	0.403	0.436	0.000	0.428	0.435	0.480
Financial	0.231	0.253	0.007	0.260	0.248	0.184
Judicial	0.198	0.195	0.701	0.189	0.194	0.473
Age	55.271	55.217	0.734	55.331	56.085	0.000
Second Term	0.286	0.209	0.000	0.309	0.154	0.000
Director Pay	0.004	0.008	0.000	0.007	0.008	0.000
Total Other Director Pay	0.009	0.011	0.000	0.009	0.010	0.000
Five Boards	0.158	0.155	0.640	0.141	0.136	0.383

Panel C. Regression analysis

Dependent variable:	Resignation		
	(1)	(2)	(3)
Post	0.013***	0.013***	0.018***
	(9.86)	(13.40)	(16.50)
Size	-0.002	0.002	
	(-1.53)	(1.56)	
Cash Ratio	-0.007	-0.014***	
	(-1.07)	(-2.79)	
ROA	-0.024***	-0.023***	
	(-3.89)	(-4.91)	
Leverage	-0.008	-0.005	
	(-0.73)	(-0.55)	
High CF Volatility	-0.000	-0.002*	
	(-0.39)	(-1.95)	
High Coverage	0.000	0.002*	
	(0.38)	(1.84)	
Age	0.000***		
	(3.61)		
Male	0.000		
	(0.13)		
Official	-0.001		
	(-1.43)		
Academic	-0.006***		
	(-7.09)		
Accounting	-0.002***		
	(-3.16)		
Financial	0.002**		
	(2.55)		
Judicial	-0.003***		
	(-2.59)		
Second Term	0.017***	0.010***	0.024***
	(19.01)	(12.24)	(20.74)
Five Boards	-0.000	0.013***	0.012***
	(-0.40)	(6.76)	(6.27)
Firm FE	Y	Y	
Year FE	Y	Y	
Firm-year FE			Y
Director FE		Y	Y
Observations	231,397	323,813	284,123
Adjusted R^2	0.014	0.078	0.112

Table 6. Independent Director Resignation: Cross-Sectional Analysis

This table examines how NSL affects independent director resignations. The dependent variable *Resignation* equals one for (1) resignation during the general election of the board by a director with less than six years of continuous service, (2) resignation for personal reasons: the firm filing provides no details beyond a statement that the director "resigned for personal reasons," (3) resignations with no stated reason or for "other" reasons as characterized by CSMAR, and (4) resignation for job-related reasons: the firm filing provides no details beyond a statement that the director "resigned for job-related reasons." *Post* equals one for year-quarters from the second quarter of 2020 onwards and zero otherwise. *D&O* equals one if the company has Directors and Officers insurance coverage during the year and zero otherwise. *M-Score* is the M-Score calculated based on firm financials two years prior for the first quarter of a year and calculated based on firm financials one year prior for the second to the fourth quarters of the year. *Director Pay* is director compensation at the focal firm in a year in 10,000,000 Yuan. *Total Other Director Pay* is the total annual compensation of a director from all other firms in the year in 10,000,000 Yuan. *Prior Dissention* equals one if the independent director dissents in the firm in the previous quarter and zero otherwise. All variables are defined in Appendix A. Our sample is at the director-firm-quarter level. Continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered at the director level. We report t-statistics in parentheses. ***, **, and * denote significance levels at 1%, 5%, and 10%.

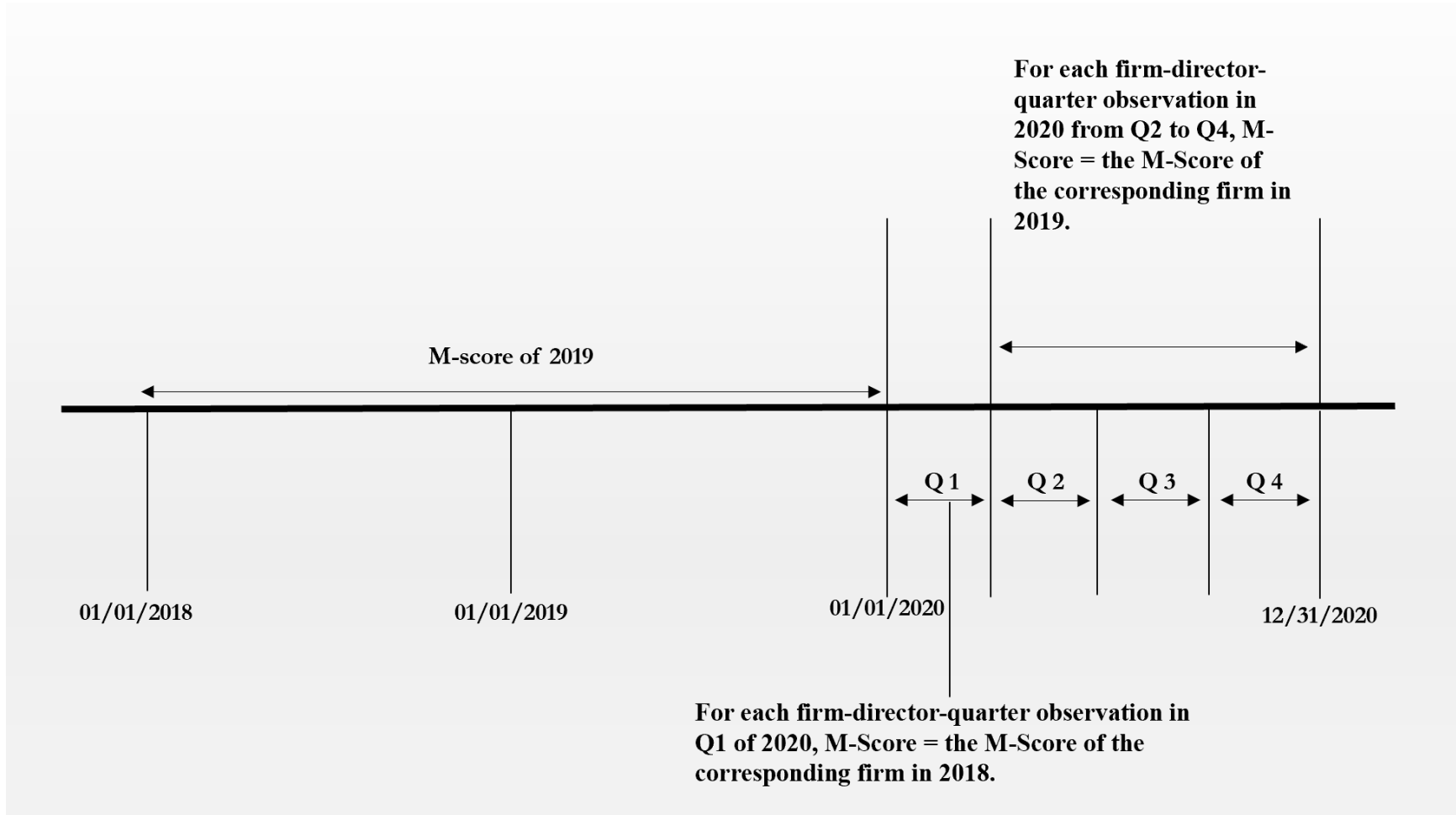| Dependent variable:	Resignation				
	(1)	(2)	(3)	(4)	(5)
Post	0.017***	0.032***	0.046***	0.019***	0.094***
	(15.32)	(7.61)	(12.59)	(16.55)	(11.56)
Post × D&O insurance	0.012**				0.039***
	(2.45)				(4.14)
Post × M-Score		0.005***			0.010***
		(2.69)			(3.77)
Post × Director Pay			-0.836***		-2.975***
			(-2.59)		(-5.54)
Post × Total Other Director Pay			-0.766***		-0.747***
			(-9.30)		(-6.16)
Post × Prior Dissension				0.014	0.055
				(0.39)	(1.19)
Director Pay			-10.594***		-19.664***
			(-20.26)		(-21.72)
Total Other Director Pay			-0.188		-0.230
			(-1.42)		(-1.23)
Prior Dissension				0.114***	0.088***
				(4.92)	(3.02)
Second Term	0.024***	0.023***	0.025***	0.022***	0.022***
	(20.74)	(17.05)	(14.01)	(18.47)	(9.70)
Five Boards	0.012***	0.013***	0.008***	0.014***	0.011***
	(6.27)	(5.49)	(2.89)	(6.67)	(2.60)
Firm-year FE	Y	Y	Y	Y	Y
Director FE	Y	Y	Y	Y	Y
Observations	284,123	185,986	221,885	257,833	127,584
Adjusted R^2	0.112	0.147	0.143	0.145	0.218

Appendix A. Variable Definitions

This table provides the definitions of all variables used in our analyses.

Variable	Definition	Source
Dissension	Equals one if the director has at least one disagree or abstain opinion in the firm during the quarter and zero otherwise.	Manually collected, WIND
Financial Dissension	Equals one if the director has at least one disagree or abstain opinion for financial proposals in the firm during the quarter and zero otherwise. Financial proposals include proposals related to investment decisions, accounting treatment, financing decisions, and financial reporting.	Manually collected, WIND
Resignation	Equals one for (1) resignation during the general election of the board by a director with less than six years of continuous service, (2) resignation for personal reasons: the firm filing provides no details beyond a statement that the director "resigned for personal reasons," (3) resignation for no stated reason or for "other" reasons as characterized by CSMAR, and (4) resignation "for job-related reasons" with no further explanation.	CSMAR
Post	Equals one for year-quarters for 2020 Q2 onward and zero otherwise.	CSMAR
Size	One-year lagged natural logarithm of total assets.	CSMAR
Cash Ratio	One-year lagged cash and cash equivalent divided by total assets.	CSMAR
ROA	One-year lagged EBITDA divided by total assets.	CSMAR
Leverage	One-year lagged long-term debt divided by total assets.	CSMAR
High Coverage	Equals one if the *Analyst Coverage* is higher than the market median of a year and zero otherwise. *Analyst Coverage* is number of institutions that issued analyst reports for a firm in a year.	CSMAR
High CF Volatility	Equals one if the *CF Volatility* is higher than the market median *CF Volatility* and zero otherwise. *CF Volatility* is the standard deviation of past five years' operating cash flow, scaled by total assets at the end of last fiscal year.	CSMAR
D&O Insurance	Equals one if the company has a D&O insurance in the year and zero otherwise.	Manually collected, WIND
M-Score	The M-Score calculated based on firm financials two years prior for the first quarter of a year and calculated based on firm financials one year prior for the second to the fourth quarters of the year. The timeline in Appendix B shows the calculation of M-Score in more detail.	CSMAR
Age	The age of the director.	CSMAR
Male	Equals one if the director is male and zero otherwise.	CSMAR

Official	Equals one if the director is a government official and zero otherwise. A director has a government background if keywords such as "mayor", "party secretary", and several other Chinese words describing different levels of officials are found in the director's biography.	CSMAR
Academic	Equals one if the director has an academic background and zero otherwise. A director has an academic background if keywords such as "professor", "lecturer", or "research fellow" are present in the director's biography.	CSMAR
Accounting	Equals one if the director has an accounting background and zero otherwise. A director has an accounting background if keywords such as "audit", "ACCA", or "CPA" are found in the director's biography.	CSMAR
Financial	Equals one if the director has a financial background and zero otherwise. A director has a financial background if keywords such as "finance", "insurance", "CFA", "financial advisor", or "banker" are found in the director's biography.	CSMAR
Judicial	Equals one if the director has a judicial background and zero otherwise. A director has a judicial background if keywords such as "lawyer", "judge", "prosecutor", or "legal study" are found in the director's biography.	CSMAR
Second Term	Equals one if the director is in the second term of independent directorship at this firm (i.e., director tenure is between 3 and 6 years) and zero otherwise.	CSMAR
Five Boards	Equals one if the director's number of independent directorships (including the focal firm) in a quarter reaches five.	CSMAR
Director Pay	Director compensation at the focal firm in a year in 10,000,000 Yuan.	CSMAR
Total Other Director Pay	A director's total annual compensation from all other firms in a year in 10,000,000 Yuan.	CSMAR
Prior Dissension	Equals one if the independent director dissents in the firm in the previous quarter and zero otherwise.	Manually collected, WIND

Appendix B. Timeline for calculating M-Score

For each firm-director-quarter observation in 2020 from Q2 to Q4, M-Score = the M-Score of the corresponding firm in 2019.

M-score of 2019

Q 1   Q 2   Q 3   Q 4

01/01/2018   01/01/2019   01/01/2020   12/31/2020

For each firm-director-quarter observation in Q1 of 2020, M-Score = the M-Score of the corresponding firm in 2018.

Appendix C. An example of an independent director who resigned for personal reasons

股票代码：600609　股票简称：金杯汽车　公告编号：临 2021-068

<div align="center">

金杯汽车股份有限公司
关于公司独立董事辞职的公告

</div>

　　本公司及董事会全体成员保证本公告内容不存在任何虚假记载、误导性陈述或者重大遗漏，并对其内容的真实性、准确性和完整性承担个别及连带责任。

　　金杯汽车股份有限公司（以下简称"公司"）于近日收到公司独立董事陈红梅女士提交的书面辞职申请。

　　陈红梅女士因个人原因辞去公司董事会独立董事、提名委员会委员、战略委员会委员及薪酬与考核委员会委员职务，其辞去上述职务后不再担任公司任何职务。

　　根据《公司法》和《公司章程》的相关规定，陈红梅女士的辞职不会导致公司董事会成员低于法定最低人数，辞职申请至送达时生效。公司将尽快补选独立董事。

　　陈红梅女士在担任公司独立董事职务期间勤勉尽责、恪尽职守，为公司的规范运作和健康发展发挥了重要作用。公司董事会对陈红梅女士任职期间为公司做出的贡献表示衷心感谢！

　　特此公告。

<div align="right">

金杯汽车股份有限公司董事会

二〇二一年八月二十日

</div>

Stock symbol: 600609
Stock abbreviation: Jinbei Automobile
Announcement No.: 2021-068

Resignation Announcement of an Independent Director at Jinbei Automobile Co., LTD

Our company and all members of the Board of Directors guarantee that there are no false records, misleading statements, or omissions in the contents of this announcement, and shall assume independent and joint responsibility for the veracity, preciseness and completeness of the contents.

Jinbei Automobile Co., LTD. (hereinafter referred to as the "Company") has recently received a written resignation application from Ms. Chen, Hongmei, an independent director of the Company.

For personal reasons, Ms. Chen, Hongmei has resigned from her roles of independent director, member of the nomination committee, member of the Strategic Committee and member of the Compensation and Appraisal Committee of the Board of Directors of the Company. She will no longer hold any position in the Company after her resignation.

According to the relevant provisions of the Company Law and the Articles of Association, Ms. Chen, Hongmei's resignation will not result in the reduction of the statutory minimum number of board members of the Company, and her resignation will take effect when the resignation letter is served. Our Company will elect independent directors as soon as possible.

Ms. Chen, Hongmei played an important role in the standardized operation and healthy development of the Company during her incumbency as an independent director of the Company. The Board of Directors would like to express our heartfelt thanks to Ms. Chen, Hongmei for her contribution to the Company during her tenure.

Board of Directors of Jinbei Automobile Co., LTD

August 20, 2021

Appendix D. An example of an independent director who resigned for job-related reasons

证券代码：000637　　证券简称:茂化实华　　公告编号：2019-034

茂名石化实华股份有限公司
关于独立董事辞职的公告

> 本公司及董事会全体成员保证公告内容的真实、准确和完整，没有虚假记载、误导性陈述或者重大遗漏。

茂名石化实华股份有限公司（以下简称"公司"）董事会于2019年8月21日接到公司独立董事杨丽芳女士的书面辞职报告。杨丽芳女士因工作原因申请辞去公司第十届董事会独立董事职务，同时一并辞去公司董事会审计委员会委员、战略委员会委员、提名与薪酬委员会主任委员的职务。辞职后，杨丽芳女士不再担任公司任何职务。杨丽芳女士的辞职将导致公司独立董事人数少于董事会成员的三分之一，根据《公司法》、《关于在上市公司建立独立董事制度的指导意见》、《公司章程》等相关规定，杨丽芳女士的辞职申请将在产生新的独立董事填补其空缺后生效。在此期间，杨丽芳女士仍将继续履行独立董事及董事会专门委员会委员的职责。公司董事会将按照相关规定，尽快完成独立董事的补选工作。

在此，公司谨向杨丽芳女士在任职期间的勤勉尽责和对公司所做的贡献表示衷心感谢！

特此公告。

茂名石化实华股份有限公司董事会

二〇一九年八月二十二日

Stock symbol: 000637
Stock abbreviation: Maoming Shihua
Announcement Number: 2019-034

Resignation Announcement of an Independent Director at Maoming Petro-Chemical Shihua Co., Ltd.

Our company and all members of the Board of Directors guarantee that the contents of the announcement are true, precise and complete without any false records, misleading statements or omissions.

On August 21, 2019, the Board of Directors of Maoming Petro-Chemical Shihua Co., Ltd. (hereinafter referred to as the "Company") received a written resignation letter from Ms. Yang, Lifang, an independent director of the Company. Due to job-related reasons, Ms. Yang, Lifang has decided to resign as an independent director of the Board of Directors of the Company and also resign from the Audit Committee, the Strategic Committee, and the Nomination and Compensation Committee of the Board of Directors. After her resignation, Ms. Yang, Lifang will no longer hold any position in the Company. The resignation of Ms. Yang, Lifang will result in the number of independent directors of the Company being fewer than one-third of the members of the Board of Directors. According to the Company Law, the Guidelines on the Establishment of the Independent Director System in Listed Companies, the Articles of Association and other relevant provisions, Ms. Yang, Lifang's resignation will take effect upon the appointment of a new independent director to fill her vacancy. During this period, Ms. Yang, Lifang will continue to perform her duties as an independent director and a member of the Special Committee of the Board. The Board of Directors will elect a new independent director as soon as possible in accordance with relevant regulations.

Here, our Company would like to express our heartfelt thanks to Ms. Yang, Lifang for her diligence and contribution to the Company during her tenure.

Board of Directors of Maoming Petro-Chemical Shihua Co., Ltd

August 22, 2019

Appendix E. Examples of a "Suggested postponement"

2、独立董事对公司有关事项提出异议的情况

独立董事姓名	独立董事提出异议的事项	异议的内容及说明
杨雄	第九届董事会第十七次会议《关于公司与康美药业股份有限公司和普宁市信宏实业投资有限公司关连交易的议案》	杨雄先生反对理由：因康美药业涉嫌信息披露违法违规被中国证监会立案调查，本人无法获得相关信息来判断关连交易的必要性和交易实质。
杨雄、汤欣	第九届董事会第十八次会议《关于董事2018年度履职考核的议案》《广发证券2018年度董事绩效考核和薪酬情况专项说明》《广发证券2018年度经营管理层履职情况、绩效考核情况、薪酬情况专项说明》	本人获悉公司于2019年3月25日收到广东证监局《关于对广发证券股份有限公司采取责令改正措施的决定》（广东证监局行政监管措施决定书[2019]20号），广东证监局决定对公司采取责令改正的行政监管措施，其中涉及相关董事、高管责任人员问责。前述议案提交董事会时，相关人员问责工作正在推进中，鉴于该情形导致对相关人员2018年履职考核情况所依据的资料不完整，本人无法对相关事项做出判断，建议延期审议提交3月26日董事会审议的前述三个议案。
杨雄	第九届董事会第十九次会议《关于董事2018年度履职考核的议案》中3.5项"董事林治海先生2018年度的履职考核结果为称职"的子议案；《广发证券2018年度董事绩效考核和薪酬情况专项说明》	鉴于公司《关于对Pandion基金事件相关责任人员合规问责方案的报告》对林治海先生的责任认定和问责措施，以及对该董事自我评价结果的复核，结合公司《合规问责办法》、监管部门要求，后续个人责任仍有不确定性，故对《关于董事2018年度履职考核的议案》中3.5项投资权票，对《广发证券2018年度董事绩效考核和薪酬情况专项说明》投资权票。
汤欣	第九届董事会第十九次会议《广发证券2018年度董事绩效考核和薪酬情况专项说明》《广发证券2018年度经营管理层履职情况、绩效考核情况、薪酬情况专项说明》	汤欣先生投资权票理由：鉴于《广发证券2018年度董事绩效考核和薪酬情况专项说明》中尚未建立公司在风险事件中和特殊情况下对于董事进行考评的完善方案，对于本项议案持有保留意见。 汤欣先生投资权票理由：鉴于《广发证券2018年度经营管理层履职情况、绩效考核情况、薪酬情况专项说明》中尚未建立公司在风险事件中和特殊情况下对于经营管理层进行考评的完善方案，对于本项议案持有保留意见。

2. Dissensions raised by independent directors to matters related to the company		
Name of the independent director	Dissension proposals	Details of the dissension
Yang, Xiong	The 17th Meeting of the 9th Board of Directors "Proposal on the Company's Related-Party Transactions with Kangmei Pharmaceutical Co., LTD and Puning Xinhong Industrial Investment Co., LTD"	Reason for Mr. Yang, Xiong's objection: As Kangmei Pharmaceutical is under investigation by China Securities Regulatory Commission on suspicion of illegal information disclosure, I am unable to obtain relevant information to judge the necessity and substance of related transactions.
Yang, Xiong, Tang, Xin	Proposal on Performance Assessment of Independent Directors in 2018 at the 18th Meeting of the 9th Board of Directors, Special Notes on Performance Assessment and Remuneration of Independent Directors in 2018, Special Notes on Performance Assessment, Performance Assessment and Remuneration of Operating Management of GF Securities in 2018	I have learned that on March 25, 2019, the company received "Decision on Corrective Measures against GF Securities Co., Ltd." (Decision on Administrative Supervision Measures [2019] No. 20 of Guangdong Securities Regulatory Bureau) from Guangdong Securities Regulatory Bureau. Guangdong Securities Regulatory Bureau has decided to take corrective administrative supervision measures against the company, which involves the accountability of relevant independent directors and senior executives. When the aforementioned proposal was submitted to the Board of Directors, the investigation of the relevant personnel's accountability was ongoing. As the information based on the performance assessment of relevant personnel in 2018 was incomplete due to this situation, I am unable to make a judgment on relevant matters. Therefore, I suggest that the consideration of the three proposals submitted to the Board of Directors on March 26 should be postponed.

Yang, Xiong	Article 3.5 of "Motion on Performance Assessment of Directors in 2018" in the 19th meeting of the 9th Board of Directors, the qualified performance assessment of Independent Director Mr. Lin, Zhihai in 2018"; Special Notes on Independent Director Performance Appraisal and Compensation of GF Securities In 2018	In view of the liability determination and accountability measures of Mr. Lin, Zhihai in the Company's Report on the Compliance Accountability Plan for Persons Responsible for the Pandion Fund Incident, as well as the review of the director's self-evaluation results, the company's Compliance Accountability Measures and the requirements of regulatory authorities, the subsequent personal liability is still uncertain. Therefore, I abstained from voting on article 3.5 in the Motion on Performance Assessment of Independent Directors in 2018 and Special Explanation on Performance Assessment and Remuneration of Independent Directors in GF Securities in 2018.
Tang, Xin	The 19th Meeting of the 9th Board of Directors Special Notes on Performance Appraisal and Remuneration of GF Securities in 2018; Special Notes on Performance, Performance Appraisal and Remuneration of GF Securities' Operating Management in 2018	Reason for Mr. Tang, Xin's abstention: In view of the fact that there is no perfect plan for the evaluation of directors in risk events and under special circumstances in the Special Statement on the Performance Evaluation and Compensation of GF Securities in 2018, Mr. Tang has reservations about this proposal. Reason for Mr. Tang, Xin's abstention: In view of the fact that the Special Description of GF Securities' Management Performance Assessment and Compensation in 2018 has not established a sound plan for the evaluation of the company's management in risk events and under special circumstances, Mr. Tang has reservations about this proposal.

See http://news.windin.com/ns/bulletin.php?code=7A9B8B2C7027&id=112966122&type=1 for details.

Appendix F. An example of how an independent director avoided regulatory penalties by dissenting

2019 年 06 月 19 日，成都华泽钴镍材料股份有限公司(证券代码 000693，以下简称华泽钴镍)因信息披露违法违规行为被中国证监会给予行政处罚。中国证监会认为华泽钴镍未在法定期限内披露 2017 年年度报告及 2018 年第一季度报告,存在违法事实，决定对华泽钴镍给予警告，并处以 30 万元罚款；对时任华泽钴镍代董事长、法定代表人、代董事会秘书刘腾给予警告，并处以 10 万元的罚款；时任华泽钴镍董事、总经理齐中平给予警告，并处以 5 万元的罚款；以及时任华泽钴镍董事、副总经理柴雄伟和时任独立董事张志伟、武坚给予警告，并处以 3 万元的罚款。但是对于在董事会公告中详细披露了 2017 年年度报告（正文及摘要）及 2018 年第一季度报告存在问题，并且在公司第九届第二十六次董事会上对相应议案投弃权票并发表了保留意见的时任独立董事张莹，中国证监会则未予处罚。

On June 19, 2019, Chengdu Huaze Cobalt and Nickel Material Co., Ltd. (Stock symbol 000693, hereinafter referred to as Huaze Cobalt Nickel) received an administrative penalty from the China Securities Regulatory Commission for violations of the laws and regulations on information disclosure. The China Securities Regulatory Commission (CSRC) believes that Huaze Cobalt Nickel violated the law by not disclosing its 2017 annual report and its 2018 Q1 report within the statutory time limit; hence, the CSRC issued a warning to Huaze Cobalt Nickel with a fine of 300,000 yuan. A warning was given to Liu, Teng, then acting Chairman, Legal Representative and Acting Secretary of the Board of Directors of Huaze Cobalt Nickel, with a fine of 100,000 yuan. A warning was given to Qi, Zhongping, then Director and General Manager of Huaze Cobalt Nickel, with a fine of 50,000 yuan. Warnings were also given to Chai, Xiongwei, then Director and Deputy General Manager of Huaze Cobalt Nickel, and Zhang, Zhiwei and Wu, Jian, then Independent Directors of the company, with a fine of 30,000 yuan for each. However, the CSRC did not penalize Zhang, Ying, then Independent Director, who disclosed in detail the problems in the 2017 annual report (body and summary) and the 2018 Q1 report in the board meeting disclosure, and abstained from voting on the corresponding motion and expressed reservations at the 26th meeting of the 9th board of directors.

For details, please see: http://www.csrc.gov.cn/csrc/c101928/c1042443/content.shtml.

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