Impact of Mandatory Dividend Policy Regulation on Dividend Payout

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Securities Exchange Board of India brought the Mandatory Dividend Policy regulation 43(A) in 2016, amid grievances from investors regarding lack of dividend distribution. We use regression discontinuity approach to estimate the impact of this regulation on the firm's dividend payout. We find that, on an average, firms have reduced their dividend payment after the regulation. The regulation directs firms to disclose their dividend policy. This may prove counter-productive if firms, now provide obscured information through their dividend policy. Therefore, we further explored the impact of the regulation on information asymmetry. This study contributes to the dividend policy literature.

Keywords: Mandatory Dividend Policy, Dividend Payout Ratio, Regression Discontinuity Design, Information Asymmetry

1. Introduction

Most firms pay dividends to the shareholders at their own discretion. However, in some countries, companies choose not to pay or pay fewer dividends even after having excess cash. Excess accumulated cash flow with company due to non-payment of dividend to the shareholder is a reflection of agency problem which allows companies to avail private benefit (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 2000). This is primarily due to weak corporate governance and poor minority shareholder protection laws and often triggers regulatory bodies to intervene and bring policies so as to protect the cash flow right of minority shareholders. Mandatory dividend policy regulation (MDPR) is one such example. MDPR requires firm to pay a certain fraction of distributable earnings after taxes in the form of dividend (Adagoglu, 2000; Tao et al., 2016; Mahenthiran et al., 2020). This kind of MDPR is evident in a few countries like Brazil, Chile, Colombia, Greece, and Venezuela (Martins and Novaes, 2012). Slightly away from MDPR, China adopted a semi-mandatory dividend policy, which entails dividend payments of at least 30% of their average earnings over the preceding 3 years as cash dividends only on those listed firms which are going for seasoned equity offerings SEOs (Wei et al., 2019). However, the downside of both the mentioned policies is that it reduces firms' internal funds that would otherwise have been deployed on valuable projects (Martins and Novaes, 2012). This issue is well recognised by Indian regulatory authority- Securities Exchange Board of India (SEBI), resulting them to adopt a modified version of MDPR.

On 08th July 2016, SEBI made it mandatory to have a dividend policy for the top five hundred listed firms based on market capitalization, which would then be further extended to top thousand firms. The regulation came in the wake of grievances from investors regarding the non-payment of dividends in spite of firms' hefty cash flow. It offers five parameters based on which companies are required to prepare their dividend policy. The parameters are as follows: 1) the company should disclose the circumstances under which investors may or may not expect dividends, 2) the financial parameters that shall be considered while declaring dividends, 3) the internal and external factors that shall be observed while declaring dividends, 4) the mechanism to exploit retained earnings, and 5) disclose the parameters for the adoption of various classes of shares. As can be observed, MDPR adopted by SEBI refrains from laying out any payment of fixed dividend percentage. The objective of the regulation is to improve information environment for the shareholders. Previous literature has explored the impact of similar MDPR on outcome variables like shareholder value, investment etc. (Yang et al., 2020; Mahenthiran et al., 2020; Liu and Shu, 2022). However, no existing studies to our best knowledge reveals the effect of mandatory dividend policy on firm's dividend payout. In this paper, we fill this gap by studying the effect of MDPR announced by SEBI on the affected Indian firms' dividend payout. We use regression discontinuity design to estimate the effect of the regulation on the affected firms. As the MDPR is aimed at improving the information environment, we further examine the effect on information asymmetry. We find that after the adoption of the regulation, the dividend payout has reduced in affected companies compared to non-affected companies. We additionally find that the effect on the information asymmetry after the regulation is insignificant. The results indicate that the regulation was ineffective, as it neither lead to an increase in dividend payment, nor did it improve the information environment for the investors.

The rest of the paper is organized as follows. Section 2 discusses the brief literature and hypothesis development. Section 3 explains the research design. Section 4 reports the empirical results and offers discussion. Finally, in section 5 we conclude the study.

2. Literature Review and Hypothesis Development

Firms pay dividend to mitigate agency problem between managers and shareholders. Dividend pay-out by firms signals their future growth or lack thereof (Brav et al., 2005; Baker et al., 2016) and hence reduces information asymmetry

(Bhattacharya,1979; Miller and Rock, 1985; John and Williams 1985; La Porta et al., 1999). As per Allen and Michaely (2003) and DeAngelo et al. (2008), information asymmetry is a key element in influencing dividend policy behaviour in the financial literature. In this vein, prior studies have explored the preference for dividends among investors as well as the impact of shareholder demand on corporate dividend policies (Shefrin and Statman, 1984; Harris et al., 2015; La Porta et al.,2000; Polk and Sapienza, 2009). Clubb and Walker (2014) showed that in the perfect capital market with moral hazard, where investors cannot perfectly observe managers' actions, managers' choices might always not be in the best interest of investors. The information asymmetry is one of the causes that make the market inefficient (Miller and Rock, 1985). In order to prevent the market from being inefficient, regulatory bodies or government intervene in the market through different policies (Stiglitz, 1993; Nickerson and Phillips, 2003). Likewise, there are few countries where payment of dividend is mandated by such regulations. For example, Chile have adopted a mandatory dividend policy in which companies are asked to pay certain percentage of profit as dividends to shareholders (Martins and Novaes, 2012). In these countries the regulation either strictly specify the certain percentage of dividend to the shareholders or give a certain condition under which companies have to pay specific percentage of dividend. Also, countries like China does not mandate dividend payment by all public listed companies, but impose constraints of dividend payments on those listed firms with equity financing needs, which are called semi-mandatory dividend policy (Wei et al., 2019). The MDPR adopted by Indian regulatory authority SEBI is however different from the above examples. It mandates top 500 firms (based on market capitalization) to disclose their dividend policy, without restricting any specific percentage of dividend pay-out. The objective of such a regulation is to improve the information environment for the investors. Hence, we hypothesize that,

H1: The mandatory divided policy will lead to a decrease in the information asymmetry of the affected firms.

With the adoption of such a regulation, investors will be capable of monitoring managers' actions (Jensen, 1986; Koo et al., 2017) With this regulation in place, firms can now provide sufficient information to shareholders through their disclosures, which was earlier signaled through dividend pay-out. Furthermore, if the regulation reduces the information asymmetry in the markets, substitution hypothesis predicts that there is less need to pay dividend because it reduces the necessity for firms' insider to demonstrate commitment and communicate private information through costly dividend payment (Hail et al., 2014). Hence, we believe that,

H2: The mandatory dividend policy will lead to a decrease in dividend pay-out of the affected firms.

3. Data and Method

3.1 Data

We use the adoption of MDPR 43(A) of SEBI Listing Obligations and Disclosure Requirement (LODR), on 8th July 2016, as the natural setting to examine the effect on dividend payout. Our sample is top 1000 companies (based on market capitalization) listed on the National Stock Exchange as on 31st March 2016. The sample included companies which are affected by the regulation named as AFFECTED (Top 500 companies) and those who are not affected named as NON-AFFECTED but could be affected if the regulation is extended to top 1000 companies (i.e., Next 500 companies) in the future. We observe that on 5th May 2021, the regulation gets extended to top 1000 firms. We collected information on dividend payout and other control variables from Prowess database maintained by Centre for Monitoring Indian Economy (CMIE). Table 1 displays the variables used and their definitions. We collected bid-ask spread which is the proxy of information asymmetry, from Refinitiv Eikon database by Thomson and Reuters. Based on data availability on all parameters, our final sample consist of 565 total firms out of which 327 are AFFECTED firms and 238 are NON-AFFECTED firms for the examination of the effect on dividend payout measured as ratio of dividend to cashflow (DIV_TO_CF). For information asymmetry examination, we obtained a total of 930 firms among which 460 firms are AFFECTED and 470 are NON-AFFECTED firms. For robustness check, we use ratio of dividend to sales (*DIV_TO_S)* which is a different measure of dividend payout for which our final sample consist of 565 companies. We report the firm-level statistics in Panel A of Table 2. The average ratio of dividend to cashflow for AFFECTED firms is 0.15 and for NON-AFFECTED firms it is 0.08 million after MDPR. In our sample, AFFECTED firms has on an average 5 million of retained earnings (RTE), 14 percent of return on assets (ROA), 5 percent of rate of sales growth (SGR) and approximately 0.001 Bid-Ask spread (SPREAD). Panel B of Table 2 presents the coefficients of Pearson correlation between all the variables.

Table 1 *Variable Definitions.*

Variables	Definitions	Sources
DIV_TO_CF	Ratio of dividend to cashflow (i.e., net income (NI) plus depreciation).	CMIE Prowess database
DIV_TO_S	Ratio of dividend to sales (i.e., net income (NI) plus depreciation).	CMIE Prowess database
RTE	Retained Earnings scales by total assets.	CMIE Prowess database
TE	Shareholder's equity scaled by total assets.	CMIE Prowess database
ROA	Net income scaled by total assets.	CMIE Prowess database
SGR	Logarithms of rate of sales growth.	CMIE Prowess database
LOG_SIZE	Logarithms of total assets.	CMIE Prowess database
CASH	Cash and short-term investments balance scaled by total assets.	CMIE Prowess database
SPREAD	Bid-ask spread calculated as (2*(Ask − Bid)/(Ask + Bid)).	Thomson Reuters Refinitiv Eikon
LOG_VOL	Logarithms of Stock turnover.	CMIE Prowess database
LOG_SP	Logarithms of Year-end stock price.	CMIE Prowess database
LOG_VAR	Logarithms of Standard deviation of stock price.	-

Table 2 *Descriptive Statistics and Correlations*

Panel A: Firm-Level Summary Statistics												
	2016						2017					
	Above cut-off			Below cut-off			Above cut-off			Below cut-off		
Variable	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD
(1) DIV_TO_CF	375	0.20	0.26	325	0.12	0.14	337	0.15	0.20	264	0.08	0.10
(2) RTE	375	0.05	0.06	325	0.04	0.04	337	0.05	0.08	264	0.05	0.05
(3) ROA	375	0.14	0.10	325	0.11	0.07	337	0.14	0.10	264	0.11	0.07
(4) SGR	375	0.05	0.31	325	0.06	0.58	337	0.05	0.23	264	0.05	0.38
(5) CASH	375	0.05	0.09	325	0.03	0.08	337	0.06	0.09	264	0.03	0.09
(6) LOG_SIZE	375	10.63	1.41	325	8.89	1.05	337	10.78	1.41	264	8.98	0.98
(7) TE	375	0.55	0.20	325	0.51	0.20	337	0.55	0.20	264	0.52	0.21
(8) SPREAD	475	0.00	0.00	462	0.00	0.04	493	0.00	0.03	493	0.00	0.03
(9) LOG_VOL	475	12.37	2.45	462	10.48	2.36	493	12.80	2.07	493	11.35	2.17
(10) LOG_SP	475	5.73	1.39	462	4.60	1.29	493	5.91	1.35	493	4.86	1.41
(11) LOG_VAR	475	4.63	1.48	462	3.64	1.32	493	4.74	1.48	493	3.80	1.44

Panel B. Pearson Correlation Coefficients

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1)	1.00										
(2)	-0.47	1.00									
(3)	0.32	0.31	1.00								
(4)	-0.00	0.10	0.15	1.00							
(5)	0.17	0.01	0.11	0.00	1.00						
(6)	0.07	-0.16	-0.14	-0.07	0.38	1.00					
(7)	0.21	0.31	0.31	0.05	0.05	-0.25	1.00				
(8)	0.00	-0.06	-0.05	-0.03	-0.00	-0.03	-0.07	1.00			
(9)	0.04	-0.11	-0.13	-0.05	0.21	0.60	-0.15	-0.12	1.00		
(10)	0.15	0.14	0.37	0.08	0.10	0.01	0.19	0.22	-0.40	1.00	
(11)	0.10	0.17	0.36	0.08	0.05	-0.00	0.15	0.12	-0.35	0.86	1.00

3.2 Methodology

3.2.1. Regression discontinuity design

Any intervention whose treatment outcome depends on whether an observed assignment/forcing variable exceeds a known cutoff or threshold point between the observation slightly above and below the cutoff can be estimated using regression discontinuity design (RDD). We thereby use RDD to estimate the effect of mandatory dividend policy on the firm's dividend payout by exploiting the exogenous variation induced by mandatory dividend policy 43(A). The regulation targets only top 500 companies and expects to extend it to next 500 companies in future, which it does in 2021. The regulation offers a suitable environment to design our research setting using RDD as it makes possible to compare firms just above and below the cutoff (market capital of 501st firm from the top 1000 sample firms arranged in ascending order).

The main specification is as follows

$$\Delta DIV\_TO\_CF_i = \beta_0 + \beta_1.Top + f(R) + \beta_2.ln(Total\ assets)_i + \Upsilon.\Delta Controls_i + \varepsilon_i. \quad (1)$$

$$\Delta SPREAD_i = \gamma_0 + \gamma_1.Top + f(R) + \gamma_2.ln(Total\ assets)_i + \alpha.\Delta Controls_i + \varepsilon_i. \quad (2)$$

Where for equation (1), *Top* is equal to 1 if firm *i* belongs to top 500 firms, and 0 otherwise. The dependent variable $\Delta DIV\_TO\_CF_i$ is the change in the ratio of dividend to cashflow for firm *i* from 2015 to 2016 and 2016 to 2017 for before and after the adoption of the regulation respectively. The receipt of treatment is denoted by dummy variable *Top* ϵ {0,1}, where *Top* = 1 if *R* > c, and Top = 0 if *R* ≤ c. *R* is the assignment/forcing variable (i.e., market capitalization as on 31st March 2016) used to decide treatment and control group, and *c* is the cut-off point equal to the market capitalization of 501st firm from the sample firms arranged in ascending order. The coefficient β_1 captures the average treatment effect. The use of an RDD enables the estimation of β_1 to be consistent because the assignment of a firms to treatment and control is random in an arbitrarily short interval around the cut-off. This framework assumes that firms with market capitalization just below the cut-off (who are not affected by the regulation) are very much comparable to the firms with market capitalization just above the cut-off (who are affected by the regulation); and therefore, a discontinuous jump in dividend payout at the c can be attributed to the causal effect of the intervention. To capture any latent direct effect of firm size on the change in dividend payout that might else captured by the dummy variable *Top*, we have included Total assets by following Black and Kim (2012). We have also controlled for set of observable covariates which are widely used in the payout literature. They are retained earnings, rate

of sales growth, cash and shareholder equity (Refer Table 1 for variable definition and sources). $\Delta \text{Controls}_i$ represent the firm-level change in the control variables (first difference) for before and after the regulation, which are assumed to affect dividend payout but are unaffected by the adoption of the regulation; meaning, that the covariates should not show any discontinuity around the threshold.

For equation (2) $\Delta SPREAD_i$ is the difference between bid and ask price for firm *i* (Khedmati et al., 2015) from the year 2015 to 2016 and 2016 to 2017 for before and after the regulation respectively. *Top* is defined same as equation (1). $\Delta \text{Controls}_i$ represent the firm-level change in the control variables. We have controlled for the trading activity proxied by stock turnover, price volatility proxied by standard deviation of stock price and year-end stock price (Aitken and Frino,1996).

4. Analysis, Results and Discussions

4.1 Verifying Assumptions of RDD

In RDD, for the estimate to be unbiased and consistent, there are two crucial assumptions suggested by Lee and Lemieux (2010) that needs to be satisfied. The first is the manipulation test and the second is the covariates balance test. For the manipulation test, the assumption states that individuals/firms should not precisely manipulate the running variable (market capitalization in our case) to be in the treatment or control groups. Because if a firm can systematically manipulate their market capitalization to circumvent the regulation, then the inference based on RDD would be invalid because the assignment of firms in the treatment and control groups is not as good as randomized. To examine this assumption, we use graphical and a formal statistical test. In Figure 1, we plot the frequency distribution of firms around the cut-off (market capitalization of 501st firms) prescribed in MDPR for the year 2013 and 2016. In the year 2013, there was no information about the MDPR, whereas in the year 2016 (19th May 2016), the guidelines for MDPR were well known. Any unusual change from 2013 to 2016 in the frequency distribution of the companies around the cut-off would indicate that the companies had manipulated their market capitalization to circumvent the regulation. We find no unusual jump around the cut-off in market capitalization of the firms, see Figure 1. Also, the likelihood that firms will manipulate the market capitalization is very unlikely as there is less possibility that company will alter the number of shares to circumvent the regulation.

To formally test for the possibility of manipulation of the forcing variable around the cut-off, we use test given by Cattaneo, Jansson, and Ma (2017) to know whether there is any self-selecting or sorting around the threshold. We find the p-value to be 0.60 for the manipulation test. This suggest that there is no manipulation in the running variable, similar is shown in Figure 2.

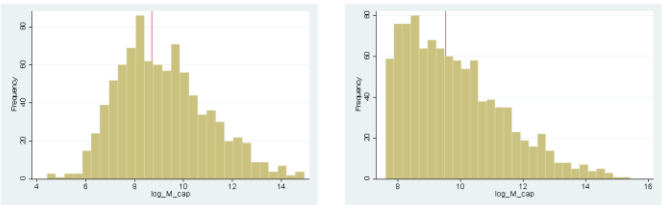


Figure 1 *Did Firms Manipulate the Market Capitalization to Circumvent the MDPR? The above Graph Plots the Frequency Distribution of Firms around the cut-off (9.52 Million) for the Year 2013 and 2016.*

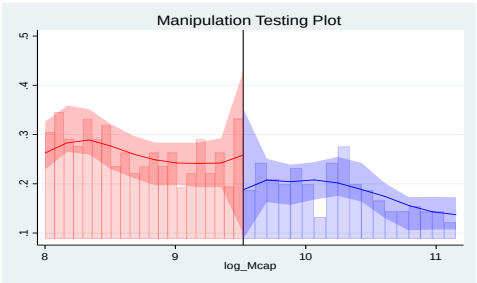


Figure 2 *Manipulation Test Plot*

In order for RDD to be effective, any other variables that affect the dependent variable (i.e., dividend payout and information asymmetry) must likewise change smoothly with respect to the running variable *R*, which is the second assumption. The estimated treatment effect of the intervention will be biased if the other variable similarly displays discontinuity at the cut-off. To test the validity of this assumption, we compare the mean value of the various characteristics of the *AFFECTED* and *NON-AFFECTED* firms of the RDD sample around the cut-off. Figures 3 and 4 presents graphs for dividend payout and information asymmetry respectively. For the determinants of dividend payout, only ROA is not showing discontinuity; while all the other firms characteristics which determine our dependent variable is showing discontinuity. Similarly, for information asymmetry only stock price is evolving smoothly. To calculate the unbiased estimate, we have included the discontinuous determinants of both the interest variables in our model as controls.

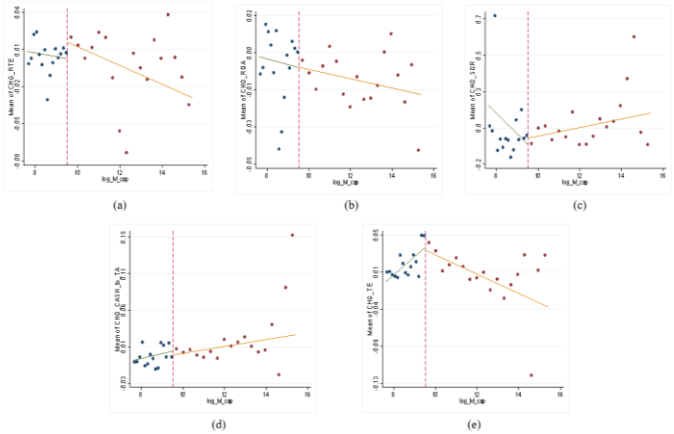


Figure 3 *Presents the Covariates Balance Check for firm characteristics which can affect the dividend policy. The covariates are retained earnings (a), return on assets (b), rate of sales growth (c), cash (d) and shareholder equity (e) (see Table 1 for variable definition). These variables are in first difference for example, retained earnings is change in retained earnings from 2017 to 2016. The y-axis in the graph shows the change in covariates from 2017 to 2016 and the x-axis shows the logarithm of market capitalization. Any unusual jump in any covariate will show that the respective variable may have effect on the interest variable (dividend payout).*

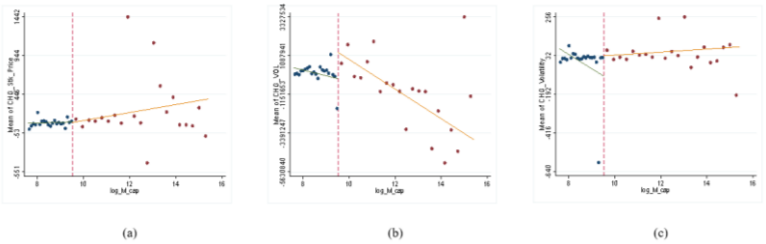
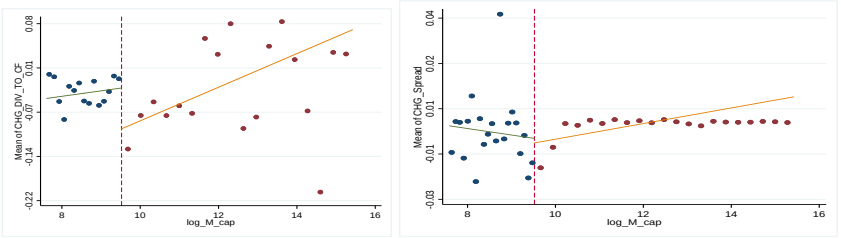


Figure 4 *Presents the covariates balance check of the determinants that can affect information asymmetry. The covariates are stock price (a), Stock Turnover (b) and Standard Deviation of Stock Price (c) (see Table 1 for Variable Definition). These Variables are in first Difference for Example., Stock Price is Change in Stock Price from 2017 to 2016. The y-axis in the graph shows the change in covariates from 2017 to 2016 and the x-axis shows the logarithm of market capitalization. Any unusual jump in any covariate will show that the Respective Variable may have effect on the Interest Variable (Information Asymmetry).*

4.2 Graphical Analysis and Estimation

Graphs offer a clear way of demonstrating how an RDD framework determines the treatment impact. For our both interest variables which is dividend payout and information asymmetry, we plot DIV_TO_CF and SPEAD for firms in RDD sample. Figures 5(a) and 5(b) show a scatter plot that presents the dividend payout and information asymmetry on MDPR event for affected and potential firms. On the x-axis is the running variable *R*, i.e., logarithm of market capitalization, which ranges from 7.5 million to 15.41 million, with 9.52 million being the cut-off. On y-axis for (a) it is DIV_TO_CF and for (b) it is SPREAD. Both the variables are estimated as a function of *R*, on both the sides of the cut-off using local linear estimation, triangular kernel, mserd bandwidth using equation (1) and (2).



(a) (b)

Figure 5 *Left Graph (a) is for dividend payout (CHANGE_DIV_TO_CF) and right graph (b) is for information asymmetry (CHANGE_SPREAD).*

The only difference near the cut-off is that the companies to the right of the cut-off are subject to MDPR, while companies to the left of the cut-off are not. Any discontinuity in both the interest variables (i.e., dividend payout and spread) at the cut-off will therefore be attributed only to the MDPR. Graph 5(a) relates to change in dividend payout for the year 2016-2017. This shows a significant drop around the cut-off point suggesting that the average dividend payout for AFFECTED firms has significantly dropped after the adoption of MDPR. Graph 5(b) shows a change in bid-ask spread but not significant which

means that the average spread between AFFECTED and NON-AFFECTED firms after the regulation is indistinguishable. Based on graphs in Figure 5, we infer a negative relation between MDPR and firm's dividend payout. However, for information asymmetry it is indistinguishable.

The magnitude of the treatment effect β_1 as reflected in Table 3. Panel A documents the results following the estimation technique as used above, i.e., RDD analysis using local linear estimation, triangular kernel and mserd bandwidth. To estimate the magnitude of the treatment effect, we use the 'rdrobust' command in STATA which is developed by Calonico, Cattaneo and Titiunik (2014b) to perform RDD estimator. We continue to find a significant negative relation between MDPR and dividend payout in AFFECTED firms compared to NON-AFFECTED firms. We find that, on an average the dividend payout of AFFECTED firms has decreased by 11%. This result suggests that the decrease in dividend payout has resulted from the regulation.

Table 3 *Summary of Graphical Analysis using RDD for Dividend Payout*

Dependent variable= DIV_TO_CF	**Before the regulation**	**After the regulation**
Panel A		
Coefficient	0.02	-0.11*
Z-statistics	-0.86	-1.87
Observation	673	565
Polynomial order	1	1
Bins	19	18
Panel B		
Coefficient	0.05	-0.15
Z-statistics	-1.21	-1.62
Observation	673	565
Polynomial order	2	2
Bins	19	18

This table reports the difference in the dividend payout for AFFECTED and NON-AFFECTED firms before and after the adoption of MDPR regulation fort the RDD sample. The dividend payout is measured as the ratio of dividend to cash flow. The RDD sample is constructed as follows, first a running variable (R) is used (market capitalization for sample) which is defined as the market capitalization of 501st firm from the sample in which 1000 firms are arranged in ascending order based on their market capitalization as on 31st March 2016. The market capitalization of 501st firm is our cut-off (9.52). If market is greater than the cut-off than the firm need to disclose their dividend policy. Firms with the variable R ranging between -0.94 to 0.94 comprise our RDD sample., where R>9.52 are AFFECTED firm and R≤9.52 are NON-AFFECTED firms. The difference in dividend payout to the jump (or drop) in the fitted curve at the cut-off point as documented in fig.5. In Panel B, dividend payout is estimated using polynomial degree two. ***, **, and * denote significance at 1%, 5%, and 10% level respectively.

We find no significant change on information asymmetry around the cut-off after the regulation. Further, in order to confirm treatment effect, we did the estimation for dividend payout and information asymmetry before the regulation and find out that there is no significant difference between AFFECTED and NON-AFFECTED firms dividend payout and information asymmetry before the regulation which further substantiate our findings (Table 4).

Table 4 *Summary of Graphical Analysis using RDD for Information Asymmetry*

Dependent variable= Bid_ask_spread	Before the regulation	After the regulation
Panel A		
Coefficient	-0.0002	-0.00647
Z-statistics	-0.1951	-0.4634
Observation	833	857
Polynomial order	1	1
Bins	21	21
Panel B		
Coefficient	0.00028	-0.01164
Z-statistics	0.2411	-0.6169
Observation	833	857
Polynomial order	2	2
Bins	21	21

We further ascertain the validity of our inference by doing estimation using different measure of dividend payout which is ratio of dividend to sales (DIV_TO_S) as robustness check. We find results to be consistent with the previous one (see Table 5). We also check with higher polynomial degree but do not find any significant result.

The possible explanation of this circumstance in which dividend payout is decreasing without any significant change in information asymmetry, can be due to the quality of disclosure. Ideally, the regulation should reduce the information asymmetry because of the enhancement of information in the market. However, our study did not find any such evidence in reduction of information asymmetry after the regulation between AFFECTED and NON-AFFECTED firms. The parameters

specified by SEBI were not strict and specific, which gives enough opportunity to the companies to circumvent the regulation by publishing vague information about their dividend policy. This could be the reason why information asymmetry has not changed significantly. Our study is consistent with Beretta (2008) which suggest that quantity of information may not have the quality that can improve the information environment. Consequently, poor disclosures may allow insiders to retain cash flow (Jin and Myers, 2006).

Table 5 *Summary of Graphical Analysis Using RDD For Dividend Pay-Out Using Ratio of Dividend to Sales as Dependent Variable*

Dependent variable = DIV_TO_S	**After the regulation**	
Coefficient	-0.87*	-1.22
Z-statistics	-1.75	-1.56
Observation	565	565
Polynomial order	1	2
Bins	18	18

5. Conclusions

We examine the effect of Mandatory Dividend Policy regulation on dividend payout of the firm in India. In 2016, SEBI came up with MDPR which mandates top 500 firms (based on their market capitalization) to disclose their dividend policy. The authority has given five parameters on which companies has to prepare their dividend policy. While other countries, such as China, Brazil and Chile have mandatory dividend rule which forces them to pay 30% for their profit, MDPR adopted by India did not enforce any strict dividend percentage. It recognized that the problem of fixed percentage of dividends can hinder firms' investment decisions, and hence, the regulatory authority came up with such disclosure requirement. This natural setting allows us to examine whether the MDPR effects the dividend payout of firms.

Our finding shows that AFFECTED firms have reduced their dividend payment compared to NON-AFFECTED firms after the adoption of MDPR. Further, we also find that the information asymmetry for AFFECTED firms did not significantly change after the regulation. The possible explanation of the phenomena can be explained by the quality of disclosure. This suggest that the regulation came with quantity of information which may not have the quality which can improve the information environment.

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