Friends in High Places: The Effect of Political Ties on SEC Oversight of Foreign Firms[1]

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Abstract

In this paper, we examine the effect of country-level political relationships on SEC oversight of US-listed foreign firms, ranging from routine review of issuer filings to enforcement actions. We find that the political relationship between a foreign firm's home country and the US is an important determinant of the frequency and intensity of SEC comment letters as well as whether the firm is likely to face enforcement. When the firm's home country has stronger political ties with the US, the frequency of comment letters issued by the SEC is lower, the tone of comment letters is less negative and litigious and the firm is less likely to be the subject of an SEC enforcement action. We further examine the extent to which SEC routine monitoring through comment letters complements its enforcement activity, and we find that, although the relationship is generally complementary, when the political ties with the US are stronger, the complementary effect is mitigated.

Keywords: political relationship; SEC; comment letters; enforcement actions

JEL codes: G18; G38; K22; P16

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1. Introduction

Foreign firms represent a significant proportion of firms traded in the US markets and, when their shares are traded in the US, the firms are subject to US securities laws and regulation to varying degrees. Theories predict that enforcement of securities regulation can increase firm value because it reduces concerns of expropriation and information asymmetry and further improves investor protection (e.g. LLSV, 1998; LLSV, 2002). In the context of US-listed foreign firms, the legal bonding theory suggests that by voluntarily subjecting themselves to US legal institutions, including mandatory disclosure rules, exchange self-regulation, SEC monitoring and enforcement, foreign issuers enhance their value in the eyes of investors (e.g. Coffee, 1999; Stulz, 1999, Doidge, Karolyi and Stulz, 2004). However, compared to US domestic firms, official SEC enforcement actions are much less frequent against foreign firms (e.g. Siegel, 2005; Langevoort, 2006a). This results in a "enforcement puzzle" that calls into question the legal bonding hypothesis (Licht et al., 2018). Is there a risk of underenforcement against foreign firms? How does the SEC select targets given limited regulatory resources, and do its enforcement efforts against foreign firms provide investors with enough protection? These are questions less well understood.

One potential limit on SEC enforcement is regulatory resources. A second is the potential for "home bias". A third possible limit, and the focus of this paper, is political capture. There is a risk that SEC officials will perceive enforcement efforts as disruptive political ties between the US and a foreign issuer's home country, particularly a home country with which the US has a strong relationship. We examine SEC regulations (both monitoring and enforcement) against US-listed foreign firms in a global environment. We consider a novel factor, bilateral political ties between the US and foreign issuers' home country, in affecting SEC's exercise of its regulatory discretion. SEC oversight of publicly-traded firms includes both routine monitoring through comment letter

reviews of firms' reporting compliance and pursuing enforcement actions against firms if their public reporting is deficient. However, how the SEC selects targets is something of a "black box".[2] We therefore examine the role of bilateral political relationships in the degree to which SEC pursues routine monitoring and enforcement actions of foreign firms.

The capture theory suggests that enforcement of securities regulation is largely the product of dealing with affected interest groups, the shifting political landscape, as well as the resources allocated at a given moment (Langevoort, 2006a). Prior literature documents that politically connected US (domestic) firms are less likely to be the subject of SEC enforcement actions (Correia, 2014; Yu and Yu, 2011), but that they are more likely to receive comment letter reviews (Heese, Khan and Ramanna, 2017). This research arguably presents conflicting evidence of the extent of political capture at the SEC. Alternatively, it may indicate the SEC's choice to pursue a cooperative strategy (comment letters) rather than a confrontational strategy (enforcement actions) with respect to favored firms. For foreign firms in the US, SEC might also rely on alternative enforcement channels such as cooperation and coordination with foreign regulators (Guseva, 2018; Naughton et al., 2018; SEC, 2014).[3] We provide a first investigation of how the political landscape in a global environment, specifically the bilateral political relationship between other countries and the US, plays a role in SEC regulation of foreign firms that trade in the US market.

We also address the relationship between routine monitoring and formal enforcement actions of foreign firms. Some scholars document the difficulty of analyzing the SEC's selection of enforcement targets because the SEC's first stage of review is an informal inquiry which is

[2] Public securities law enforcement is an intriguing phenomenon in the US, partly because it occurs as seldom as it does. Though misreporting issue exists (Velikonja, 2016), there were about 600 filed enforcement actions per year listed in the SEC reports from 2000 to 2014. Private lawsuits outnumber SEC enforcement actions significantly.
[3] For example, in the testimony by Andrew Ceresney, Director of the Division of Enforcement (DOE), before the House Committee on Financial Services, stated that "many of DOE's FCPA (Foreign Corrupt Practices Act) investigations rely on evidence obtained from foreign jurisdictions, and often are conducted in parallel with foreign governments". For more details: https://www.sec.gov/news/testimony/031915-test.html

confidential and not publicly-available, although the existence of a formal enforcement action is publicly disclosed (Velikonja, 2015). In this paper, we investigate SEC's routine monitoring via comment letters as well as formal enforcement actions and integrate our results into one picture. The SEC's Division of Corporation Finance (DCF) issues comment letters as part of its routine monitoring of securities filings. Comment letters can be issued on a variety of topics (e.g. M&A, revenue recognition, etc.), so the volume of comment letters is large (e.g. Cassell, Dreher and Myers, 2013). In contrast, it is the SEC's Department of Enforcement (DOE) that makes the determination whether to pursue an enforcement action. In cases where the SEC's concerns as reflected in SEC comment letters are significant and largely unresolved by the firm's responses, the comment letter process can trigger restatements of financial reports. Among these cases, a few of them may result in enforcement actions by the DOE, although enforcement actions are much less frequent, especially for US-listed foreign issuers.

We examine 10-K and 20-F related comment letters, from Audit Analytics and all enforcement actions of foreign issuers related to accounting and auditing issues, using SEC accounting and auditing enforcement releases (AAERs)[4]. Our sample covers 1,435 foreign issuers listed in the US market from 45 countries. Following Bartlett et al. (2019) and Silvers (2016), we define foreign issuers as those listed in the US markets and headquartered outside the US.[5] We do not use the definition of foreign private issuers (FPIs). The SEC defines foreign private issuers (FPIs) as foreign issuers that have less than 50% of their voting securities held directly or indirectly by US residents. Hence, FPIs are subject to less stringent regulation in the US than other foreign issuers

[4] We obtained AAER dataset at https://sites.google.com/usc.edu/aaerdataset/home. A detailed description of the data collection is available in Dechow, Ge, Larson and Sloan (2011).

[5] In the main tests, we restrict our sample to firms headquartered and incorporated outside the US, as we assume that political relationship may affect this group of firms in a more significant way. In the robustness checks (reported in the Appendix), we also include firms headquartered outside the US but incorporated in the US back into our sample, and our results stay consistent.

under a system of substituted compliance (Bartlett et al., 2019).[6]

Due to the limited number of enforcement actions against foreign firms in AAERs, we complement AAERs by using enforcement actions from the NYU Securities Enforcement Empirical Database (SEED), which covers not only issuer reporting and disclosure issues, but also violations of the Foreign Corrupt Practices Act (FCPA), market manipulation and other issues. We measure the bilateral political ties between the US and other countries using voting data from United Nations (UN) General Assembly and the number of visits to the White House by the officials from other countries.

Our empirical analysis on SEC regulations of foreign firms reveals two main sets of findings. First, political ties with the US are an important determinant of SEC oversight, including the likelihood of receiving comment letters and that of being subject to an SEC enforcement action. If a foreign firm's home country has stronger political ties with the US, then the frequency and intensity of SEC oversight (both routine monitoring and enforcement) is significantly lower.[7] To measure the intensity of SEC routine monitoring, we use the incidence, frequency, and tone of SEC comment letters. To analyze tone (negative, positive and litigious) of SEC comment letters, we follow Loughran and McDonald (2011) and conduct sentiment analysis of all the 10-K and 20-F related comment letters.

For robustness, we examine the heterogenous effects of political ties during a Republican *versus* Democratic presidency. Partisan conflicts have penetrated a great number of areas (e.g.

[6] The definition of foreign firms (issuers) varies across studies. For example, Silvers (2016) defines foreign firms as all foreign-incorporated US-listed firms. Bartlett et al. (2019) use issuers that are headquartered outside the US as foreign issuers for the analysis. Cheng, Srinivasan and Yu (2013) classify firms as foreign if they are either headquartered or incorporated in a foreign country. A few other studies use foreign private issuers (FPIs) defined by the SEC under the Rule 405 of Regulation C under the Securities Act and Rule 3b-4 under the Exchange Act for their analysis (e.g. Naughton et al. (2018)).

[7] Notably, we find that private litigation in the form of securities class action lawsuits is less influenced by global politics, suggesting that private litigation for foreign firms may serve as a substitute for public enforcement of securities laws in cases of political capture.

Brewer, 2005). Republicans are top recipients of political contributions, while Democrats are more likely to favor diplomatic engagement in sensitive international situations (e.g. Correia, 2014). We find that during Democratic presidencies, the impact of country-level political ties on SEC regulations of foreign firms are more pronounced. Consistent with our hypothesis of the influence of political relationship on SEC's monitoring and enforcement, we did not find any significant impact of political relationship on private litigation, i.e. securities class action lawsuits.

To identify the causal relationship, we utilize two exogenous shocks, i.e. a negative and a positive shock to the political relationship between the firm's home country and the US. The first shock we use is the US-led Iraq War, which is a negative shock to US-France relations. In 2003, France opposed the proposed UN resolution on a US-led Iraq invasion, and during 2003 to 2007, the relationship between the US and France experienced historical low point. We find that during this period, French foreign firms received significantly more comment letters and more negative/litigious words in comment letters. The second shock we employ is the federal election in Canada in 2006 and the ideology change afterwards. After the 2006 election, Canada experienced a significant change in ideology from left to right which was in line with the dominant ideology in the US at that time. This change created potentially a positive shock to Canada's political relationship with the US. We find during the two years after the shock, the Canadian firms listed in the US were less likely to receive comment letters and the tone of the comment letters was less negative/litigious.

The second finding we have in the paper is that SEC routine monitoring via comment letters complements enforcement actions for foreign issuers in general. However, we also find that the relationship between SEC monitoring and enforcement varies depending on the political ties. When the political ties between foreign firms' home countries and the US are stronger, the

complementary effect of comment letters on enforcement is mitigated. This suggests that international political ties also play an important role in the interaction between SEC's routine monitoring and enforcement for foreign firms. Foreign issuers from countries with stronger ties with the US appear to receive greater "light touch" monitoring through comment letters but face a lower probability of being subject to a formal enforcement action. Foreign issuers from countries with weaker ties with the US are more likely to face enforcement. This approach also helps the SEC leverage its resources and bring enforcement actions with higher publicity value.

We also examine the impact of the US Supreme Court's decision in *Morrison v. National Australia Bank (2010)* (*Morrison*, henceforth). *Morrison* reduced the exposure of international corporations to class-action litigation in the US. Although empirical analyses suggest that the effect of *Morrison* has been overstated (e.g. Bartlett et al., 2019), one potential regulatory response would have been for the SEC to strengthen its public enforcement efforts against foreign firms (e.g. Guseva, 2018).[8] We find that while *Morrison* did not significantly change the relationship between political ties and SEC enforcement, SEC monitoring via comment letters has been more sensitive to political ties. This suggests that SEC may have invested greater effort on monitoring firm disclosures in response to the reduced likelihood of private litigation after *Morrison*.

The rest of the paper proceeds as follows: Section 2 provides an overview of SEC oversight including regulator monitoring and enforcement, as well as a literature review and hypothesis development; Section 3 describes the data, variables and summary statistics; Section 4 presents the methodology and empirical results; and Section 5 concludes.

[8] The existing literature suggested that the effect of *Morrison* has been mixed. For example, another study, Licht et al. (2018), shows that foreign firms' disclosure quality and likelihood of facing SEC enforcement actions has been stable after *Morrison.*

2. Institutional Background, Theoretical Motivation and Hypothesis

2.1 SEC Monitoring and Enforcement of Foreign Firms

Foreign firms in the US are subject to both private litigation and public enforcement. Foreign issuers entering the US market through Level II and III ADR programs or conducting an IPO in the U.S. must comply with the registration and reporting requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934. In particular, issuers are subject both to transactional disclosure requirements in connection with the public offering of securities and to periodic reporting to the SEC and investors through annual reports. If a foreign issuer meets the definition of a foreign private issuer, then it files a Form 20-F to meet both its registration and periodic reporting requirements; while a foreign issuer which is not a FPI files Form S-1 or S-3 for a public offering and Form 10-K for its annual report. Foreign issuers (but not FPIs) must also file quarterly reports, special event reports (Form 8-Ks) and proxy statements.

Legal scholars debate whether private and public enforcers should complement or substitute for each other (Correia and Klausner, 2016; Choi and Pritchard, 2016; Jackson and Roe, 2009). One of the concerns highlighted by the literature is the fact that the SEC's enforcement efforts may be subject to political pressure. The SEC's budget is decided by Congress each year. In order to request budget increases from Congress, the SEC needs to provide "*objective metrics*", such as the number of actions or penalties (Coffee, 2013; Velikonja, 2016).[9] The SEC spends most of its enforcement resources on primary investigations and has identified private enforcement as an essential supplement to its enforcement efforts because of its limited resources (Bratton and Wachter, 2011). Overall, the capacity of SEC enforcement is subject to political control because

[9] In recent years, the SEC routinely cites its vigorous enforcement activities in congressional testimony to justify its annual budget requests. The reported figures may overstate the number of enforcement actions files in each category. For more details see Velikonja (2016).

the Division of Enforcement is limited in its budget.

Because of its scarce resources, the SEC has traditionally focused more on domestic rather than foreign firms. Shnitser (2011) documents that the SEC has commenced fewer meaningful actions against foreign issuers than against domestic firms. Underlying reasons include higher costs of enforcements against foreign issuers located outside the US, as well as the fact that US investors likely have lower ownership levels of the securities of foreign issuers, meaning that misconduct by foreign issuers has a more limited impact on the US capital markets. Nevertheless, recent years have seen increased international enforcement as more jurisdictions have joined the 2002 Multilateral Memorandum of Understanding, which facilitates enforcement coordination among International Organization of Securities Commissions (IOSCO) members. Silver (2021) shows that regulatory cooperation between securities regulators helps integrate global market integration.

We focus here on two types of SEC regulatory efforts against foreign firms – comment letter reviews of firms' reporting compliance and enforcement actions. The Division of Corporation Finance (DCF) reviews firms' financial reporting for the purpose of monitoring and compliance. Section 408 of the Sarbanes-Oxley Act of 2002 (SOX) requires the DCF to review firms' filings at least once every three years. The DCF reviews cover a variety of topics including corporate events such as mergers, substantive accounting issues, and periodic filings such as annual reports. Most regulatory reviews are conducted by junior-level SEC attorneys. Not all reviews generate comment letters, only those in which questions arise during the review process. In such cases, the DCF issues a comment letter to the reporting company, asking it to address the identified concerns. Typically, the reporting company responds to the SEC with an explanation of its disclosures, a change in its disclosures or both. Once the comment letter process starts, it can result in several

rounds of communications between the SEC and the reporting company . All the comment letters are publicly available on SEC's EDGAR system.

If all the SEC's questions are resolved satisfactorily, then the process ends in no further enforcement action. In cases where the SEC's concerns regarding prior financial reports are significant and the issuer fails to explain its reporting decisions in a way that resolves the SEC's concerns, the comment letter process cause the issue to restate its financial statements. In a limited number of cases, the DCF may refer the matter to the DOE for a formal enforcement action. A variety of independent events can trigger an enforcement action other than the SEC's review of securities filings, including media stories, investor complaints and whistleblower reports (e.g. Karpoff and Lou, 2010). In addition, neither the SEC nor issuers disclose all SEC investigations. Blackburne et al. (2021) show that only 19% of investigations are initially disclosed, because firms are not required to disclose active investigations even in some extreme cases when an enforcement action is likely.

2.2 Theoretical Underpinnings, Literature Review and Hypothesis Development

Political science provides several useful tools of interest, including the capture theory (Stigler, 1971) and the public choice model (Phillips and Zecher, 1982), to analyze the public enforcement of securities laws. In the context of SEC particularly, the capture theory essentially suggests politically connected firms have allies in Congress and the executive administration that may reduce the likelihood that they will be subject to an enforcement action. Empirical evidence about whether the SEC is politically captured, is mixed. Yu and Yu (2011) and Correia (2014) document that US domestic firms and executives with long-term political connections through contributions and lobbying are less likely to be the subject of SEC enforcement actions and face lower penalties

if they are prosecuted by the SEC. However, Yu and Yu find that routine monitoring does not reveal the same pattern. Using comment letters, Heese et al. (2017) find that political connections can positively predict comment letter reviews including the number of issues evaluated and seniority of SEC staff involved. Their interpretation is that firm political connection might be a distinct risk factor for SEC DCF, and the more comment letters that firms receive at the routine review stage might be a substitute for subsequent enforcement actions against politically connected firms.

On the other hand, as a "global" securities regulator, the SEC's decision-making in enforcement against foreign firms has been a black box. Langevoort (2006a) documents significant "home bias" of SEC's regulation, that is, the SEC brings significantly more domestic enforcement actions than extraterritorial actions. The SEC's limited appetite for regulating foreign issuers is also reflected in its rulemaking, such as its adoption of Rule 144A which reduced mandated disclosure in international markets (Coates, 2001). Relative to domestic issuers, foreign issuers in the US benefit from a more lax set of rules and a more forgiving public enforcement strategy (e.g. Shnitser, 2011). Guseva (2018) examines SEC enforcement actions against foreign private issuers between 2005 and 2016 and finds the SEC consistently pursued a lenient enforcement approach against foreign issuers. These results seem to contradict the bonding hypothesis that firms in countries with insufficient investor protection choose to list in the US markets to commit to investors they will obey a higher legal standard because limited enforcement means foreign firms may not actually be held to the higher standard of US law.

In an international environment, the political landscape that foreign firms are exposed to is very different from that of domestic firms. In order to better understand the extent to which foreign firms are subject to public enforcement in the US, we extend the capture theory by considering the

role of country-to-country political relationships. Prior literature has measured political relationships measured by UN voting patterns (e.g. Kuziemko and Werker, 2006; Carter and Stone, 2015; Dreher et al., 2018). [10] In addition to UN voting affinity, we also use officials' visits to the White House, to measure bilateral political relationships. This leads to our first main hypothesis:

H1: The political ties between a foreign firm's home country and the US are negatively associated with the strength of routine monitoring through comment letters and the likelihood of SEC enforcement.

One question from the SEC's regulatory system is whether routine monitoring through comment letters is a complement to or a substitute for enforcement actions (SEC, 2008; Duro et al., 2019). Tthere has been limited empirical evidence on this. For US domestic firms, existing studies suggest that political connections positively predict comment letter reviews (Heese et al., 2017), and negatively predict enforcement actions (e.g. Yu and Yu, 2011). One possibility is that the SEC might monitor firms with stronger political connections tightly in order to reduce its enforcement risks. The same logic can also apply to foreign issuers, that is, the SEC might monitor foreign issuers from countries with stronger ties with the US in a stronger way to protect them from enforcement. Hence, we have the following hypothesis:

H2a: SEC routine monitoring complements enforcement actions for foreign issuers.

H2b: The relationship between SEC monitoring and enforcement relies on the political tie between the home country of foreign issuers and the US. When the political ties are stronger, the complementary effect of SEC monitoring on enforcement can be mitigated.

[10] Prior literature measures country-to-country political relationships by UN voting patterns (e.g. Kuziemko and Werker, 2006; Carter and Stone, 2015). Recently, using voting behavior in the United Nations Securities Council (UNSC), Dreher et al. (2018) show states allied with the US receive more bilateral aid as well as loans from the IMF. John et al. (2016) document higher political affinity with the US measured by UN voting increases cross-border M&A transactions.

3. Data and Summary Statistics

3.1 Sample Construction

We compile data from multiple sources. We start with a list of foreign firms whose securities are traded in the US markets from Compustat. Under the federal securities laws, a foreign issuer is defined as any issuer that is a foreign government, a foreign national of any foreign country, or a corporation or other organization incorporated or organized under the laws of any foreign country. We then use the headquarter information from Compustat to restrict our sample to foreign firms that are headquartered outside of the US.[11] We follow Bartlett et al. (2019) and Silvers (2016), in not using foreign private issuers (FPIs) defined by the SEC under the Rule 405 of Regulation C under the Securities Act and Rule 3b-4 under the Exchange Act, because many lawsuits filed in the US involve foreign issuers whose securities trade exclusively on the US stock exchanges, and these issuers do not qualify under SEC's definition as foreign private issuers. In addition, foreign private issuers are subject to more limited regulatory oversight by the SEC.

We collect data on SEC comment letters from Audit Analytics and merge it with financial data from Compustat Capital IQ for foreign firms in the US. Following Heese et al. (2017), instead of focusing only on a specific topic (e.g. F-1), we retrieve a full sample of SEC comment letters to foreign firms on different subjects and then retain those related to firms' annual financial reports, i.e. 10-K or 20-F filings. Our comment letter sample starts in 2004 and ends in 2015.[12] We collect data on SEC enforcement actions from two sources: since 1982, the SEC has issued Accounting

[11] In the main tables, we report from the results using the sample of foreign issuers both headquartered and incorporated outside the US. In Appendix Table A.3, we also include foreign issuers that headquartered outside the US but incorporated in the US back into our sample, and the results stay statistically significant. We obtain the country of incorporation information from various sources and cross-checked this information: (1) Compustat; (2) 20-F/10-K filings; and (3) SEC website.

[12] The SEC began releasing comment letters relating to disclosure filings made after August 1, 2004.

and Auditing Enforcement Releases (AAERs) during or at the conclusion of an investigation against a company, an auditor, or an officer for alleged accounting and/or auditing misconduct. We examine the AAERs released on foreign issuers in the US. The other source we use for SEC enforcement actions is the Securities Enforcement Empirical Database (SEED) from NYU's Pollack Center for Law & Business. The SEED tracks and records information for SEC enforcement actions filed against public companies traded on major US exchanges and their subsidiaries. The SEED covers not only accounting and auditing related actions, but also other types of actions related to the Foreign Corruption Practices Act (FCPA), securities offerings, market manipulation, and broker dealer regulation. Prior literature points out that the political influence on SEC enforcement might be overstated because of the small sample of firms facing enforcement actions (Heese, et al., 2017). Therefore, we also complement the enforcement actions from AAERs using the SEED in this paper.[13]

Finally we match our SEC comment letter and enforcement action data in year *t* with country-level variables in year *t-1*, including international political relationships with the US, as well as other institutional factors in foreign firms' home countries, retrieved from various sources. This procedure results in a sample of 1,435 foreign firms from 45 countries with securities that trade in the US, covering the period from 2004 to 2015. We end up with 2,343 comment letters (grouped by conservations) and 96 accounting and auditing enforcement actions (132 enforcement actions from AAERs and SEED together)[14] for foreign issuers in the US. A full list of country name and

[13] The SEED database covers SEC enforcement actions (Federal Court Actions, Administrative Proceedings, ALJ Decisions and Commission Opinions) against public companies and subsidiaries starting 2004; however, its current coverage is only complete for the period starting October 1, 2009; while they are still in the process of completing the action data initiated prior October 1, 2009. The database can be accessed here: https://www.law.nyu.edu/centers/pollackcenterlawbusiness/seed

[14] The current version of SEED database (as of May 2020) covers 337 enforcement actions for public companies with CUSIP that we use to match with the financial data from Compustat. Out of these 337 enforcement actions, there are 36 actions involving foreign issuers.

firm number is provided in Table 1 Panel A. As determinants of comment letters and enforcement actions, we consider an assortment of firm characteristics, including auditor information, financial and accounting quality, institutional ownership, as well as total number of files that firms receive from the SEC each year. We collect this information from Audit Analytics, Compustat, Thomson Reuters, and WRDS SEC Analytics.

3.2 Variables

3.2.1 Political ties variables: voting affinity and White House visits

To measure international political relationships between other countries and the U.S., we consider two types of variables encompassing different dimensions of international relations: voting similarity between a given foreign country and the U.S. at the United Nations General Assembly (UNGA) and the heads of foreign countries' official visits to the White House. For voting similarities, we adopt the widely used Signorino and Ritter (1999) measure of voting similarity in the voting patterns of two countries (one of which is the US) from the U.N. General Assembly (see also, Garmaise and Natividad, 2013). *Voting_a* is an index for voting affinity originally ranging from -1 (least similar interests) to 1 (most similar interests), based on two-category vote data (1= "yes" or approval of an issue; 2= "no" or disapproval of an issue). *Voting_b* is the index of voting affinity with the same range but using three-category vote data (1= "yes" or approval of an issue; 2= abstain, 3= "no" or disapproval of an issue). The measures are constructed for each country *c* in year *t* by averaging the Signorino-Ritter score (S2) of voting similarity with the US for each resolution (*r*) in year *t*:

$$Voting\_a_{c,t} = \frac{1}{R}\sum_{r=1}^{R} S2_{r,c,t} \quad (1)$$

Voting_b is constructed in a similar manner.

The second measure we use, *Lwhvisits*, is the natural logarithm of the accumulated number of White House visits by leaders of foreign countries since 1946. The data is taken from the Office of the Historian of the State Department.[15]

To consider both aspects to measure political relationship, we also employ principal component analysis to obtain an aggregated measure, *Political tie*. It is defined as the principal component of *Voting_b* and *Lwhvisits*.

3.2.2 Variables on SEC enforcement and monitoring: incidence and regulatory sentiments

We measure the incidence of both comment letters and enforcement actions. *Comment letter*, is a dummy variable indicating whether the firm has received a comment letter related to 10-K or 20-F from the SEC in year *t*; *CL freq* is defined as the number of comment letters that the firm has received from the SEC in year *t*. *Enforcement action* is a dummy variable indicating whether the firm is the subject of an SEC enforcement action in year *t*. To capture the strength of the SEC monitoring of foreign firms, we use the incidence of comment letters, the frequency of comment letters, as well as the sentiment and tone of comment letters.

We follow Loughran and McDonald (2011) and conduct textual analysis of all the 10-K and 20-F related comment letters to measure tone and sentiments of SEC comment letters.[16] We measure sentiments along three dimensions- -- negative, positive, and litigious tones. We start from the bag of words from SEC comment letters created by WRDS, and then define the tones using the Loughran-McDonald Dictionary (Loughran and McDonald, 2014). *Negative*, capturing the negative sentiment of comment letters, is defined as the proportion of the Loughran-McDonald Financial-Negative words in SEC documents in year *t*. Similarly, *Litigious*, capturing the litigious

[15] The data of White House visits by leaders of foreign countries can be accessed here: https://history.state.gov/departmenthistory/visits

[16] Loughran and McDonald (2016) give a review on the recent studies using textual analysis in accounting and finance.

sentiment of comment letters, is defined as the proportion of the Loughran-McDonald Financial-Litigious words in SEC documents in year *t*; *Positive*, capturing the positive sentiment of comment letters, is defined as the proportion of the Loughran-McDonald Financial-Positive words in SEC documents in year *t*.

To illustrate, we use the bag of words from the SEC comment letters in 2015 and visualize the clouds of positive words and negative word respectively, presented in Figure A.1 in the Appendix. The most frequently used positive words are "effective" (shown 21,874 times), "better" (4,899 times), "benefit" (3,014 times), "beneficial" (2,041 times), etc.; and the most frequently used negative words are "questions" (shown 10,650 times), "foreclosure" (shown 7,849 times), "default" (6,130 times), "liquidation" (4,466 times), etc.

3.2.3 Other country-level institutional factors

Other than bilateral political relationship between the home countries of foreign issuers and the US, we also consider domestic regulations in home countries. We use indices that capture the strengthen of enforcement across countries that are widely used in the literature (e.g. Naughton et al., 2018). *Priv enforce*, is the index of private enforcement which equals the arithmetic mean of (1) Disclosure Index and (2) Burden of Proof Index, and therefore shows the ease with which investors can recover damages if there are misleading disclosures; *Publ enforce*, is the index of public enforcement which equals the arithmetic mean of (1) Supervisor characteristics index; (2) Investigative powers index; (3) Orders index; and (4) Criminal index, and therefore captures the strength of regulatory rules and the resources (e.g. budget and staff) available to regulators to implement the rules. Both indices are time-invariant, collected from LLS (2006). We also further consider the impact from other institutional factors including language and religions. We collected these variables from Djankov et al. (2007). We also control for GDP and the percentage of trade

in GDP, which we obtained from the World Bank.

3.2.4 Other firm characteristics

Following Dechow et al. (2011), we also control for an assortment of firm characteristics, including accrual quality, financial performance and market activities. *RSST accrual*, is defined as change in working capital, long-term operating assets for each firm in year *t*, and long-term operating liabilities, scaled by its average total assets in year *t-1* (Richardson et al., 2005). We also examine two accrual components: the first is *Receivable change*, defined as change in accounts receivables for each firm in year *t*, scaled by its average total assets in year *t-1*; the second is *Inventory change*, defined as change in inventory for each firm in year *t*, scaled by average total assets in year *t-1*. Misstatement of receivables improves sales growth, while misstatement of inventory improves gross margin, both closely followed by investors (Dechow et al., 2011). *% of soft assets*, captures the percentage of assets on the balance sheet that are neither cash nor property, plant and equipment (PP&E). When firms have more soft assets on their balance sheet, there is more discretion for managers to change assumptions to meet short-term earnings goals.

In terms of financial performance, we consider two variables, *Cash sale change*, and *ROA change*. *Cash sale change*, defined as percentage change in cash sales, excludes accruals-based sales, such as credit sales, therefore, it captures whether sales that are not subject to accruals management are declining. *ROA change* is the change in return on assets. Managers tend to prefer to show positive growth in earnings, hence, during misstatement periods it is likely that managers attempt to provide increase in earnings (Graham et al. 2005). Finally, we also consider whether the firm needs to raise cash to finance its ongoing operations and future growth plans. *Issue*, is a dummy variable indicating if the firm issues securities (either debt or equity) in year *t*. In addition to these firm features, we also further consider auditor information, other related financial and

accounting quality as determinants of comment letters, following Naughton et al. (2018).

Given the different filing requirements for foreign private issuers and other foreign issuers, in the regression analysis, we also consider the total number of issuer filings in each year, as one of the factors affecting comment letters. We also control for institutional ownership by US domestic investors by the end of each year. The detailed definition of variables and sources of data is listed in Appendix Table A.1.

3.3 Descriptive Statistics

Panel A of Table 1 reports the distribution of home countries of foreign firms in our sample as of 2015. The most firms are headquartered in Canada (21.2%), followed by Chinese firms (15.5%), and British firms (10.5%). Panel B reports the country distribution of SEC AAERs against foreign firms by 2015. Out of 96 enforcement actions, Canadian firms are involved in the most actions (22 actions); followed by Swiss firms (16 actions), and Chinese firms (10 actions). Panel C reports the country distribution of comment letters to foreign firms. Chinese firms receive the most comment letters (342 letters); followed by Israeli firms (226 letters) and then British firms (222 letters). The standard deviation across firms by country shows that for top receivers (countries) of comment letters, the distribution across firms is relatively flat, indicating that the number of comment letters received are not driven by a small group of firms. The mean values of political relationship measured by voting affinity and White House visits for all the countries in our sample are reported in Table A.2. Both voting affinity and White House visits show similar pattern of the bilateral political relationship between other countries and the US. Israel, the Marshall Islands, and the UK have the highest mean score of voting affinity, while Israel, the UK, and Germany have the highest mean value of White House visits. China, India, and Indonesia have the lowest value of voting

affinity.

Panel D of Table 1 presents descriptive statistics of the variables used in the empirical analysis. The statistics reveal substantial heterogeneity. *Enforcement action* ranges from 0 to 1, with a sample mean of 0.2% and a standard deviation of 0.048, meaning that the average probability of being enforced by the SEC regarding misstatements is only 0.2% in our sample period. *Comment letter* ranges from 0 to 1, with a sample mean of 24.5% and a standard deviation of 1.130, meaning that the average probability of receiving a comment letter related to 10-K and 20-F is 24.5%. *CL freq* ranges from 0 to 8, with a sample mean of 0.558 and a standard deviation 1.13. *Negative* ranges from 0.000 to 0.041, with a same mean of 0.002, suggesting that the average proportion of negative words identified by the Loughran-McDonald Dictionary in the comment letters that foreign firms receive is 0.2%. *Litigious* and *Positive* show similar mean and variation. The sample mean of *Litigious* and *Positive* are 0.002 and 0.001 respectively, suggesting that the average proportion of litigious words and positive words according to the Loughran-McDonald Dictionary is 0.2% and 0.1%.

Voting_a ranges from -0.893 to 0.967, with a sample mean of -0.029 and a sample median of -0.033. *Voting_b* ranges from -0.740 to 0.882, with a sample mean of 0.010 and a sample median of 0.014. *Lwhvisits* ranges from 0.693 to 4.710 and the sample mean is 3.694. The principal component variable, *Political tie*, ranges from -3.069 to 2.543. *Priv enforcement* ranges from 0.180 to 0.958, with a sample mean of 0.679; *Publ enforcement* ranges from 0.000 to 0.896, with a sample mean of 0.596, suggesting that more firms come from home countries with relatively stronger private and public enforcement. *Log GDP* ranges from 18.813 to 29.751, with a sample mean of 27.795; *Openness* ranges from 0.221 to 4.416, with a sample mean of 0.717.

Other firm-level variables also show large variation. The mean of *RSST accrual* is 0.032,

ranging from -1.988 to 1.451. The mean of *Inventory change* is 0.006, ranging from -0.223 to 0.268. The mean *% of soft assets* is 0.498. *Cash sale change* ranges from -7.408 to 3.170. with a sample mean of 0.044. *ROA change* ranges from -4.439 to 3.835, with a sample mean of -0.004, meaning that more foreign firms have decreasing ROA over the years. The mean value of *Actual issuance* is 0.808, suggesting that 80.8% of foreign firms have issued other securities over the years.

4. Identification and Empirical Results

4.1 Methodology

We start by examining the effects of political relationships on the incidence of SEC comment letters and enforcement actions, using the baseline Probit model below:

$$Comment\ letters\ or\ Enforcement_t = \delta_t + \beta_0 + \beta_1 \cdot Political\ tie_{c,t-1} + \beta_2 \cdot (Home\ country\ features)_{c,t-1} + \beta_3 \cdot (Firm\ characteristics)_{i,t-1} + \varepsilon_{i,t} \quad [17] \qquad (2)$$

where *Comment letters* or *Enforcement* are the dependent variables (dummy variables *Comment letter, AAER* or *AAER/SEED)*. The key explanatory variable is political relationship with the US, where we expect a negative value for the coefficient β_1. Following the literature, we also include the institutional factors (*Priv enforce*, *Publ enforce*) in home countries of foreign firms as well as other country characteristics including GDP (*Log GDP*), openness of the economy (*Openness*), language speaking (*English*) and region (*Catholic* or *Muslim*). Firm characteristics include accrual quality (*Receivable change*, *Inventory change*, *% of soft assets*), financial performance (*Cash sale change*, *ROA change*) and market activities (*Issue*). We include time specific heterogeneities into

[17] We tried also using Political tie in year t, and the results remain consistent.

our baseline Probit model.

4.2 Baseline Results: Political Ties and SEC Monitoring

We first examine the determinants of SEC monitoring of foreign firms using 10-K or 20-F related comment letters. We use four variables of political relationship, *Voting_a*, *Voting_b*, *Lwhvisits* and *Political tie* respectively as the key explanatory variable, and the dummy variable of *Comment letter* as the dependent variable in the specifications. The baseline results, reported in Table 2, show that political tie variables enter with significant and negative signs, except when we use *White House Visits* for analysis. The estimated effects are also economically significant. For instance, the estimation from column (1) suggests that 10 percent increase in voting affinity (*Voting_a*) is associated with 3.3 percent reduction in the probability of receiving a comment letter. The coefficient of *Priv enforce* is negative and statistically significant in all the specifications while the coefficient of Publ enforce is less significant, suggesting that if the private enforcement in the foreign firms' home country is stronger, then the likelihood of getting comment letters is lower; whereas the public enforcement in the foreign firms' home country doesn't seem to influence significantly the SEC monitoring.

[TABLE 2]

Next, we examine how bilateral political relationships affect the strength of SEC monitoring of foreign firms. In order to capture the strength of SEC monitoring, we use frequency and sentiment of comment letters. We run OLS regressions and incorporate both year and industry (SIC) fixed effects. The results using the frequency of comment letters as the dependent variable are shown in Table 3. The results show that political ties with the US are significantly and negatively correlated to the number of comment letters that the foreign firms received. The

economic influence of political ties is also large: taking column (1) as an example, one-standard-deviation increase in the voting score (*Voting_a*) is associated with 30.2 percent (0.315*0.536/0.558) decrease in the number of comment letters that the firm received on average. In addition, we also find consistent evidence that private enforcement in foreign firms' domestic countries is negatively associated with the level of SEC regular monitoring using comment letters.

[TABLE 3]

We then use regulatory strength as measured by the tone and sentiment of SEC comment letters as the dependent variable, with the results reported in Table 4.[18] Column (1)-(3) use *Voting_b* and (4)-(6) use *Lwhvisits* as the main explanatory variables respectively, both controlling for year and industry fixed effects. The results show that the political tie variables enter with larger coefficients, more significantly when using *Negative* and *Litigious* as the dependent variable, indicating that the impact of political relationship with the US is stronger for negative and litigious tone, while less pronounced (and less significant) for positive tone in SEC comment letters. In order to capture the within-country heterogeneity, column (7)-(9) further incorporate country fixed effects, and the main results stay consistent, that political ties can predict the negative and litigious tone of comment letters in a more significant and pronounced way compared to the positive tone.

[TABLE 4]

Since we classify foreign firms as those headquartered outside the US, a definition that covers not only foreign private issuers who file 20-Ks, but also firms who file 10-Ks and are subject to U.S. domestic regulations, there might be significant variation of number of SEC filings required by the two groups. This difference may affect the incidence of comment letters. In addition, the presence of institutional holding by US investors might also affect SEC's monitoring effort if, for

[18] We also use other political-tie variables as alternative main explanatory variable in regressions and the results stay consistent. We did not report all the results here for brevity purpose.

example, institutional investors are more likely to urge encourage SEC oversight of companies in which they have substantial ownership positions. Therefore, we add controls for the number of SEC filings and ownership by US institutional investors. We also add controls for a set of auditor information, market capitalization and other financial variables that are considered in Naughton et al. (2018) and rerun the tests for comment letters. As an alternative to the frequency of comment letters, we also consider the length of comment letters, measured by the average word count per comment letter or the total word count for comment letters that a firm receives in year *t* as the dependent variable. Table A.3 reports the results. As expected, both the number of SEC filings and the presence of US institutional investors are positively associated with the incidence and strength of comment letters. This suggests that the SEC monitors foreign firms more seriously when they have a bigger presence of US investors. More importantly, the results show that after taking account into the number of SEC filings, US institutional ownership as well as auditor and other financial information, political ties still have significant and negative effect on the incidence, frequency, length, as well as tones (negative or litigious) of comment letters.

4.3 Political Ties and SEC Enforcement

We then examine how the political relationship with the US affects the SEC enforcement of foreign firms. Again, we use *Voting_a*, *Voting_b*, *Lwhvisits* and the principal component variable, *Political tie*, as a key explanatory variable, respectively. The results are reported in Table 5. In all the specifications, the coefficients of political relationship variables are negative and significant, suggesting that firms from home countries with stronger political ties to the US have significantly lower likelihood of being the subject of an SEC enforcement action. The impact of political relationships is also economically meaningful. For example, in column (1), the coefficient suggests

that 10 percent increase in *Voting_a* is associated with 8.97 percent lower probability of an enforcement action; in column (7), the coefficient on *Political_tie* suggests that 10 percent increase in *Political_tie* is associated with 10.75 percent lower probability of an enforcement action. In addition, *% of soft assets* are positively related to the likelihood of an SEC enforcement actions; *ROA change* is negatively associated with the likelihood of SEC enforcement, as expected. The private enforcement in foreign issuer's home country tends to be positively associated with the enforcement probability by the SEC, whereas the public enforcement in the home country does not seem to matter significantly.

It is possible that other country-level factors such as religion or language might also affect SEC enforcement. Therefore, in Table A.4, we further include the dummy variable, whether the country is English-speaking (*English*), or the religion (whether it is *Catholic* or *Muslim*) into the regressions.[19] Column (1) uses the sample of foreign firms defined by firms headquartered outside the US; and column (2) excludes the firms incorporated in the US from our sample. Our main results still hold, political ties are negatively correlated with the incidence of SEC enforcement.

[TABLE 5]

Then, we expand our sample by further incorporating enforcement actions from NYU SEED. Table A.3 also reports the results of the same set of regressions using the larger sample of enforcement actions. Similarly, column (3)-(4) use the sample of foreign firms defined by firms headquartered outside the US; column (5)-(6) further exclude the firms incorporated in the US from our sample. Including more enforcement actions does not change our main results. The coefficients of political tie variables are all negative and significant, suggesting a negative relationship between bilateral political relationship with the US and the likelihood of being the

[19] Note that the dummy variable *Muslim* has been dropped from the regressions in Table A.3 due to collinearity.

subject of an SEC enforcement action.

Our regression results suggest that political relationships matter for public enforcement of securities laws, confirming the political capture of the SEC oversight of foreign firms. If this is the case, then we would expect that political relationship does not affect private enforcement of securities laws. Therefore, we examine whether political relationship matters for private ligation for foreign firms, using foreign firms' securities class-action lawsuits. Table A.5 in the Appendix reports the results where we use the dummy variable of securities class action lawsuits as the dependent variable and political-tie as the main explanatory variable. Our results show that political ties with the US are not significantly related to the likelihood of facing private litigation. This provides a possible response to the concern that our prior findings are explained by the fact firms in countries with stronger political ties have greater compliance with US securities laws.

4.4 Robustness and discussion

4.4.1 The Impact of Political Partisanship

There has been growing evidence showing that partisan conflicts penetrate many areas and that partisan differences can affect levels of regulatory and enforcement activity (e.g. Brewer, 2005). Correia (2014) documents that Republicans are top recipients of political contributions, which may reduce both the probability of enforcement and the penalties associated with an enforcement action. Partisan politics may also affect foreign relations. Existing surveys have shown that compared with Republicans, Democrats are more likely to favor diplomatic engagement in sensitive international situations. For example, Democrats are significantly more likely (by 2 to 30 percentage points) to say that several diplomatic actions, including strengthening the United Nations, engaging in high-level diplomatic visits, signing free-trade agreements, and

providing economic aid other countries are *effective*.[20] Therefore, we would expect that during a Democratic presidency the impact of political ties on SEC regulation of foreign firms would be more pronounced. We further incorporate the interactions of political-tie variables and the dummy *Republican*, which identifies the years of *Republican* presidency, with the results shown in Table 6. Column (1)- (3) report the results on comment letters and Column (4) presents the results on enforcement actions. We find that the interactions enter with positive signs, but more significantly when using the incidence of comment letters or enforcement actions as the dependent variable, suggesting that on average, the effect of political ties with the US on SEC regulation of foreign firms is more pronounced during a Democratic presidency, but less reflected in the tone and sentiment of comment letters.

[TABLE 6]

4.4.2 The Shock of the US-led Iraq Invasion

In order to identify the causal impact of political ties on SEC oversight of foreign firms, we use an exogenous shock on the political relationship between the US and France, i.e. the US-led Iraq invasion, and examine how it influences the SEC regulations on French firms. The year 2003 was a historical low point in the relationship between France and the US (Friedman, 2003). In March 2003, France, along with Germany, China and Russia, opposed the proposed UN resolution that would have authorized a US-led Iraq invasion.[21] The dispute over the recourse to war in Iraq caused the deeper problems and divergences further (Parmentier, 2008). Later as the war progressed, the relations between the two countries began to improve. The invasion began in 2003

[20] It has also been shown that Democrats are more likely to view signing international treaties, building new alliances, and placing sanctions on other countries as effective, though these gaps are narrower. For more details, please see: Chicago Council Surveys, America Divided: Political Partisanship and US Foreign Policy: Results of the 2015 Chicago Council Survey of American Public Opinion and US Foreign Policy (https://www.thechicagocouncil.org/sites/default/files/CCGA_PublicSurvey2015.pdf).

[21] During the run-up to the war, the French foreign minister emerged as a prominent critic of the American Iraq policies.

and was a protracted effort which culminated in the US withdrawal in 2011; however, 2007 marked the beginning of gradual troop withdrawal from coalition members. We define the time indicator, *Iraq war,* as one for the years 2003 over 2007, and zero otherwise. The dummy, *Fra*, is defined as one for foreign firms headquartered in France, and zero otherwise. We incorporate the interaction term, *Iraq War* with *Fra*, in the regressions. Table 7 report the results, with *CL freq*, *Negative* and *Litigious* as the dependent variable respectively. The results show that the coefficients of the dummy variable, *Fra*, are all negative and significant, suggesting that on average, French firms receive fewer comment letters, and less negative and litigious words in comment letters if any. However, the coefficients of the interaction term, are all positive and significant at the 1% level, suggesting that the period of the Iraq invasion (2003-2007), French firms receive more comment letters and regulatory sentiments are significantly stronger. The economic impact is also not trivial. During this period, French firms on average receive more comment letters by 104 percent (0.580/0.558) and more negative and litigious words by 181 percent (0.00317/0.00175) and 77 percent (0.00141/0.00183) respectively. Overall, the results suggest that better political relationships with the US reduces the strength of SEC oversight.

[TABLE 7]

4.4.3 Federal Election and Ideology Change in Canada

To further identify the causal influence of political relationship on SEC oversight of foreign firms, we utilize the change in political ideology during Canada's federal election in 2006 as an exogenous shock to its relationship with the US. We use the information from the Manifesto Project Database (MPD), which has collected electoral manifestos of more than 1,000 political parties in over 50 countries since 1945 and represents the most commonly used measure of policy

positions from political texts (e.g. Kempf et al., 2022). In our sample, Canada has experienced significant change in political ideology in its relation to the US after the federal election in early 2006- the right-left ideological index changes from -12.10 in 2006 to 16.49 in 2007, whereas that of the US stays at 25.9 from 2005 to 2008 and then slightly decreases to 11.14 but stays positive. We used this change as a potential shock to Canada's political ties with the US and explore how the changes affects SEC's oversight of Canadian foreign firms.

We introduced an interaction of the country dummy, *Canada*, and the time dummy, *Ideology shock*. *Canada* is defined as one if the firm is a Canadian firm in our sample, and zero otherwise. *Ideology shock* is defined as one for years 2007 and 2008, and zero for years 2004 and 2005. We drop 2006 for analysis because the federal election was held in January 2006 and Stephen Harper started serving as the 22nd prime minister of Canada that February. We also drop the countries that have experienced mild changes in ideology with its relation to the US during this period to avoid noise, which includes, Japan, Israel, Netherlands and Switzerland. The results are reported in Table 8. The coefficient of the interaction term of *Canada* and *Ideology shock* is negative in all the specifications, suggesting that Canadian firms in our sample received lower frequency of comment letters in the two years after the election, and less negative or litigious tone/sentiments of comment letters.

[TABLE 8]

4.4 SEC Enforcement, Monitoring, and Political Relationship

DCF and DOE are separate divisions in the SEC with separate heads. It is unclear how SEC's DCF coordinates with DOE in regulating foreign issuers. In principle, during routine monitoring through comment letters, if the firm is involved in violation of securities laws, the DCF can refer

the case to DOE for enforcement action. The DOE, however, makes its enforcement decisions independently of the DCF. In addition, referrals from the DCF are not the only source of information used by the DOE in its enforcement decisions. As we have shown in previous sub-sections, the political ties with the US appear to affect both routine monitoring and enforcement. It is possible that active monitoring proactively remediates issues in the stage of comment letters and preempts escalation to the enforcement stage. We therefore investigate the relationship between SEC routine reviewing and enforcement actions for foreign issuers as well as the role of political ties. Table 9 reports the results. In column (1)-(4) we use whether a firm receives comment letters, the frequency of comment letters as well as the tone of comment letters, to predict the probability of enforcement actions; in column (5)-(8) we further incorporate the interaction of comment letters and political-tie variables. The results show that when a firm receives comment letters (more frequently), or when the tone of comment letters is more negative or litigious, the likelihood of being subject to an enforcement action is also higher. In other words, the strength (intensity) of comment letters and enforcement move in lockstep with each other rather than in opposite directions. This indicates that SEC routine reviewing complements rather than substitutes for enforcement actions. However, the interaction terms of political ties and comment letters all enter with significant and negative signs, suggesting that when the foreign issuer's domestic country has stronger ties with the US, the positive association between comment letters and enforcement is mitigated and becomes more substitutive. This confirms our hypothesis that when a foreign issuer's home country has stronger political ties with the US, the SEC tends to resolve issues in the reviewing process by either issuing more frequent comment letters or using more negative/litigious tone in comment letters, and that, at least in the case of issuers with political ties, these actions reduce the likelihood of enforcement actions.

[TABLE 9]

4.4.1 The impact of Morrison v. National Australia Bank (2010)

In *Morrison v. National Australia Bank (2010)*, the Supreme Court limited the extraterritorial reach of the antifraud provisions of the US securities laws in an effort to reduce global class actions against international corporations. *Morrison* held that private securities fraud suits could only be brought in connection with transactions involving securities listed on the U.S. exchanges and other "domestic" transactions. Therefore, *Morrison* restricted the ability of private plaintiffs to bring actions against foreign issuers cross-listed in the US (Bartlett et al., 2018). Given that private litigation may serve as a substitute for public enforcement, a natural question is whether the SEC responded to *Morrison* by intensifying enforcement and monitoring of foreign issuers. However, existing evidence has shown that, in fact, the SEC's enforcement efforts against foreign issuers remained stable after *Morrison* (Guseva, 2018).

We examine whether the SEC responded to *Morrison*, and whether the relationship between SEC monitoring and enforcement changed after *Morrison*, by introducing the double interaction of comment letters and the time indicator, *PMorrison*, as well as the triple interactions of comment letters, political-tie variable and *Pmorrison*. Table 10 reports the results. The coefficients of comment letters are still positive and significant, and the coefficients of the interactions of comment letters and *Lwhvisits* are negative and significant, consistent with our finding in Table 9. The coefficients of the interactions of comment letters and *Pmorrison* are all negative and statistically significant (other than in column (4)), suggesting that after *Morrison*, the complementary role of comment letters to enforcement is less important. In the meanwhile, the coefficients of the triple interactions are positive, though less significant, indicating that after

Morrison, for foreign firms from countries with stronger ties with the US, the coordination effect between the routine monitoring and enforcement is largely unaffected.

Taken together, the results suggest that stronger political ties with the US not only reduce the likelihood of SEC oversight, but also play an important role in the communication between routine reviewing and enforcement. While SEC comment letters complement enforcement for foreign firms, the SEC tends to address the issues in the stage of comment letters for firms from countries with stronger ties with the US, to reduce the likelihood of enforcement. *Morrison* does not significantly change the relationship between political ties, SEC monitoring and enforcement.

[TABLE 10]

5. Conclusion

In this paper, we examine SEC regulation of US-listed foreign firms, and the role of country-level political relationships and provide supporting evidence of the SEC's "captive" behavior in an international political environment. SEC regulation includes both routine monitoring via comment letter reviews of firms' reporting compliance and pursuing enforcement actions against violators. We find political ties with the US are an important determinant of the likelihood of facing an SEC receiving comment letters as well as enforcement action. If a foreign firm's home country has stronger political ties with the US, the intensity of routine monitoring and the incidence of SEC enforcement are significantly lower. In addition, SEC routine monitoring via comment letters complements enforcement actions, but less so for the foreign firms from countries with stronger political ties with the US, for which comment letter monitoring is more likely to substitute for enforcement. This suggests when political ties between foreign firms' home countries and the US are stronger, the SEC tends to remediate issues at the routine-monitoring stage, reducing the

likelihood of an enforcement action. Our paper highlights the importance of considering the role of both SEC monitoring and formal enforcement actions in generating compliance by foreign firms with US securities law.

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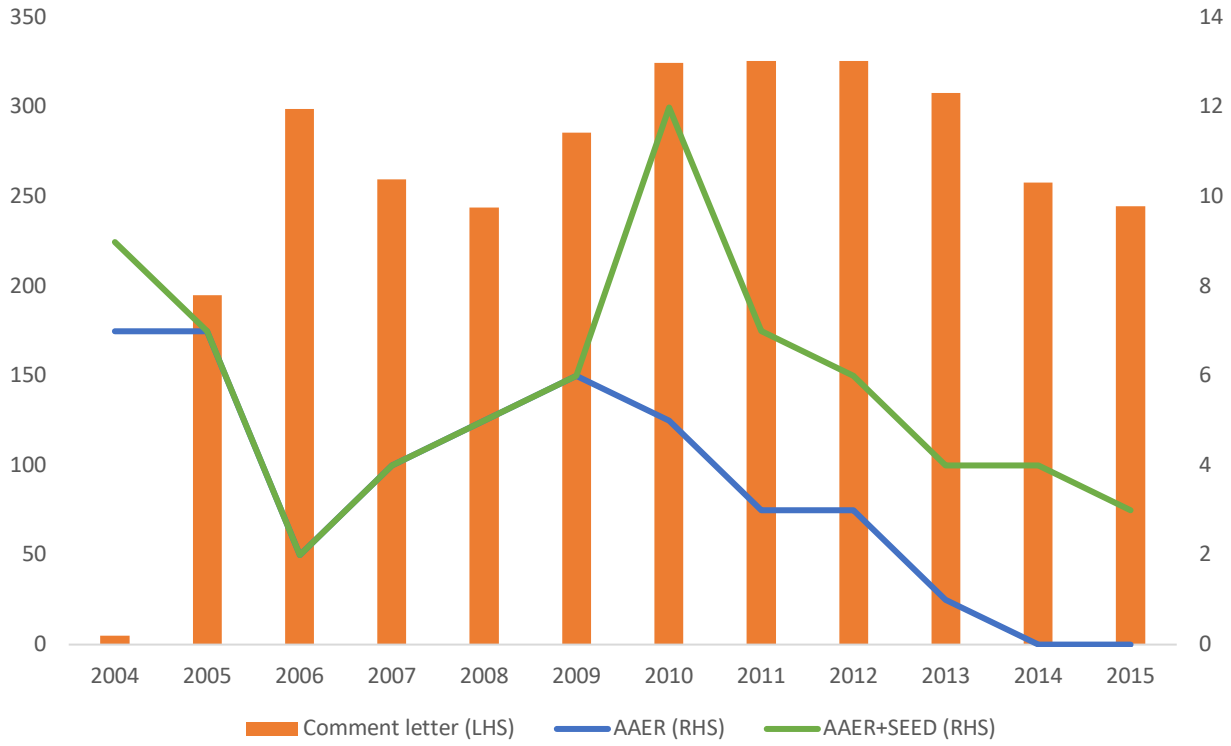


Figure 1: Number of SEC AAERs and comment letters of foreign firms: 2004-2015

This figure shows the number of SEC comment letters and enforcement actions against foreign firms in the US over the years 2004-2015. Comment letters are collected from Audit Analytics. We keep only 10-K and 20-F related comment letters and group them by conversations. Accounting-auditing related enforcement actions are collected from SEC Accounting and Auditing Enforcement Releases (AAERs). Other types of enforcement actions are collected from NYU Securities Enforcement Empirical Database (SEED).

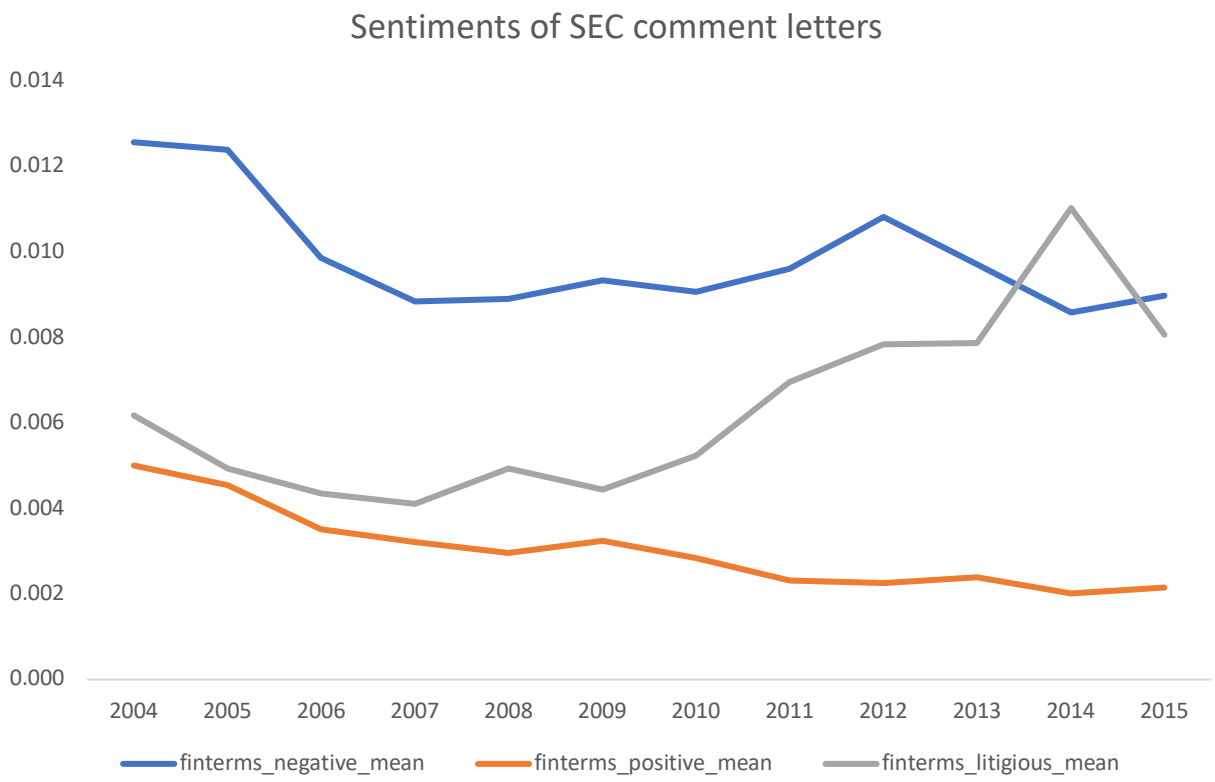


Figure 2: Tones of SEC comment letters for foreign firms: 2004-2015

This figure plots the change of the score of the tone of SEC comment letters for foreign firms in the US. In order to measure the tone, we use the proportion of Loughran-McDonald negative words, the proportion of Loughran-McDonald positive words, as well as the proportion of Loughran-McDonald litigious words. The definition of the variables is provided in Appendix Table A.1.

Table 1: Summary statistics

This table reports the summary statistics of our sample. Panel A presents the distribution of home country for foreign firms in the US, i.e. firm number and its percentage over total number of foreign firms. Panel B reports the distribution of home country for foreign firms that are enforced by the SEC, i.e. the number of enforcement actions by country. Panel C reports the distribution of home country for foreign firms that received comment letters, i.e. the number of comment letters and its standard deviation across firms by country. Panel D reports the summary statistics of the main variables in the regression analyses.

Panel A: Home country distribution of foreign firms in the US

Country	Number	Percentage (%)
ARE	1	0.07
ARG	20	1.39
AUS	38	2.65
AUT	1	0.07
BEL	8	0.56
BHS	5	0.35
BRA	43	3.00
CAN	304	21.18
CHE	33	2.30
CHL	22	1.53
CHN	222	15.47
COL	7	0.49
CYP	2	0.14
CZE	1	0.07
DEU	34	2.37
DNK	7	0.49
DOM	1	0.07
ESP	12	0.84
FIN	5	0.35
FRA	40	2.79
GBR	151	10.52
GRC	38	2.65
IDN	2	0.14
IND	19	1.32
IRL	49	3.41
ISR	137	9.55
ITA	12	0.84
JPN	46	3.21
KOR	18	1.25
MEX	29	2.02
MHL	2	0.14
MYS	1	0.07
NGA	1	0.07
NLD	53	3.69
NOR	6	0.42
NZL	2	0.14
PAN	4	0.28

PER	3	0.21
PHL	3	0.21
RUS	12	0.84
SGP	16	1.11
SWE	10	0.70
THA	1	0.07
TUR	1	0.07
ZAF	13	0.91
Total	1,435	100

Panel B: Home country distribution of SEC AAERs against foreign firms

Country	Number
CAN	22
CHE	16
HKG	13
CHN	10
GBR	6
JPN	6
ITA	5
BEL	3
IND	3
NLD	3
BMU	2
CYM	2
IRL	2
ISR	2
SGP	1
TOTAL	96

Panel C: Home country distribution of SEC comment letters to foreign firms

Country	Number by country	Standard dev across firms by country
CHN	342	1.882
ISR	226	2.042
GBR	222	2.497
CAN	165	1.261
BRA	163	2.940
JPN	119	2.721
NLD	111	2.691
IRL	106	2.617
FRA	81	2.293
MEX	75	2.706
CHE	70	3.080
CHL	69	2.696
GRC	66	2.023
DEU	57	2.809
IND	57	2.483

ARG	56	2.238
AUS	52	2.784
KOR	52	2.072
ZAF	38	2.691
ITA	33	3.415
ESP	31	3.777
SGP	19	2.007
RUS	16	2.270
FIN	12	3.286
NOR	12	2.608
SWE	12	2.201
BHS	11	1.924
PAN	10	3.317
PER	9	3.606
COL	8	4.243
IDN	8	1.464
DNK	7	2.646
NZL	6	2.828
PHL	6	2.000
TUR	6	1.312
BEL	5	1.768
MHL	3	2.121
AUT	1	0.707
CYP	1	0.506
TOTAL	2,343	

Panel D: Descriptive statistics

Variable	Obs	Mean	Median	Std. Dev.	Min	Max
Enforcement action	9,576	0.002	0.000	0.048	0.000	1.000
Comment letter	9,576	0.245	0.000	0.430	0.000	1.000
CL freq	9,576	0.558	0.000	1.130	0.000	8.000
Negative	9,576	0.002	0.000	0.005	0.000	0.041
Litigious	9,576	0.002	0.000	0.004	0.000	0.042
Positive	9,576	0.001	0.000	0.002	0.000	0.036
Voting_a	9,576	-0.029	-0.033	0.536	-0.893	0.967
Voting_b	9,576	0.010	0.014	0.445	-0.740	0.882
Lwhvisits	9,442	3.694	3.871	0.742	0.693	4.710
Political tie	9,442	0.081	0.271	1.372	-3.069	2.543
Priv enforcement	7,486	0.679	0.705	0.202	0.180	0.958
Publ enforcement	7,486	0.596	0.667	0.262	0.000	0.896
Log GDP	9,228	27.795	28.090	1.250	18.813	29.751
Openness (%)	9,228	0.717	0.620	0.481	0.221	4.416
RSST accrual	8,686	0.032	0.025	0.283	-1.988	1.451
Receivable change	8,143	0.013	0.006	0.063	-0.311	0.373
Inventory change	8,252	0.006	0.000	0.037	-0.223	0.268

% of soft assets	9,273	0.498	0.511	0.273	0.004	1.000
Cash sale change	7,477	0.044	0.084	0.817	-7.408	3.170
ROA change	8,275	-0.004	0.000	0.475	-4.439	3.835
Actual issuance	9,576	0.808	1.000	0.394	0.000	1.000

Table 2 Political relationship and SEC monitoring: Comment letters

This table reports the results of the estimation of the Probit models examining the effect of political relationship on SEC monitoring using comment letters. The dependent variable is the incidence of SEC comment letters (*Comment Letter*), a dummy variable identifying whether the company received SEC comment letters in year *t*. The key explanatory variables are the voting affinity score (*Voting_a* and *Voting_b*), the visits to the White House by officials of other countries (*Lwhvisits*), as well as the principal component variable of *Voting_b* and *Lwhvisits* (*Political ties*). All variables are defined in Appendix Table A.1. Robust standard errors are clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep Var	**Common Letter**			
	(1)	(2)	(3)	(4)
Voting_a	-0.327***			
	(0.103)			
Voting_b		-0.391***		
		(0.127)		
Lwhvisits			-0.0405	
			(0.0514)	
Political tie				-0.0737*
				(0.0383)
Priv enforce	-0.835***	-0.832***	-1.231***	-1.027***
	(0.260)	(0.259)	(0.323)	(0.310)
Publ enforce	0.0544	0.0437	-0.0547	-0.0117
	(0.112)	(0.111)	(0.125)	(0.122)
RSST accrual	-0.203***	-0.203***	-0.199***	-0.198***
	(0.0504)	(0.0503)	(0.0486)	(0.0491)
Receivable change	-0.199	-0.198	-0.0464	-0.0806
	(0.261)	(0.262)	(0.297)	(0.286)
Inventory change	-0.256	-0.253	-0.223	-0.246
	(0.441)	(0.439)	(0.439)	(0.442)
% of soft assets	0.588***	0.588***	0.509***	0.549***
	(0.180)	(0.180)	(0.181)	(0.183)
Cash sale change	0.0130	0.0131	0.0185	0.0174
	(0.0276)	(0.0276)	(0.0268)	(0.0270)
ROA change	0.0544**	0.0544**	0.0494*	0.0514*
	(0.0276)	(0.0275)	(0.0278)	(0.0277)
Issue	0.220**	0.220**	0.215**	0.217**
	(0.0912)	(0.0917)	(0.0881)	(0.0891)
Log GDP	-0.0837**	-0.0837**	-0.0143	-0.0397
	(0.0370)	(0.0364)	(0.0377)	(0.0412)
Openness	-0.0769	-0.0758	0.0153	-0.0344
	(0.0515)	(0.0510)	(0.0592)	(0.0622)
Cons	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Country FE	N	N	N	N
SIC FE	N	N	N	N
# of obs.	5826	5826	5716	5716
Pseudo R-sq	0.104	0.104	0.099	0.101

Table 3 Political relationship and SEC monitoring: Number of Comment Letters

This table reports the results of the OLS regressions examining the effect of political relationship on SEC monitoring using comment letters. The dependent variable is the number of SEC comment letters (*CL freq*) in year *t*. The key explanatory variables are the voting affinity score (*Voting_a* and *Voting_b*), and the visits to the White House by officials of other countries. All variables are defined in Appendix Table A.1. Robust standard errors are clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep Var	**Number of Comment Letters**			
	(1)	(3)	(5)	(7)
Voting_a	-0.315***			
	(0.112)			
Voting_b		-0.384***		
		(0.134)		
Lwhvisits			-0.107**	
			(0.0485)	
Political tie				-0.102***
				(0.0356)
Priv enforce	-0.665***	-0.655***	-0.894***	-0.727**
	(0.255)	(0.251)	(0.314)	(0.291)
Publ enforce	0.264*	0.256*	0.203	0.240*
	(0.136)	(0.135)	(0.151)	(0.143)
RSST accrual	-0.137***	-0.138***	-0.133***	-0.134***
	(0.0371)	(0.0370)	(0.0366)	(0.0364)
Receivable change	0.0262	0.0259	0.0924	0.0676
	(0.258)	(0.258)	(0.273)	(0.267)
Inventory change	-0.0911	-0.0881	-0.0692	-0.0729
	(0.419)	(0.416)	(0.415)	(0.414)
% of soft assets	0.658***	0.660***	0.611***	0.641***
	(0.0991)	(0.0994)	(0.0854)	(0.0939)
Cash sale change	-0.000478	-0.000513	0.00349	0.00212
	(0.0198)	(0.0198)	(0.0194)	(0.0196)
ROA change	0.0475*	0.0477*	0.0449	0.0461*
	(0.0280)	(0.0280)	(0.0278)	(0.0280)
Issue	0.146***	0.145***	0.142***	0.145***
	(0.0503)	(0.0505)	(0.0479)	(0.0494)
Log GDP	0.0342	0.0338	0.0948**	0.0656*
	(0.0348)	(0.0337)	(0.0397)	(0.0379)
Openness	-0.0391	-0.0392	0.0289	-0.0187
	(0.0567)	(0.0557)	(0.0473)	(0.0507)
Cons	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Country FE	N	N	N	N
SIC FE	Y	Y	Y	Y
# of obs.	5826	5826	5716	5716
Pseudo R-sq	0.160	0.160	0.157	0.159

Table 4 Political relationship and SEC monitoring: Power of words

This table reports the results of the OLS regressions examining the effect of political relationship on SEC monitoring using comment letters. The dependent variables are the tone of SEC comment letters. *Negative* is the proportion of Loughran-McDonald negative words in SEC documents; *Postive* is the proportion of Loughran-McDonald negative words in SEC documents; *Litigious* is the proportion of Loughran-McDonald litigious words in SEC documents. The key explanatory variables are the voting affinity score (*Voting_b*), and the visits to the White House by officials of other countries. All variables are defined in Appendix Table A.1. Other controls in the regressions include *Priv enf*, *Publ enf*, *ROA change*, *Issue*, *Log GDP*, and *Openness*. Robust standard errors are clustered at the country level and clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var	**Negative**	**Positive**	**Litigious**	**Negative**	**Positive**	**Litigious**	**Negative**	**Positive**	**Litigious**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
							Controlling for country FE		
Voting_b	-0.00127***	-0.000258*	-0.00155***				-0.00128**	-0.0000157	-0.00187*
	(0.000320)	(0.000140)	(0.000396)				(0.0000301)	(0.000300)	(0.000992)
Lwhvisits				-0.000285*	-0.0000244	-0.000170*			
				(0.000161)	(0.0000622)	(0.0000840)			
RSST accrual	-0.000413***	-0.000199***	-0.000306**	-0.000404***	-0.000201***	-0.000296**	-0.000634**	-0.000272***	-0.000494**
	(0.000131)	(0.0000431)	(0.000135)	(0.000134)	(0.0000431)	(0.000137)	(0.000269)	(0.0000812)	(0.000205)
Receivable change	-0.00204*	-0.000352	-0.00134*	-0.00166	-0.000259	-0.00108	-0.00222**	-0.000222	-0.00164***
	(0.00122)	(0.000493)	(0.000720)	(0.00131)	(0.000499)	(0.000739)	(0.000933)	(0.000374)	(0.000543)
Inventory change	-0.00304**	-0.000274	-0.00245**	-0.00340**	-0.000282	-0.00263**	-0.00358***	-0.000684	-0.00154
	(0.00141)	(0.000703)	(0.00107)	(0.00149)	(0.000731)	(0.00111)	(0.00136)	(0.000637)	(0.00126)
% of soft assets	0.00252***	0.000758***	0.00180***	0.00233***	0.000752***	0.00159***	0.00253***	0.000656***	0.00170***
	(0.000393)	(0.000137)	(0.000298)	(0.000373)	(0.000128)	(0.000248)	(0.000300)	(0.000108)	(0.000230)
Cash sale change	0.0000477	0.00000967	0.0000241	0.0000546	0.0000125	0.0000343	0.0000244	0.00000385	-0.00000134
	(0.0000624)	(0.0000294)	(0.0000493)	(0.0000624)	(0.0000285)	(0.0000474)	(0.0000641)	(0.0000294)	(0.0000465)
Other controls	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cons	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Country FE	N	N	N	N	N	N	Y	Y	Y
SIC FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
# of obs.	5826	5826	5826	5716	5716	5716	7109	7109	7109
R-sq	0.185	0.124	0.151	0.183	0.127	0.144	0.177	0.123	0.163

Table 5 Political relationship and SEC enforcement: AAERs

This table reports the results of the estimation of baseline Probit models examining the effect of political relationship on SEC enforcement, using enforcement actions from accounting and auditing enforcement releases (AAERs). The dependent variable is the incidence of SEC enforcement actions related to accounting and auditing issues (*AAER*), a dummy variable identifying whether the company was enforced by the SEC in year *t*. The key explanatory variables are the voting affinity score (*Voting_a* and *Voting_b*), the visits to the White House by officials of other countries (*Lwhvisits*), as well as the principal component variable of *Voting_b* and *Lwhvisits* (*Political ties*). All variables are defined in Appendix Table A.1. Robust standard errors are clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep Var	**AAER**			
	(1)	(3)	(5)	(7)
Voting_a	-0.897***			
	(0.285)			
Voting_b		-1.063***		
		(0.388)		
Lwhvisits			-2.813**	
			(1.428)	
Political tie				-1.075***
				(0.173)
Priv enforce	1.679**	1.684**	5.367*	3.416***
	(0.726)	(0.758)	(3.043)	(0.939)
Publ enforce	-1.008*	-1.030*	1.923*	0.0802
	(0.555)	(0.552)	(1.164)	(0.530)
RSST accrual	0.220	0.222	-0.232	-0.148
	(0.266)	(0.261)	(0.423)	(0.632)
Receivable change	0.954	0.963	3.834***	2.976***
	(1.338)	(1.340)	(1.131)	(0.885)
Inventory change	0.0942	0.0636	-0.000544	-0.184
	(1.664)	(1.672)	(1.715)	(2.061)
% of soft assets	0.921***	0.918***	0.849***	1.061***
	(0.164)	(0.162)	(0.213)	(0.201)
Cash sale change	0.0574	0.0572	0.00931	0.0192
	(0.0421)	(0.0412)	(0.0920)	(0.0954)
ROA change	-0.256***	-0.252***	-0.316**	-0.311*
	(0.0734)	(0.0729)	(0.126)	(0.183)
Log GDP	-0.181	-0.179	2.675*	0.696***
	(0.145)	(0.144)	(1.600)	(0.257)
Openness	-0.0276	-0.0234	0.999	0.0883
	(0.113)	(0.121)	(0.660)	(0.0906)
Cons	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Country FE	N	N	N	N
SIC FE	N	N	N	N
# of obs.	4201	4201	3248	3248
Pseudo R-sq	0.123	0.121	0.361	0.335

Table 6 Political relationship and SEC regulation: the impact of partisanship

This table reports the results of the regressions examining the effect of political relationship on SEC enforcement or monitoring using comment letters. The dependent variable is the incidence of SEC enforcement actions (*AAER*) and the incidence of SEC comment letters (*Comment Letter*) in year *t*. The key explanatory variables are the voting affinity score (*Voting_a* and *Voting_b*), and the visits to the White House by officials of other countries. *Republican* is defined as one if it is Republican presidency, or zero otherwise. All variables are defined in Appendix Table A.1. Robust standard errors are clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var	**CL freq**	**Negative**	**Litigious**	**AAER**
	(1)	(2)	(3)	(4)
Political tie	-0.152***	-0.000426***	-0.000438**	-5.482***
	(0.0476)	(0.000147)	(0.000170)	(0.889)
Political tie*Republican	0.129**	0.000303	0.000326	4.117***
	(0.0566)	(0.000240)	(0.000263)	(0.573)
Priv enforce	-0.741**	-0.00307***	-0.00195**	3.939***
	(0.307)	(0.000901)	(0.000917)	(1.162)
Publ enforce	0.260*	0.00128***	0.00118**	2.067**
	(0.150)	(0.000491)	(0.000520)	(0.840)
RSST accrual	-0.124***	-0.000382***	-0.000266**	-0.329
	(0.0355)	(0.000115)	(0.000127)	(0.508)
Receivable change	0.0933	-0.00168	-0.00111	4.030***
	(0.271)	(0.00133)	(0.000738)	(1.257)
Inventory change	-0.0653	-0.00340**	-0.00265**	-0.364
	(0.384)	(0.00150)	(0.00106)	(1.781)
% of soft assets	0.617***	0.00237***	0.00164***	1.098***
	(0.0856)	(0.000372)	(0.000234)	(0.135)
Cash sale change	0.00332	0.0000532	0.0000329	0.0183
	(0.0192)	(0.0000613)	(0.0000463)	(0.0991)
ROA change	0.0469*	0.000176*	0.0000255	-0.304**
	(0.0284)	(0.0000964)	(0.0000775)	(0.130)
Issue	0.136***	0.000527***	0.0000852	-
	(0.0477)	(0.000195)	(0.000221)	-
Log GDP	0.0719*	0.0000670	0.0000160	2.053***
	(0.0408)	(0.000115)	(0.000129)	(0.779)
Openness	-0.0137	-0.000175	-0.0000303	0.696**
	(0.0503)	(0.000183)	(0.000141)	(0.324)
Cons	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Country FE	N	N	N	N
SIC FE	Y	Y	Y	N
# of obs.	5716	5716	5716	3248
R-sq	0.163	0.186	0.150	
Pseudo R-sq				0.158

Table 7 Political relationship and SEC monitoring: the Iraq invasion

This table reports the results of the regressions examining the effect of political relationship on SEC comment letters during the Iraq War. The dependent variable is the frequency or the tones of SEC comment letters in year *t*. *Fra* is the dummy variable for foreign firms from France. *Iraq War* is a time variable defined as one for the years from 2003 to 2007, and zero otherwise. The key explanatory variables are the interaction term of *Fra* and *Iraq War*. Country, industry and year fixed effects are controlled in the regressions. All variables are defined in Appendix Table A.1. Robust standard errors are clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var	**CL freq**	**Negative**	**Litigious**
	(1)	(2)	(3)
Fra * Iraq War	0.647***	0.00339***	0.00171***
	(0.0794)	(0.000260)	(0.000276)
Fra	-0.651***	-0.00210***	-0.00203***
	(0.129)	(0.000439)	(0.000482)
Priv enforce	-1.311***	-0.00437***	-0.00378***
	(0.255)	(0.000936)	(0.000872)
Publ enforce	0.343**	0.00128**	0.00153***
	(0.151)	(0.000612)	(0.000528)
RSST accrual	-0.137***	-0.000414***	-0.000302**
	(0.0373)	(0.000134)	(0.000140)
Receivable change	0.0352	-0.00203*	-0.00127*
	(0.265)	(0.00123)	(0.000712)
Inventory change	-0.0571	-0.00283**	-0.00237**
	(0.430)	(0.00135)	(0.00104)
% of soft assets	0.626***	0.00235***	0.00164***
	(0.0953)	(0.000366)	(0.000276)
Cash sale change	0.00208	0.0000556	0.0000347
	(0.0201)	(0.0000639)	(0.0000497)
ROA change	0.0456*	0.000173*	0.0000210
	(0.0277)	(0.0000925)	(0.0000749)
Issue	0.142***	0.000515**	0.000100
	(0.0479)	(0.000202)	(0.000221)
Log GDP	0.138***	0.000205	0.000244*
	(0.0401)	(0.000146)	(0.000136)
Openness	0.112**	0.000153	0.000367***
	(0.0548)	(0.000208)	(0.000139)
Cons	Y	Y	Y
Year FE	Y	Y	Y
Country FE	N	N	N
SIC FE	Y	Y	Y
# of obs.	5826	5826	5826
R-sq	0.161	0.188	0.147

Table 8 Political ties and SEC monitoring: Foreign election and ideology change in Canada

This table reports the results of the regressions examining the effect of political relationship on SEC comment letters during the shock of ideology change after the Canadian federal election in 2006. Canada experienced significant change in ideology after 2006's federal election from left towards right (the same direction as that in the US), which created a positive shock to the political ties with the US. *Ideology shock* is defined as one in 2007 and 2008, and zero in 2004 and 2005. We also exclude the countries that experienced changes in significant ideology during the same period for analysis, which includes Japan, Israel, Netherlands, and Switzerland. The key explanatory variables are the interaction term of *Canada* and *Ideology shock*. Industry and year fixed effects are controlled in the regressions. All variables are defined in Appendix Table A.1. Robust standard errors are clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var	**CL freq**	**Negative**	**Litigious**
	(1)	(2)	(3)
Canada * Ideology shock	-0.447***	-0.00153***	-0.000695***
	(0.0669)	(0.000194)	(0.000202)
Canada	0.00732	-0.0000604	0.000479**
	(0.0786)	(0.000254)	(0.000187)
Priv enforce	-0.553**	-0.00231***	-0.00157***
	(0.224)	(0.000616)	(0.000397)
Publ enforce	0.497**	0.00218***	0.000857**
	(0.222)	(0.000773)	(0.000409)
RSST accrual	-0.0202	0.000312**	0.000115
	(0.0369)	(0.000125)	(0.000153)
Receivable change	-0.453*	-0.00328*	-0.00147*
	(0.236)	(0.00170)	(0.000824)
Inventory change	0.286	-0.0000611	-0.00368***
	(0.602)	(0.00214)	(0.00119)
% of soft assets	0.392***	0.00139***	0.00101**
	(0.0867)	(0.000330)	(0.000395)
Cash sale change	0.0169	-0.00000897	-0.000000842
	(0.0106)	(0.0000274)	(0.0000193)
ROA change	0.0336	0.0000833	0.0000677
	(0.0279)	(0.0000754)	(0.0000711)
Issue	0.130**	0.000467*	-0.0000438
	(0.0638)	(0.000244)	(0.000459)
Log GDP	0.0440	0.00000614	-0.000127
	(0.0543)	(0.000172)	(0.000140)
Openness	0.00153	-0.000248	0.0000169
	(0.0492)	(0.000180)	(0.000119)
Cons	Y	Y	Y
Year FE	Y	Y	Y
Country FE	N	N	N
SIC FE	Y	Y	Y
# of obs.	1766	1766	1766
R-sq	0.205	0.224	0.159

Table 9 SEC enforcement and monitor: the role of political relationship

This table reports the results of the regressions examining the role of political relationship in affecting SEC oversight including bringing up enforcement actions and generating comment letters for foreign firms. The dependent variable is a dummy variable whether the firm was enforced by the SEC (*AAER*). The key explanatory variable is the official visits to the White House (*Lwhvisits*). *Negative* is the proportion of Loughran-McDonald negative words in SEC documents; *Positive* is the proportion of Loughran-McDonald negative words in SEC documents; *Litigious* is the proportion of Loughran-McDonald litigious words in SEC documents. All the other variables are defined in Appendix Table A.1. Robust standard errors are clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var	AAER							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CL	0.142**				0.851***			
	(0.0627)				(0.111)			
CL*Lwhvisits					-0.317***			
					(0.0431)			
CL number		0.0409				0.217***		
		(0.0300)				(0.0143)		
CL number*Lwhvisits						-0.141***		
						(0.0121)		
Negative			4.950***				29.50***	
			(1.492)				(3.938)	
Negative*Lwhvisits							-10.98***	
							(1.675)	
Litigious				27.77***				96.20***
				(9.059)				(26.31)
Litigious* Lwhvisits								-21.77**
								(10.75)
Lwhvisits					-2.745*	-2.794*	-2.774*	-2.752*
					(1.417)	(1.450)	(1.431)	(1.433)
Other controls	Y	Y	Y	Y	Y	Y	Y	Y
Cons	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Country FE	N	N	N	N	N	N	N	N
SIC FE	N	N	N	N	N	N	N	N
# of obs.	4201	4201	4201	4201	3248	3248	3248	3248
Pseudo R-sq	0.091	0.090	0.091	0.094	0.172	0.170	0.169	0.170

Table 10 SEC enforcement, comment letters and political relationship: the impact of Morrison
This table reports the results of the regressions examining the role of political relationship in affecting SEC oversight including bringing up enforcement actions and generating comment letters for foreign firms before and after Morrison. The dependent variable is a dummy variable whether the firm was enforced by the SEC (*AAER*). The key explanatory variable is the official visits to the White House (*Lwhvisits*). *PMorrison* is defined as one for the years since 2011, or zero if before 2010. We drop the year of 2010 in our analysis. *Negative* is the proportion of Loughran-McDonald negative words in SEC documents; *Postive* is the proportion of Loughran-McDonald negative words in SEC documents; *Litigious* is the proportion of Loughran-McDonald litigious words in SEC documents. Robust standard errors are clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var	**AAER**			
	(1)	(2)	(3)	(4)
Lwhvisits	-2.619*	-2.706*	-2.630**	-2.591**
	(1.346)	(1.416)	(1.304)	(1.239)
CL	8.402**			
	(4.098)			
CL*Lwhvisits	-2.724**			
	(1.331)			
CL number		4.268**		
		(1.687)		
CL number*Lwhvisits		-1.456***		
		(0.547)		
Negative			390.8**	
			(169.2)	
Negative*Lwhvisits			-127.7**	
			(57.69)	
Litigious				1542.6**
				(735.2)
Litigious*Lwhvisits				-472.4*
				(243.2)
CL*PMorrison	-7.268*			
	(4.009)			
CL*Lwhvisits*PMorrison	1.891			
	(1.262)			
CL number*PMorrison		-3.896**		
		(1.641)		
CL number*Lwhvisits*PMorrison		1.155**		
		(0.545)		
Negative*PMorrison			-340.5*	
			(179.0)	
Negative* Lwhvisits*PMorrison			91.24	
			(73.31)	
Litigious*PMorrison				-1249.5
				(807.0)
Litigious* Lwhvisits*PMorrison				216.0
				(367.5)
Other controls	Y	Y	Y	Y
Cons	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Country FE	N	N	N	N
SIC FE	N	N	N	N
# of obs.	2804	2804	2804	2804
Pseudo R-sq	0.409	0.412	0.404	0.426

Online Appendix

Table A.1 Variable list and definitions

Variable	Definition	Source
Country-level variables		
Voting_a	Values for the affinity data ranges from -1 (least similar interests) to 1 (most similar interests). Dyadic affinity score using 2 category vote data (1="yes" or approval for an issue; 2="no" or disapproval for an issue).	UN Voting database
Voting_b	Values for the affinity data ranges from -1 (least similar interests) to 1 (most similar interests), using 3 category vote data (1="yes" or approval for an issue; 2= abstain, 3="no" or disapproval for an issue).	
Lwhvisits	Natural logarithm of the number of official heads of state visits to the White House.	White House
Political tie	The principal component of *Voting_b* and *Lwhvisits*.	
Priv enforce	The index of private enforcement equals the arithmetic mean of: (1) Disclosure Index; and (2) Burden of proof index.	
Publ enforce	The index of public enforcement equals the arithmetic mean of: (1) Supervisor characteristics index; (2) Investigative powers index; (3) Orders index; and (4) Criminal index.	La Porta et al. (2006)
Firm-level variables		
Comment letter	A dummy variable indicating whether the firm has received a comment letter from the SEC in year *t*	Audit Analytics
CL freq	The number of comment letters that the firm has received from the SEC in year *t*	
Fin negative	the number of Loughran-McDonald Financial-Negative words in the document divided by the total number of words in the document that occur in the master dictionary	
Fin litigious	The number of Loughran-McDonald Financial-Litigious words in the document divided by the total number of words in the document that occur in the master dictionary	
Fin positive	The number of Loughran-McDonald Financial-positive words in the document divided by the total number of words in the document that occur in the master dictionary	WRDS SEC analytics Bag of Words
AAER	A dummy variable indicating whether the firm had an accounting and auditing enforcement release (AAER) in year *t*	SEC AAER; SEED
AAER/SEED	A dummy variable indicating whether the firm had an AAER or enforcement action in NYU SEED in year *t*	
RSST accrual	Change in working capital, long-term operating assets and long-term operating liabilities, scaled by the average total assets	
Receivable change	Change in accounts receivables, scaled by average total assets	
Inventory change	Change in inventory, scaled by average total assets	
% of soft assets	The percentage of assets on the balance sheet that are neither cash nor PP&E	Capital IQ Compustat
Cash sale change	Percentage change in cash sales	
ROA change	Change in return on assets	
Issue	A dummy variable indicating if the firm issued securities during in year *t*.	

Marketcap	Natural Logarithm of market capitalization, calculated as shares outstanding at fiscal year end, times the share price at fiscal year end.	
Loss	A dummy variable indicating if net income is negative in any years of t, t-1, or t-2/	
Sales growth	The mean of sales growth in years t, t-1, and t-2, where sales growth is measured at the percentage change in annual sales	
Ext financing	The sum of equity financing and debt financing, over total assets. Equity financing equals the sales of common and preferred stock minus the purchases of common and preferred stocks and dividends. Debt financing equals long-term debt issued minus long-term debt reduction minus the change in current debt.	
Restructuring	A dummy variable indicating if non-zero restructuring costs as reported on a pre-tax basis in any years of t, t-1 and t-2.	
Litigation Risk	A dummy variable indicating if the firm's SIC code is one of the following:2833-2836, 3570-3577, 3600-3674, 5200-5961, or 737-7374.	
Weak	A dummy variable indicating if the internal control audit opinion (under SOX section 404) or the management certification (under SOX section 302) as reported in Audit Analytics is qualified for a material weakness in any years of t, t-1 or t-2	Audit Analytics
AU Big 4	A dummy variable indicating if the firm's auditor is a Big 4 audit firm	
AU Tier2	A dummy variable indicating if the firm's auditor is a second tier audit firm (i.e. BDO Seidman, Crowe Horwath, Grant Thornton, or McGladrey & Pullen)	
AU tenure	The number of years during which the auditor has audited the firm	
AU dismiss	A dummy variable indicating if the auditor was dismissed in any years of t, t-1, or t-2.	
AU resigned	A dummy variable indicating if the auditor was resigned in any years of t, t-1, or t-2.	
InstOwn Perc	Percentage of total institutional holding.	Thomson Reuters

Table A.2 Summary statistics by country

This table reports the number of firm-year observations, % of enforcement actions, % of comment letters, as well as the mean values of three measures of political relationship with the US, by country.

Country code	*Firm-years*	*% actions*	*% Comment Letters*	*White House visits*	*Voting_a*	*Voting_b*
ARE	6	0.0%	0.0%	-	-0.580	-0.456
ARG	161	0.0%	34.8%	23	-0.396	-0.275
AUS	250	0.0%	20.8%	54	0.158	0.136
AUT	11	0.0%	9.1%	23	-0.073	-0.014
BEL	32	9.4%	15.6%	21	0.109	0.114
BHS	42	0.0%	26.2%	6	-0.527	-0.410
BRA	343	0.0%	47.5%	29	-0.573	-0.445
CAN	1,642	1.3%	10.0%	75	0.290	0.264
CHE	245	6.5%	28.6%	-	-0.108	-0.042
CHL	158	0.0%	43.7%	18	-0.448	-0.353
CHN	1,386	0.7%	24.7%	26	-0.693	-0.535
COL	38	0.0%	21.1%	39	-0.512	-0.385
CYP	5	0.0%	20.0%	10	0.075	0.109
CZE	2	0.0%	0.0%	18	0.136	0.146
DEU	248	0.0%	23.0%	89	0.043	0.067
DNK	30	0.0%	23.3%	32	0.057	0.086
DOM	1	0.0%	0.0%	12	-0.371	-0.287
ESP	80	0.0%	38.8%	37	-0.018	0.042
FIN	46	0.0%	26.1%	20	0.029	0.057
FRA	315	0.0%	25.7%	52	0.183	0.182
GBR	935	0.6%	23.7%	98	0.334	0.301
GRC	244	0.0%	27.0%	20	-0.071	-0.019
IDN	22	0.0%	36.4%	18	-0.590	-0.469
IND	155	1.9%	36.8%	29	-0.686	-0.491
IRL	377	0.5%	28.1%	51	-0.059	0.004
ISR	963	0.2%	23.5%	114	0.877	0.705
ITA	84	6.0%	39.3%	75	0.070	0.083
JPN	426	1.4%	27.9%	80	0.010	0.038
KOR	135	0.0%	38.5%	37	-0.174	-0.063
MEX	235	0.0%	31.9%	55	-0.528	-0.411
MHL	12	0.0%	25.0%	4	0.543	0.490
MYS	3	0.0%	0.0%	15	-0.477	-0.370
NGA	4	0.0%	0.0%	19	-0.468	-0.380
NLD	390	0.8%	28.5%	29	0.120	0.121
NOR	49	0.0%	24.5%	35	0.040	0.069
NZL	16	0.0%	37.5%	24	-0.054	-0.016
PAN	33	0.0%	30.3%	20	-0.434	-0.324
PER	21	0.0%	42.9%	23	-0.450	-0.344
PHL	21	0.0%	28.6%	23	-0.597	-0.447
RUS	83	0.0%	19.3%	31	-0.556	-0.347
SGP	105	1.0%	18.1%	25	-0.598	-0.452
SWE	87	0.0%	13.8%	21	-0.074	0.008

THA	3	0.0%	0.0%	17	-0.418	-0.342
TUR	11	0.0%	54.5%	42	-0.229	-0.141
ZAF	121	0.0%	31.4%	17	-0.460	-0.340

Table A.3 Political relationship and SEC monitoring: more control variables

This table reports the results of the regressions examining the effect of political relationship on class action lawsuits. In column (1)-(2), we use Probit models, and in column (3)-(12), we use OLS models. The dependent variables are all related to comment letters, including the incidence of comment letters (*CL*), the length of comment letters (*Log mean word count*), the total length of comment letters (*Log total word count*), comment letter frequency (*CL freq*), as well as the tones of comment letters (*Negative and Litigious*). The key explanatory variable is the principal component variable of *Voting_b* and *Lwhvisits* (*Political ties*). We control for more variables that might affect SEC comment letters. All variables are defined in Appendix Table A.1. Robust standard errors are clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

	CL	**Log mean word count**	**Log total word count**	**CL freq**	**Negative**	**Litigious**
	(1)	(2)	(3)	(4)	(5)	(6)
Political tie	-0.131***	-0.264***	-0.297***	-0.117***	-0.000316**	-0.000260***
	(0.0468)	(0.0803)	(0.0927)	(0.0408)	(0.000147)	(0.0000940)
Priv_enf	-0.752*	-0.643	-0.722	-0.226	-0.00230**	-0.00131**
	(0.402)	(0.500)	(0.538)	(0.170)	(0.00117)	(0.000556)
Publ_enf	0.111	0.224	0.262	0.0929	-0.0000169	0.000264
	(0.217)	(0.394)	(0.441)	(0.174)	(0.000743)	(0.000381)
# SEC filings	0.0103***	0.0204***	0.0233***	0.00938***	0.0000238***	0.0000184***
	(0.000803)	(0.00325)	(0.00374)	(0.00162)	(0.00000297)	(0.00000230)
InstOwn US	0.339***	0.637***	0.664***	0.148	0.00105**	0.000523
	(0.119)	(0.218)	(0.248)	(0.108)	(0.000451)	(0.000382)
Weak	-0.178**	-0.0745	-0.0987	-0.0781	-0.000468**	-0.000351***
	(0.0713)	(0.0898)	(0.106)	(0.0574)	(0.000221)	(0.000102)
AU Big4	-0.0114	-0.561	-0.624	-0.178	-0.000160	-0.000315
	(0.305)	(0.401)	(0.440)	(0.140)	(0.000696)	(0.000448)
AU 2Tier	0.0193	0.00648	0.00673	0.000953	0.0000606	0.0000372
	(0.0121)	(0.0160)	(0.0175)	(0.00597)	(0.0000445)	(0.0000283)
AU tenure	0.259**	0.573**	0.606**	0.144	0.000560	0.000569***
	(0.108)	(0.243)	(0.266)	(0.0885)	(0.000345)	(0.000186)
AU dismiss	-0.181	-0.134	-0.0961	0.0545	-0.000223	-0.000527
	(0.200)	(0.371)	(0.402)	(0.127)	(0.000590)	(0.000353)
AU resign	0.0143	0.0921***	0.111***	0.0570***	0.0000218	-0.0000208
	(0.0322)	(0.0303)	(0.0337)	(0.0146)	(0.000104)	(0.0000614)
Market cap	-0.0460	0.204*	0.250*	0.143***	0.0000643	-0.000109
	(0.0591)	(0.117)	(0.130)	(0.0444)	(0.000150)	(0.000130)

Loss	0.00873	0.0702***	0.0717***	0.0135	0.000102**	-0.0000320
	(0.0221)	(0.0209)	(0.0201)	(0.00826)	(0.0000454)	(0.0000334)
Ext financing	0.0422	-0.116	-0.104	-0.00579	0.000115	0.0000427
	(0.0470)	(0.0842)	(0.0926)	(0.0367)	(0.000142)	(0.000132)
Restructuring	-4.779***	-1.151**	-1.339***	-0.482***	-0.00322***	-0.00196***
	(0.225)	(0.507)	(0.454)	(0.140)	(0.000947)	(0.000526)
Litigation risk	0.411	1.317***	1.420***	0.373**	0.00102	0.000878
	(0.283)	(0.378)	(0.406)	(0.150)	(0.000721)	(0.000943)
Log GDP	-0.0278	-0.148	-0.146	-0.00332	-0.0000488	-0.0000258
	(0.0635)	(0.105)	(0.119)	(0.0453)	(0.000212)	(0.000100)
Openness	-0.208**	-0.268**	-0.283*	-0.0545	-0.000494	-0.000149
	(0.0888)	(0.136)	(0.153)	(0.0606)	(0.000303)	(0.000120)
Other controls	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
SIC FE	Y	Y	Y	Y	Y	Y
# obs	4921	5208	5208	5208	5208	5208
R-sq	0.208	0.225	0.228	0.202	0.211	0.168

Table A.4 Political relationship and SEC enforcement: AAERs and SEED

This table reports the results of the estimation of baseline Probit models examining the effect of political relationship on SEC enforcement, which is measured by the total enforcement actions from accounting and audit enforcement releases (AAERs) and securities enforcement empirical databases (SEED). The dependent variable is *the incidence of SEC enforcement*, a dummy variable identifying whether the company was enforced by the SEC in year *t (AAER/SEED)*. The key explanatory variables are the political tie variable. Column (1)-(2) use the AAER enforcement action sample; and column (3)-(6) use the aggregated sample from AAER and SEED. We report the results for firms headquartered outside the US and for firms headquarter and incorporated outside the US separately. We also consider the impact of whether the foreign home country is an English-speaking country (English) and the religion (*Catholic* or *Muslim*) All variables are defined in Appendix Table A.1. Robust standard errors are clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var	**AAER**		**AAER+SEED**			
	Headquartered outside the US	*Headquartered & incorporated outside the US*	*Headquartered outside the US*		*Headquartered & incorporated outside the US*	
	(1)	(2)	(3)	(4)	(5)	(6)
Political tie	-1.791***	-3.804**	-0.467***	-0.591***	-0.509***	-0.595***
	(0.234)	(1.478)	(0.106)	(0.107)	(0.0929)	(0.0977)
Priv enforce	4.121***	5.193***	1.504**	1.131*	1.520***	1.210*
	(0.573)	(1.217)	(0.605)	(0.677)	(0.582)	(0.644)
Publ enforce	-1.741***	-1.142	0.339	0.151	0.440	0.303
	(0.292)	(0.697)	(0.356)	(0.432)	(0.319)	(0.399)
English	2.581***	5.281***		0.557*		0.420
	(0.387)	(2.012)		(0.294)		(0.269)
Catholic	-0.541***	-0.945***		-0.0797		-0.108
	(0.107)	(0.291)		(0.158)		(0.154)
Other controls	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Country FE	N	N	N	N	N	N
SIC FE	N	N	N	N	N	N
# of obs.	3541	3227	4621	4590	4236	4206
Pseudo R-sq	0.332	0.396	0.152	0.162	0.188	0.195

Table A.5 Political relationship and class action lawsuits

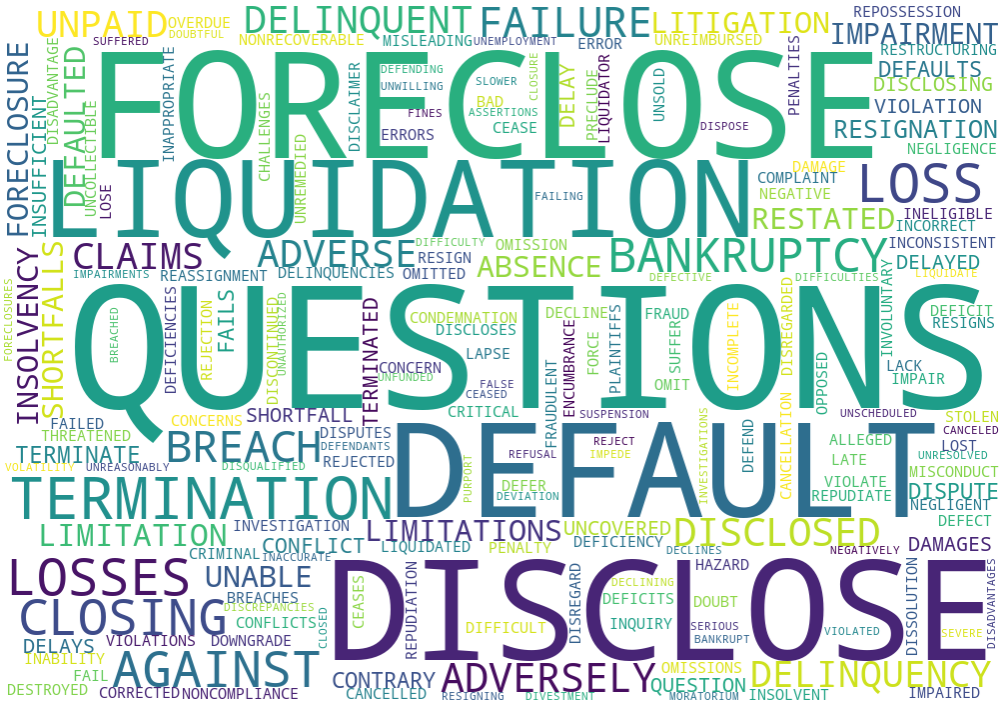
This table reports the results using class action lawsuits against foreign firms. Panel A reports the country distribution of class action lawsuits for those countries not missing political tie variables in our sample. Panel B reports the results of the estimation of Probit models examining the effect of political relationship on class action lawsuits. The dependent variable is a dummy variable identifying whether the company has class action lawsuits in year *t*. The key explanatory variables are the voting affinity score (*Voting_b*), the visits to the White House by officials of other countries (*Lwhvisits*), as well as the principal component variable of *Voting_b* and *Lwhvisits* (*Political ties*). All variables are defined in Appendix Table A.1. Robust standard errors are clustered at the country level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Panel A: Home country distribution of class action lawsuits against foreign firms

Country	Number
ARG	1
AUS	1
BRA	2
CAN	19
CHE	9
CHN	37
COL	2
DEU	5
FIN	3
FRA	2
GBR	17
GRC	1
IRL	18
ISR	13
ITA	1
JPN	1
KOR	2
MEX	2
NLD	5
RUS	2
SGP	3
SWE	2
ZAF	4
TOTAL	152

Panel B: Regression results of political relationship and class action lawsuits

Dep Var	Class action lawsuits			
	(1)	(3)	(5)	(7)
Voting_a	-0.135			
	(0.208)			
Voting_b		-0.138		
		(0.249)		
Lwhvisits			-0.0532	
			(0.103)	
Political tie				-0.0460
				(0.0743)
Priv enforce	0.391	0.363	0.255	0.343
	(0.455)	(0.466)	(0.421)	(0.438)
Publ enforce	-0.452	-0.462	-0.368	-0.359
	(0.385)	(0.384)	(0.406)	(0.402)
RSST accrual	0.00560	0.00528	0.0211	0.0201
	(0.186)	(0.186)	(0.195)	(0.197)
Receivable change	-1.048*	-1.042*	-1.443***	-1.459***
	(0.548)	(0.549)	(0.422)	(0.423)
Inventory change	-0.561	-0.557	0.278	0.264
	(1.519)	(1.515)	(1.262)	(1.271)
% of soft assets	0.438**	0.433**	0.355*	0.370*
	(0.211)	(0.210)	(0.212)	(0.204)
Cash sale change	0.0176	0.0177	0.0398	0.0393
	(0.0555)	(0.0554)	(0.0526)	(0.0538)
ROA change	-0.0687	-0.0687	-0.0702	-0.0698
	(0.0814)	(0.0813)	(0.0841)	(0.0838)
Issue	-0.0587	-0.0583	-0.0959	-0.0940
	(0.225)	(0.224)	(0.230)	(0.229)
Log GDP	-0.171*	-0.167*	-0.137	-0.153*
	(0.0917)	(0.0924)	(0.0931)	(0.0910)
Openness	0.0443	0.0520	0.0754	0.0543
	(0.154)	(0.153)	(0.160)	(0.162)
Cons	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Country FE	N	N	N	N
SIC FE	N	N	N	N
# of obs.	5826	5826	5716	5716
Pseudo R-sq	0.054	0.053	0.047	0.048



Panel A: A Word Cloud of SEC Comment Letters (Negative Words) in 2015

Panel B: A Word Cloud of SEC Comment Letters (Positive Words) in 2015

This figure plots the word clouds of the SEC comment letters according to the frequency of the words.

Figure A.1 A Word Cloud of SEC Comment Letters in 2015