

Politician Careers and Corporate Financial Misconduct

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ABSTRACT

We document that corporate financial misconduct has economically significant consequences for politicians' election outcomes and in particular, those politicians with SEC-relevant oversight responsibilities ("SEC-relevant politicians"). These politicians display a 31% greater likelihood of losing a reelection campaign after a local-area firm faces SEC enforcement for corporate financial misconduct. Additional analyses suggest that the effect is driven by adverse employment and wealth loss effects on voters. Next, we document that SEC-relevant politicians appear to influence the SEC in order to limit potential career effects from enforcement against local-area firms. First, we find that enforcement action announcements are opportunistically timed around SEC-relevant politicians' elections. Second, we document that firms in the constituencies of SEC-relevant politicians are less likely to receive SEC enforcement actions relative to other firms. Collectively, these results are consistent with the argument that politicians' career concerns stymie the SEC's enforcement efforts.

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1. Introduction

Academic studies document that financial misconduct has material and wide-ranging effects.¹ However, relatively little is known about whether *politicians* bear any costs from corporate financial misconduct. Examining whether they face costs from corporate financial misconduct is important because it speaks directly to understanding their incentives to monitor and oversee regulatory agencies charged with enforcing financial regulations such as the Securities and Exchange Commission (SEC).

Our objective in this paper is two-fold. First, we examine whether regulatory enforcement against corporate financial misconduct has adverse effects for politicians in terms of their reelection prospects. Second, we investigate whether politicians rationally anticipate potential adverse effects and use their power to opportunistically influence regulatory enforcement efforts.

Corporate financial misconduct affects politicians' reelection prospects if the politician's constituents are adversely affected and in turn, assign politicians with at least some blame for ineffective regulation and oversight. There are multiple channels through which constituents are disproportionately affected by local-area corporate financial misconduct including wealth destruction from declines in the value of investments in the transgressing firm, adverse employment effects, and general uncertainty about continued future employment (See Section 2 for a detailed discussion).

Using a sample of all U.S. House Representatives and Senators serving on powerful congressional committees who undertake a reelection campaign between 2000 and 2010, findings from a reduced form model indicate that local-area enforcement against corporate financial misconduct is negatively associated with the likelihood that an incumbent politician wins a reelection campaign. Importantly, this effect is concentrated for those politicians that serve on the congressional committees that have oversight of the SEC and are responsible for corporate reporting regulations (hereafter "*SEC-*

¹ Researchers document effects for the transgressing firm (Dechow et al. 1996; Graham et al. 2008; Johnson et al. 2014), and the transgressing firms' shareholders (e.g., Feroz et al. 1991; Karpoff et al. 2008a), executives (Karpoff et al. 2008b), directors (Srinivasan, 2005; Fich and Shivdasani, 2007) and auditors (Bonner et al. 1998).

relevant committees”).² In particular, when firms in those politicians’ constituencies face SEC enforcement actions for financial misconduct in the two years leading up to an election, the politicians are 31% less likely to win reelection. In contrast, politicians that serve on *other* congressional committees do not experience similar adverse effects. Additional analyses show that the effects are most pronounced when the transgression affects a larger set of constituents and when the marginal voter is more important for election outcomes.

Given these findings, a natural question is whether politicians serving on SEC-relevant committees attempt to opportunistically influence the SEC’s enforcement efforts against constituent firms. Such actions are consistent with the political economy theory of rational choice (Fenno, 1973; Mayhew, 2004) which suggests that politicians’ first order incentive is to undertake actions that increase the probability of being reelected. Furthermore, congressional control theory implies that only politicians serving on SEC-relevant committees have the ability to influence the SEC via various monitoring and disciplining mechanisms (e.g., Weingast and Moran, 1983; Weingast, 1984) and the threat of dismissal for a regulator’s leadership (Shotts and Wiseman, 2010).

Given incentive and ability, it would seem that SEC-relevant committee members could prevent the SEC from undertaking any enforcement against transgressing firms in their constituencies. This is unlikely to be the case because corporate financial misconduct is often uncovered by other parties (e.g., whistleblowers, investors, or the business press) prior to a regulatory investigation. In such instances, it is likely to be politically risky for politicians to prevent a regulatory investigation.

There are also other reasons why politicians may not be able to opportunistically influence the SEC’s enforcement efforts. First, politicians may have weak incentives to influence SEC efforts if they *ex ante* do not anticipate that the adverse effects will have material effects on their reelection prospects. Second, politicians may view the benefits of limiting enforcement against transgressing firms (such as

² The two committees are the U.S. Senate Committee on Banking, Housing, and Urban Affairs and the U.S. House of Representatives Financial Services Committee.

the increase in the likelihood of reelection and the receipt of future political contributions and support) as smaller than the costs (being identified as a supporter of a transgressing firm and developing a reputation as an ineffective lawmaker).³ Third, the SEC may not be susceptible to pressure from politicians with respect to their enforcement activities.

We first investigate the timing of SEC enforcement announcements. SEC-relevant politicians have incentives to reduce voter attention to corporate misconduct in the leadup to elections. For our sample of enforcement cases, we find that the announcement of enforcement is less likely (more likely) to occur before (after) elections when transgressing firms are located in SEC-relevant committee members' constituencies. The effect is economically large: A one standard deviation increase in committee seniority is associated with a 112% higher probability that the enforcement action is delayed until after the upcoming election.

Second, we find that firms in the constituencies of SEC-relevant committee members are unconditionally less likely to face SEC enforcement efforts relative to firms in other constituencies. A one standard deviation increase in a firm's SEC-relevant committee representation is associated with an 18% lower probability of facing enforcement for financial misconduct. These findings are robust to the inclusion of a battery of control variables and across multiple measures of SEC-relevant committee representation power. To further reduce concerns about omitted variables we use plausibly exogenous politician departures and firm headquarter relocations to identify changes in potential political pressure on the SEC at the constituency-level.

These findings collectively provide evidence that politicians rationally anticipate election related consequences of enforcement against corporate misconduct and opportunistically use their power over the SEC to influence the timing and intensity of enforcement efforts. In sum, our results

³ Relatedly, politicians likely also consider reputational effects from the perspective of future post-congressional employment opportunities such as ambassadorships, federal executive positions, or non-executive corporate board directorships (Parker, 2005).

are the first to document that politicians face consequences following local-area corporate financial misconduct. Furthermore, our findings suggest that the economic effects of corporate misconduct on local-area voters are a specific mechanism which affects politician incentives to intervene in the SEC's enforcement efforts.

This study helps to understand the political frictions affecting the SEC's effectiveness and is important for capital market participants, regulators, and policy makers. The findings are also relevant for three streams of research. The first stream examines the consequences of corporate financial misconduct. Prior studies focus on the consequences of financial misconduct for corporate leadership. We complement these studies by documenting that there are consequences for politicians, and specifically those that serve on SEC-relevant congressional committees.

Second, our study is also related to the literature examining the SEC's enforcement efforts and penalties.⁴ Our findings are particularly related to Yu and Yu (2011) and Correia (2014) who focus on capture-related determinants of SEC enforcement characteristics. However, a key difference between those studies and our paper is that they focus specifically on *corporations'* incentives to influence regulators' enforcement efforts. In contrast, we document *politicians'* career incentives to influence regulators' enforcement efforts because of the direct effects of corporate misconduct on voters. Third, our study contributes to a cross-disciplinary literature examining how firms can benefit from links to specific U.S. congressional committees and their members.⁵ We contribute to this stream of work by providing insights about the benefits to corporations from *geographic* links to politicians serving on SEC-relevant congressional committees.

We qualify some aspects of our findings. First, despite the inclusion of a battery of controls

⁴ See Dechow et al. (1996, 2011), Beneish (1999), Erickson et al. (2006), Johnson et al. (2009), Armstrong et al. (2010), Kedia and Rajgopal (2011), Files (2012), deHaan et al. (2015), and Heese (2018).

⁵ An incomplete list includes Hunter and Nelson (1995), Young et al. (2001), Faith et al. (1982), Weingast and Moran, (1983), Ramanna (2008), Tahoun (2014), Kostovetsky (2015), Wellman (2017), Akey et al. (2017), and Mehta et al. (2019).

and consistent evidence across many cross-sectional tests that reduce the risk that some omitted variables can systematically explain the results, our findings of a link between SEC enforcement actions and politician election outcomes are associational in nature. This limitation is similar to that in political science studies examining the determinants of election outcomes. Second, we cannot determine whether our findings showing political influence affect the timing and intensity of SEC enforcement activity against firms are attributable to explicit efforts by SEC-relevant committee members to influence the SEC or due to the SEC's anticipation of the SEC-relevant committee member preferences. Despite this caveat, a key conclusion – that congressional oversight of the SEC impairs the Commission's regulatory effectiveness – remains unchanged. In this vein, our paper speaks to a potential adverse effect of the U.S. federal regulatory oversight governance structure.

2. How Does SEC Enforcement Against Financial Misconduct Affect SEC-Relevant Politicians' Election Outcomes?

SEC enforcement against corporate financial misconduct affects politicians' reelection prospects if: 1) there are adverse effects on the politicians' constituents; and 2) the constituents in turn, assign politicians with at least some blame for ineffective regulation and oversight.

2.1 Adverse Effects of Financial Misconduct on Constituents

SEC enforcement against corporate financial misconduct can affect two non-mutually exclusive groups of local-area voter households: those with employment at the transgressing firm and those who have some portion of their wealth invested in the transgressing firm's stock.

First, corporate financial misconduct often results in restructuring or bankruptcy, which increase the likelihood that employees will experience job losses. Recent studies document a link between uncertainty about individual-level future economic prospects and a decreased probability of supporting incumbent politicians (e.g., Lewis-Beck & Nadeau, 2011; Palmer & Whitten, 2011; Singer, 2013; Hacker et al. 2013; Helgason and Merola, 2017). Importantly, the effect of uncertainty on

individual voting behavior is also shown to apply for employees that remain employed with firms that reduce employment because continuing employees have high uncertainty about their future employment prospects (even if those employee cuts occur in different departments within the firm). Thus, all of a firm's employees (and their households) are affected by enforcement against corporate financial misconduct and associated employment reductions.

Second, corporate financial misconduct typically leads to significant investor losses (Feroz et al. 1991; Karpoff et al. 2008a). Investors exhibit a strong preference for investments in their local-area because these firms are more familiar (Coval and Moskowitz, 1999; Ivkovic and Weisbenner, 2005). Consistent with this evidence, Huberman (2001) shows that households tend to concentrate their portfolios in local firms and Brown et al. (2008) shows that on average, households own two individual stocks. Thus, relative to distant investors, local-area voter under-diversification implies the latter are disproportionately affected by local firm financial misconduct. In sum, investor losses following corporate financial misconduct disproportionately affects the firm's local-area voters relative to voters in other constituencies, both in terms of the proportion of affected investors and the extent of their wealth losses.

Third, theoretical and empirical studies in macroeconomics suggest that unaffiliated local-area voters are also indirectly affected by wealth shocks for the transgressing firm's employees and investors. In particular Carroll and Kimball (1996) provide theoretical evidence that when households are faced with uninsurable income and wealth risks, their marginal propensity to consume declines with their wealth. Mian, Rao, and Sufi (2013) empirically document that wealth shocks for local-area households lead to declines in local-area consumption. In our setting, this implies that households that face economic losses from the corporate financial misconduct reduce consumption which adversely affects other local-area businesses and voters. Those voters in turn also face greater uncertainty about their economic prospects and are thus also more likely to reduce their support for incumbent politicians.

2.2 Why Do Voters Blame Politicians?

A well-established literature in political economy documents that voters' personal wealth concerns and predicaments are first-order determinants in voting behavior (e.g., Hibbing and Alford, 1982; Markus, 1988). Furthermore, Kahneman and Tversky (1984) show that constituent voting actions are asymmetric for gains and losses. Voters that have incurred losses are much more likely to vote on their grievances than voters that have experienced gains. Weaver (1986) shows that voters are more sensitive "to what has been done *to* them than to what has been done *for* them". Thus, voters experiencing economic losses as a result of SEC enforcement against corporate financial misconduct do not have a mechanism to directly impose penalties on regulators. Instead, they blame and penalize politicians for not ensuring effective regulatory oversight and laws.

We note that there are likely two countervailing opinions held by voters. On the one hand, they are displeased that the regulator and existing laws were ineffective in *preventing* the misconduct from occurring in the first place. On the other hand, voters are pleased that, conditional on misconduct occurring, the regulator and politicians responded.⁶ We focus on the former since our assumption is that politicians play an important role in whether firms have opportunities for misconduct in the first place.

Our argument embeds three assumptions. First, voters are aware that financial misconduct by a local-area firm causes personal wealth and job losses and increases economic uncertainty in the local area. Second, voters understand that the SEC is responsible for regulatory oversight to prevent corporate financial misconduct. Third, to the extent that voters only penalize politicians with SEC and financial regulation oversight responsibility, voters are aware of their Senators and House

⁶ We note that voters may be pleased with stronger regulatory responses, *conditional on misconduct occurring*. So long as voters hold politicians responsible for the existence of misconduct to begin with, any countervailing positive response to ex post enforcement actions should only dampen the main negative effect (i.e., all else equal, voters would prefer no misconduct to begin with, thus we don't expect a net positive response to enforcement actions). Thus, this counter-argument increases the tension and challenges our ability to document a negative link between enforcement and election outcomes.

Representatives committee responsibilities and in particular, whether their elected politicians serve on SEC-relevant committees.

News media coverage is likely to be an important channel through which local-area voters are likely to become aware about local-area corporate financial misconduct and the role of the SEC and its enforcement efforts. For our sample of SEC enforcement cases (as discussed in Section 3 below), we manually collect the number of news articles about each financial misconduct enforcement event for the two years around the initiation of an SEC enforcement action. We use NewsBank to search for articles that include the firm name and at least one of the terms “financial”, “accounting”, or “misconduct”.⁷ We find that on average, misconduct firms experience a 170% increase in the number of news articles in the two years after the enforcement initiation year relative to the two-year period prior to the enforcement year (see Figure 1). As these misconduct events occur at different random points during our sample period, the documented increase in news media attention is unlikely to be systematically related to some other factor that drives news coverage of those firms. A second channel through which voters are likely to become aware about a local-area financial misconduct case is word of mouth and/or personal relationships with the transgressing firm’s employees, who are especially likely to be aware of the misconduct because of their proximity to the firm.

Furthermore, a study by Chakravarthy, deHaan, and Rajgopal (2014) provides indirect support for the argument that local-area voters are aware of financial transgressions by local corporations. They document that firms disclosing serious financial misstatements undertake efforts to repair their reputation with investors, employees, and local communities. Firms are only likely to undertake such actions if they believe these stakeholders are aware of the financial misstatements.

Next, the argument that voters blame SEC-relevant committee members implicitly assumes

⁷ One of the key advantages of NewsBank rather than other news media sources such as Factiva is that it includes access to articles from regional and local newspapers which are likely to be a primary news source for many local-area voters.

that voters are aware of their politicians' committee responsibilities in Congress. While this is unlikely to be the case for all voters *ex ante*, uninformed voters likely learn about their elected officials' membership on SEC-relevant committees from the increased news media coverage *following* the revelation of local-area financial misconduct. To illustrate this point, Appendix A presents an excerpt from a news article in The Birmingham News, an Alabama newspaper, about a local-area financial misconduct event. The article draws attention to the fact that congressmen representing the Birmingham area serve on the House Financial Services Committee. Finally, it is also conceivable that voters become aware of their elected officials' membership on SEC-relevant committees from political messaging by candidates competing against an incumbent politician during the next election.

3. Data Sources and Sample

We collect U.S. Congressional member and electoral district data for the 2001 to 2010 period from multiple sources: MIT Professor Charles Stewart's website, the 2000 Census data from the U.S. Census Bureau, and from the University of Missouri Census Data Center. All the data we use is publicly available.

The sample window covers the 106th Congress to the 111th Congress. We identify each politician's state and/or district of representation and the duration of service in the House or the Senate, committee membership assignments, committee membership appointment dates and service period, and party affiliation. The data also allows us to identify the duration of each politician's service on a committee (in years) and thus committee seniority.

Senators represent an entire state whereas House Representatives represent similarly sized electoral districts within a state. Elections for politicians in the House of Representatives (Senate) are held every two (six) years with additional election events for turnover cases that occur outside of general election periods. Examples of such cases are death or appointments to Cabinet positions. For every change in political representation for a state or congressional district, we identify those that occur

because of a reelection loss. In total, we have 2,989 cases in which incumbent politicians undertake a reelection campaign during our sample period. Approximately 15.2% of cases result in reelection defeat; these are our turnover cases of interest.⁸ We identify the politicians who specifically serve on SEC-relevant committees. Of the total election sample, politicians serving on these committees are involved in 762 elections (25%).

We follow the methodology from Karpoff et al. (2008a) and identify SEC enforcement actions against financial misconduct for violation of one or more of three provisions of the Securities Exchange Act of 1934 as amended by the Foreign Corrupt Practices of 1977.⁹ We identify the initial public revelation date related to each misconduct case by searching Factiva to identify the earliest date that the financial misconduct is publicly reported and obtain dates during which the SEC undertakes regulatory enforcement from the publicly available dataset used in Karpoff et al. (2017) and Call et al. (2018). The first public revelation of a case in our sample is in 1998. In total, we identify 360 SEC enforcement actions issued to 357 unique firms during our sample period.¹⁰

Next, we match all enforcement firm data with firm-specific financial data from COMPUSTAT, Compact Disclosure, CRSP, political connection data from BoardEx, political contribution data from the Federal Election Commission, lobbying data from the Center for Responsive Politics, and auditor data from Audit Analytics. We then link COMPUSTAT firms to Senators based

⁸ Politicians serving on SEC-relevant committees may retire from Congress if they anticipate a reelection loss following enforcement against a constituent firm for financial misconduct. As we cannot precisely distinguish between the underlying reason for retirements, we do not treat these turnover cases as similar to “reelection loss” cases. This research design choice biases against finding a result and underestimates the magnitude of the link between local-area corporate financial misconduct and subsequent politician turnover.

⁹ The three sections are: (i) 15 U.S.C. yy 78 m(b)(2)(A), which requires firms to keep and maintain books and records that accurately reflect all transactions; (ii) 15 U.S.C. yy 78 m(b)(2)(B), which requires firms to devise and maintain a system of internal accounting controls; and (iii) 15 U.S.C. yy 78 m(b)(5), which establishes that no person shall knowingly circumvent or knowingly fail to implement a system of internal accounting controls or knowingly falsify any book, record, or account. Following Karpoff et al. (2008a) we require that sample enforcement actions initiated by the SEC for financial misrepresentation include charges brought under at least one of these three provisions.

¹⁰ There are only three cases where the same company faces an SEC enforcement action for financial misconduct multiple times during our sample period. In all three cases the enforcement events are unrelated and each enforcement action against a given firm is at least 2 years apart.

on the firms' headquarters state. We match Representatives with firms based on the firm's headquarters zip code being in a politician's congressional district. We exclude firms from our sample if they: 1) report a foreign headquarters because of the unclear link between those firms and U.S. politicians; 2) report being a client of the failed auditor Arthur Andersen or are not audited by one of the "Big 6" auditing firms because of differences in the propensity of SEC scrutiny for those firms (Lennox and Pittman, 2010)¹¹; 3) are utility firms or financial services firms (SIC codes between 4900 and 4999; and between 6000 and 6900) because of different financial reporting requirements for these firms that may cause errors in the measurement of variables such as financial reporting quality. After these restrictions, our sample consists of 17,017 firm-year observations, representing 2,641 unique firms.¹²

4. SEC Enforcement against Financial Misconduct and Politician Reelection Campaign Outcomes

Section 4.1 presents descriptive information about our SEC enforcement sample and politicians. Section 4.2 discusses our primary analyses and Section 4.3 presents findings from additional analyses.

4.1. Descriptive Statistics

Table 1 Panel A presents a count of SEC enforcement actions against financial misconduct for each year in our sample period. The proportion of enforcement actions in most years is between 6% and 18% of the total sample with the exception of 2007 to 2009 which displays a decline in the number of enforcement events relative to earlier sample years. Next, Panel B presents states with the highest and lowest counts of enforcement actions against in-state firms. The states with the largest number of

¹¹ The Big 6 are BDO Seidman, Deloitte, Ernst & Young, Grant Thornton, KPMG, and PricewaterhouseCoopers. The clients audited by the Big 6 represent 97.4% of aggregate total assets for all Compustat firms over our sample period.

¹² An important issue for our study is the correct identification of a firm's headquarters location so that we can correctly link this to the politicians that represent the firm's constituency. We obtain annual firm-year headquarters location details from Audit Analytics.

firms that are subject to enforcement are California (62), New York (39), and Texas (39). There are 14 states for which no resident firm faces an enforcement action. Panel C presents firm-level characteristics for the 360 firms that encounter SEC enforcement actions for financial misconduct measured in the year in which the financial misconduct is publicly revealed and for the sample of non-enforcement firms. Enforcement firms are approximately three times larger than other firms but have similar leverage, market-to-book, and cash flow and sales volatility. The financial misconduct sample firms have bigger political contributions, are more politically connected, have higher levels of institutional ownership, and greater analyst following, consistent with these firms being larger. We find no differences in auditor characteristics and geographical locations between the two groups.

Panel D presents congressional committee statistics for SEC-relevant congressional committees and the other most powerful congressional committees that have no jurisdiction over the SEC.¹³ The House (Senate) SEC-relevant committees have an average of 69 (21) members during our sample period, representing 29 (21) states. Thus, conditional on having representation on the committee, each state has an average representation on the House (Senate) committee of about 2 (1) members. Politicians serving on the House (Senate) committee have an average tenure of approximately 3.6 (6.9) years, with a maximum tenure of 19 (29) years. These characteristics are quite similar for the other powerful committees.¹⁴ Panel E presents the number of unique elections during our sample period for both SEC-relevant congressional committees and the ten most powerful non-

¹³ The identification of these committees is based on the methodology developed by Edwards and Stewart (2006). In addition to the SEC-relevant committees, the other committees are as follows. Senate: Finance, Veterans Affairs, Appropriations, Rules, Armed Services, Foreign Relations, Intelligence, Judiciary, Budget, and Commerce. House: Ways and Means, Appropriations, Energy and Commerce, Rules, International Relations, Armed Services, Intelligence, Judiciary, Homeland Security, and Transportation and Infrastructure. In untabulated tests, we find qualitatively similar results to those tabulated if we use all politicians including those that do not serve on one of these powerful committees.

¹⁴ By design, House and Senate committee rules for both parties ensure no single state has disproportionate influence on any one committee. Thus, power on committees is spread across a large cross-section of states. The states with the longest representation on the Senate SEC-relevant committee are Connecticut (10 years), Alabama (10 years), Utah (8 years), and Maryland (8 years). Only two states (Alaska and Maine) have no representation on SEC-relevant committees during our sample period (representing 22 firm-year observations).

SEC related congressional committees.

Finally, Panel F presents SEC enforcement cases by partitions of House election competitiveness for all House Representatives, defined as the percentage margin of victory in the prior election for the same constituency. Enforcement actions are not concentrated in competitive or less-competitive elections. Although not tabulated, the sample of Senate elections is substantially smaller than the sample for House members. There are two reasons for this difference. First, Senators have six-year terms rather than two-year terms and we require that enforcement occurs in the two years prior to the election. Second, there are only 100 Senators, whereas there are 435 House Representatives.

Table 2 presents details about the stock price and employment consequences of financial misconduct. We first calculate cumulative abnormal returns for firms subject to enforcement for financial misconduct between the date that the misconduct is first publicly revealed and October 31 in the year of the next congressional election. We use October 31 because our objective is to document the effect of financial misconduct on investor wealth up to the period when investors cast votes. Congressional elections occur on the first Tuesday after November 1 in even-numbered years. Panel A shows that enforcement firms report a mean (median) CAR of -25% (-12%) during this period. These effects are more pronounced for the subsample of firms that declare bankruptcy within two years after the enforcement end date.

Panel B reports changes in employment around the SEC enforcement start date. Transgressing firms report an average 7% (14.7%) decline in employment measured from $t-1$ to $t+1$ ($t-1$ to $t+3$) where t is the enforcement start year. These effects are more pronounced for transgressing firms that declare bankruptcy within two years after the conclusion of the enforcement period. In contrast, we note that COMPUSTAT firms report an average *increase* in employment of 5.5% over the same window. These investment and employment statistics help illustrate the scale of potential losses for investors and employees around financial misconduct events.

4.2 Primary Analyses

Next, we conduct empirical tests using the 2,989 sample reelection campaigns by incumbent Representatives and Senators during our sample period. We estimate the following logit specifications:

$$Election_Loss_{c,t} = \alpha + \beta_1 * Recent_Enforcement_{c,t} + \beta_X * Controls_{s,t} + \zeta_{c,t} \quad (1)$$

$$Election_Loss_{c,t} = \alpha + \beta_1 * Recent_Enforcement_{c,t} + \beta_2 SEC_Committee_{c,t} + \beta_3 Recent_Enforcement_{c,t} * SEC_Committee_{c,t} + \beta_X * Controls_{s,t} + \zeta_{c,t} \quad (2)$$

where $Election_Loss_{c,t}$ is an indicator variable set to one if a politician in constituency c loses a reelection campaign in year t , and set to zero otherwise. $Recent_Enforcement_{c,t}$ is an indicator variable set to one if any firm in constituency c has SEC enforcement for financial misconduct in the year of an election (year t) or the prior year, and set to zero otherwise. In Equation (2) we include the variable $SEC_Committee_{c,t}$ to examine the possibility that voters view politicians' roles differently based on membership on an SEC-relevant committee. $SEC_Committee_{c,t}$ is an indicator variable set to one if the politician in constituency c serves on an SEC-relevant congressional committee in both t and $t-1$ and otherwise set to zero.

$Controls_{c,t}$ is a vector of variables that have been shown in political science research to affect reelection outcomes including the closeness of the reelection result ($Close_Election$), the politician's seniority in Congress based on years of service ($Seniority$), indicator variables set to one if the politician is female ($Female$), if the politician is affiliated with the Democrat party ($Democratic$), if the politician is from the same party as the incumbent president ($President_Same_Party$), and if the reelection campaign occurs during a presidential election year ($Presidential_Election_Year$), and set to zero otherwise. We also control for state-level GDP growth (GDP_Growth) and the state-level unemployment rate ($Unemployment_Rate$) and district-level economic characteristics using average corporate returns ($Average_Return$) and changes in Return on Assets ($Average_AROA$) for firms in the district. We also include year fixed effects and state fixed effects to mitigate the possibility that the results are driven by cross-state time-varying and time-invariant state-level characteristics, respectively.

Greene (2002) suggests that using fixed effects with non-linear models may result in an incidental parameter problem. To ensure that our results are not sensitive to this concern, we reestimate our tests using Ordinary Least Squares and without fixed effects (Ai and Norton, 2003; Angrist and Pischke, 2009). We present those results in the Internet Appendix.

Table 3 Panel A presents descriptive statistics for our sample of politicians undertaking reelection campaigns. We present statistics separately for politicians serving on SEC-relevant committees and those serving on other congressional committees. SEC-relevant committee members are unconditionally more likely to lose reelection campaigns than other politicians and more likely to have SEC enforcement action against firms in their constituencies. Our within-SEC committee member empirical tests help address any selection concerns related to these statistics. Consistent with greater election loss likelihood, SEC-relevant members are involved in more close elections and are on average, slightly less experienced relative to politicians serving on other committees.

Panel B presents multivariate findings. Column 1 presents coefficients from tests of Equation (1). The coefficient on *Recent_Enforcement* is positive but statistically insignificant at 10% level. This suggests that on average, SEC enforcement action against a local-area firm is not statistically associated with the incumbent politician's next election outcome. Column 2 presents coefficients from tests of Equation (2). The coefficient on *Recent_Enforcement* provides evidence that SEC enforcement against firms in the constituencies of politicians serving on unrelated committees is not significantly associated with worse election outcomes for those politicians. The coefficient on the stand-alone term *SEC_Committee* is positive and statistically significant at the 1% level. This indicates that relative to other powerful politicians, politicians serving on SEC-relevant committees are more likely to lose reelection campaigns. Next, the positive and statistically significant coefficient on the interaction term *Recent_Enforcement * SEC_Committee* suggests that relative to other politicians, enforcement against local firms has a 21% incremental increase in the likelihood that SEC committee members will lose their next election. Next, in column 3, we reestimate Equation (1) but only using elections for SEC-

relevant committee members. The inferences from this specification provide confirmatory evidence. In particular, within the sample of SEC-relevant politicians, those with SEC enforcement against firms in their constituencies are 31% more likely to lose their next reelection campaign.

These results are robust to the inclusion of a battery of determinants of election outcomes including economic conditions, the competitiveness of the election, and politician seniority in Congress. In sum, our findings provide evidence of a link between SEC enforcement actions and politician turnover, but only for politicians that serve on SEC-relevant committees.

4.3 Additional Analyses

The findings in Section 4.2 implicitly assume that SEC enforcement actions affect a material number of voters who then influence election outcomes. A first best approach to validate this assumption requires that we obtain data on the number of voters in each constituency that have investments in a transgressing firm and the magnitude of each voter's holdings in the firm as a proportion of the value of their total investment portfolio. These data would allow us to estimate the proportion of a constituency's voters that are affected by a local enforcement action and the precise economic magnitude of their investment losses following SEC enforcement. Unfortunately, such granular data is not available to researchers.

Given this data limitation, we use multiple proxies to identify the scale of the misconduct event in terms of the number of local-area voters likely affected. Although each measure is not independently conclusive, the evidence in totality helps to provide insights about the number of affected voters.

The first measure is whether the transgressing firm declares bankruptcy within two years after the termination of the regulatory investigation (*Bankruptcy*). All else equal, bankruptcy results in economically large adverse impacts for local area voters, both in terms of employment and investment losses (See Table 2). We require that bankruptcy cases occur within two years after the end of the enforcement period to help ensure that the bankruptcy is related to the misconduct rather than some other contemporaneous factor. Second, we consider whether the transgressing firm is one of the most

prominent firms in the local area, defined as firms in the top quartile of local-area firms based on lagged total assets (*Big_Firm*). Local-area residents are more likely to be familiar with prominent firms and thus have investments in the firm. Third, we identify firms that offer an Employee Stock Option Plan (*ESOP*). Brown et al. (2008) show that a household's decision to hold stocks is causally related to the average stock market participation of the local community. Thus, all else equal, an ESOP likely increases the proportion of employees and local-area voters, that hold the firm's stock and thus suffer wealth losses following the enforcement action. Fourth, we use firms' operational concentration in the local area. We determine concentration using a measure from Garcia and Norli (2012) that relies on the count of the number of times different states are mentioned in 10-K reports. Geographically concentrated firms are likely to have a bigger footprint in a local area relative to a geographically dispersed firm. *Local* is an indicator variable set to one for the top quartile of firms based on the Garcia and Norli (2012) measure, and set to zero otherwise.

We estimate Equation (1) after interacting each of these four measures with *Recent_Enforcement*. Table 4 Panel A shows that the coefficients on the interaction terms across all four specifications bear positive signs and are statistically significant at conventional levels. Economically, the marginal effect for the interaction terms indicates that SEC enforcement against a constituent firm increases the probability of subsequent election loss by between 27% and 67%. In sum, the evidence in Panel A provides evidence that the effects of enforcement on election outcomes are magnified when a larger set of voters are affected.

Next, we consider voter materiality in the context of election characteristics. Although constituency sizes in the U.S. can be large (approximately 700 thousand for House members and up to 19 million for Senators), the number of votes cast represent relatively small proportions of any

constituency.¹⁵ Thus, election outcomes can be affected by a relatively small subset of voters. This implies that the association between SEC enforcement and election outcomes is increasing with the importance of the marginal voter. Marginal votes are more important in electorates with relatively smaller populations (and thus fewer voters) and in electorates that are historically competitive.

First, we use House versus Senate elections to identify electorates with relatively smaller populations. We create an indicator variable set to one for elections involving House Representatives (*House*) and set to zero for elections involving Senators. Second, we create an indicator variable (*Close_Election*) set to one for electorates in which the previous election was decided by a 5% margin or less and set to zero otherwise. We reestimate Equation (1) after interacting *Recent_Enforcement* with *House* or *Close_Election*.

The empirical results in Table 4 Panel B show that the link between SEC enforcement against financial misconduct and the likelihood of politician turnover is magnified across both proxies for the importance of the marginal voter. Column 1 shows that the coefficient on *Recent_Enforcement * House* is positive and significant at the 5% level. This indicates that SEC-relevant House Representatives are more likely to lose elections after SEC enforcements in their districts relative to Senators. In Column 2, the coefficient on the stand-alone term *Close_Election* is positive and statistically significant at the 10% level. This suggests that on average, politicians have an increased probability of losing competitive elections. The coefficient on *Recent_Enforcement * Close_Election* is positive and significant at the 5% level implying that recent SEC enforcement against a constituent firm incrementally increases the likelihood that an SEC-relevant committee member will lose a close election.

¹⁵ This is due to two reasons: 1) not all constituents are eligible to vote (e.g. constituents under the legal voting age of 18 and non-U.S. citizens; and 2) of eligible voters, only about 45-50% actually cast votes on average across presidential and mid-term elections. (American Presidency Project at the University of California, Santa Barbara; <https://www.presidency.ucsb.edu/statistics/data>).

Next, we investigate whether election outcomes are affected by differences in the timing of adverse events following the revelation of financial misconduct. Identifying and classifying events during the passage of a regulatory investigation against financial misconduct requires subjectivity on a case-by-case basis.¹⁶ Given this subjectivity we undertake two different approaches. First, we consider the duration of the SEC enforcement investigation that is completed at the time of an election. Intuitively, the larger the proportion of a misconduct investigation that has occurred *prior to* an election, the more likely that employees and investors experience adverse effects or are able to obtain information about the likelihood of future adverse events such as bankruptcy or job cuts, all else equal. This approach ensures we capture all possible events that occur during an investigation into financial misconduct that affects voters *prior to* an election.

To create our measure, we identify three dates for each misconduct enforcement case: the first and last dates of regulatory enforcement and the first election after the enforcement start date. We manually collect election dates from Federal Election Commission. The difference between the enforcement start and end date is the duration of the misconduct enforcement action. We then calculate the number of days between the enforcement start date and next election date and scale by the days of the enforcement (*Duration*). Larger values of *Duration* represent relatively greater portions of the enforcement activity occurring prior to the next election. We reestimate Equation (1) after interacting *Recent_Enforcement* with *Duration*. The results in column 1 of Table 4 Panel C indicate that the coefficient on *Recent_Enforcement * Duration* is positive and statistically significant at the 10% level. This finding indicates that the effect of SEC enforcement on election outcomes is magnified in the portion of the enforcement efforts that occur prior to the election.

¹⁶ Because the timing and duration of a regulatory investigation varies with each case, it is non-trivial to comprehensively and objectively evaluate each relevant event occur during and after the investigation window and case settlement as well as the relative important of each event. For instance, employees may lose jobs and update their expectations about potential job losses over time, new information about the misconduct may affect stock prices at different times, and the timing and duration of restructuring efforts to avoid bankruptcy will vary by case.

Second, given that the duration of some enforcement events can span multiple elections, we examine whether SEC enforcement affect *future period* elections, i.e., those beyond the first election after the enforcement start date. We estimate Equation (1) after adding an indicator variable set to one for enforcement events that occur either two or three years before a given reelection campaign (*Recent_Enforcement_t-2,t-3*) and another indicator variable set to one for enforcement events occur either four or five years before a given reelection campaign (*Recent_Enforcement_t-4,t-5*), and otherwise set to zero.¹⁷ The results in column 2 of Table 4 Panel C show that the coefficient on *Recent_Enforcement_t-2,t-3* is positive and statistically significant at the 10% level but the coefficient is smaller than that on the variable *Recent_Enforcement*. This indicates that enforcement appears to have a prolonged effect on voting behavior beyond the first election. We also find no evidence of a statistical effect for the following election; the coefficient on the variable *Recent_Enforcement_t-4,t-5* is positive but statistically insignificant.

Our findings complement Heese (2018) who examines the issuances of AAERs in politically important states around elections. His results indicate that on an *ex ante* basis, large firms are less likely to receive AAERs prior to presidential elections. We provide evidence about the *ex-post* consequences of SEC enforcement for politicians.

In sum, the cumulative evidence in Tables 3 and 4 suggests that enforcement against financial misconduct affects election outcomes and this effect is magnified in the number of voters affected and when the marginal voter is more important. We also find that enforcement has long-lasting effects on elections up to four years after the initiation of the enforcement. The findings suggest that politicians and SEC-relevant committee members in particular have reelection-related incentives to influence the extent of regulatory enforcement efforts against financial misconduct by local-area firms. We examine this possibility next.

¹⁷ Recall that our primary variable to identify recent enforcement events (*Enforcement*) is set to one for enforcement events that happen in the year of an election or the year prior to an election (i.e., *t* or *t-1*).

5. Differences In SEC Enforcement Characteristics For Firms In The Constituencies of SEC-Relevant Committee Members

The findings in the previous section suggest that if politicians rationally anticipate the adverse effects of enforcement against local-area corporate financial misconduct on voter behavior, they have career-related incentives to opportunistically influence SEC enforcement against financial misconduct by local firms. In this section, we investigate two outcomes that are consistent with this influence: 1) whether announcements of SEC enforcement actions are timed to limit voter attention leading up to elections; and 2) whether the SEC undertakes relatively fewer enforcement activities against firms located in the constituencies of SEC-relevant committee members. We also present evidence about the link between SEC-relevant committee representation and enforcement penalties. We begin with some background about how politicians can influence regulators.

5.1 Politician Influence and Regulators

Politician influence over regulators requires both *incentive* and *ability*. In our setting, politician incentives to influence the SEC's enforcement efforts are consistent with political economy theories of rational choice (Fenno, 1973; Mayhew, 2004).

The theory suggests that because politicians' first order objective is to ensure reelection success, they will seek to prevent events that could adversely affect their reelection probability. In our setting, regulatory enforcement against corporate financial misconduct in a politician's constituency increases voter attention to the accounting misconduct and the likelihood that the politician will receive blame for legislative and oversight failures. Negative voter sentiment in turn decreases the incumbent politician's likelihood of winning a reelection campaign. Thus, if politicians rationally expect adverse reputational effects from SEC enforcement against local-area firms, rational choice theory implies that politicians have reelection-related incentives to prevent SEC enforcement efforts against constituent firms.

In addition to having incentives to influence the SEC, politicians also need the *ability* to do so. The theory of congressional control suggests that politicians serving on SEC-relevant committees particularly have this ability because the relation between congressional committees and regulatory agencies is a principal-agent problem. Politicians can incentivize regulatory agencies under their jurisdiction to act in the politicians' interests via monitoring and disciplining mechanisms such as congressional oversight and budget appropriations (Weingast and Moran, 1983; Weingast, 1984) and the threat of dismissal for the regulator's leadership (Shotts and Wiseman, 2010).

Empirical and anecdotal evidence also provides support for congressional control theory. For example, Hunter and Nelson (1995) find that the fraction of tax returns audited by the IRS is significantly lower in congressional districts that have key representation on the congressional committees that oversee the IRS. Mehta et al. (2019) show that merger parties receive relatively favorable antitrust reviews when they are located in the constituencies of powerful politicians that serve on congressional committees with antitrust regulatory oversight responsibilities. Comments by former SEC Chairman Arthur Levitt in an interview with PBS further illustrates the power of the SEC-relevant congressional committees over regulators:

*“...the congressional committee that oversees the SEC that has a chokehold on the existence of the SEC, that can block SEC funding, that can block SEC rulemaking, that can create a constant pressure in terms of hearings and challenges and public statements, that can absolutely make life miserable for the commission.” And “[The politicians] kept the heat on me by telephone calls, by letters, by congressional hearings, and ultimately by threatening the funding of the agency by threatening its very existence. I mean, we were at that point struggling [to receive] the same compensation as other financial regulators... and certain members of this committee suggested to me that getting that pay parity was out of the question while we were proceeding with this issue. So we were really being held, well, an attempt was made to hold us captive.”*¹⁸

5.2 Enforcement Action Timing Around Elections

Our next set of tests examine whether political representation on SEC-relevant committees is linked to the timing of the announcement of enforcement actions for corporate financial misconduct.

¹⁸ <http://www.pbs.org/wgbh/pages/frontline/shows/regulation/interviews/levitt.html>

We estimate the following logit specification at the enforcement level, e :

$$\text{Enforcement_PostElect}_{e,t} = \alpha + \beta_1 * \text{Seniority}_{e,t} + \beta_X * \text{Controls}_{e,t} + \zeta_{e,t} \quad (3)$$

$\text{Enforcement_PostElect}_{e,t}$ is an indicator variable set to one for corporate financial misconduct enforcement cases that occur in the year immediately following an election, and set to zero for corporate financial misconduct enforcement cases that occur in the year leading up to an election. $\text{Seniority}_{e,t}$ represents one of three firm-year measures of SEC-relevant committee representation for the firm facing the enforcement action: Total_Seniority , Committee_Num , or Seniority_Dum as defined below. $\text{Controls}_{e,t}$ is a vector of control variables (as defined in Appendix B) that can affect the speed with which regulators undertake an enforcement action against financial misconduct. We also include state, Fama-French industry, and year fixed effects. Standard errors are adjusted for heteroscedasticity using a Huber-White Sandwich estimator and clustered by state.

Our three measures of SEC-relevant committee representation: Total_Seniority , Committee_Num , or Seniority_Dum aggregate a firm's Senate and House SEC-relevant committee representation because we do not a priori expect different effects between representation on either committee. The measures are designed to capture the fact that not all political representation is equal; a key determinant of a politician's ability on a committee is seniority (Levitt and Poterba, 1999; Cohen et al. 2011). Senior committee members determine a committee's actions and agenda and oversee regulatory bodies under their jurisdiction. Thus, senior committee members have the greatest ability to influence the SEC's regulatory efforts. Our first firm-level proxy for the power of a firm's political representation on SEC-relevant committees is the aggregate years of politician service on the two committees (Total_Seniority).¹⁹

¹⁹ This firm-level measure is easily illustrated using an example: Books-A-Million Inc. (NASDAQ: BAMM) is headquartered in Alabama's 6th congressional district. In 2004, Alabama had one representative on the Senate Committee on Banking, Housing, and Urban Affairs – Richard C. Shelby (D-AL) – who had served on the committee for 17 years. Alabama also had two Representatives on the House's Financial Services Committee: Spencer Bachus (R-AL), who was the 6th congressional district Representative, and Artur Davis (D-AL), who was the 7th congressional

Our second proxy for the power of SEC-relevant committee member representation is a discrete variable that captures a firm's total number of political representatives serving on SEC-relevant committees (*Committee_Num*). This variable captures the possibility that committee influence may stem from "power in numbers" – a greater volume of representation on SEC-relevant committees can result in more cohesive influence over SEC actions.

Our third proxy to measure SEC-relevant committee representation is an indicator variable set to one when a firm is located in a state and/or district for which a Senator and/or Representative is in the top quartile of committee member seniority for that year, and zero otherwise (*Seniority_Dum*). This measure overcomes the fact that *Total_Seniority* imperfectly captures differences in the strength of a firm's political representation on SEC-relevant committees. For instance, firm A with two SEC-relevant committee members of 10 years and 11 years (i.e., a total of 21) is treated the same as firm B with two committee members of 20 years and 1 year. It may be the case that firm B's senior member is more likely to be able to influence SEC outcomes than either of firm A's members.

Figure 2 provides a graphical summary of the number of SEC enforcement actions centered around congressional elections. We present two trends: the time series for enforcement actions against firms in the constituencies of SEC-relevant committee members and the time series for the average enforcement actions against firms in the constituencies of other powerful unrelated committees. The figure shows that the announcement of enforcement actions against firms in the constituencies of politicians serving on SEC-relevant committees drops sharply prior to an election and rises in the quarters following elections. In contrast, enforcement efforts against firms in the constituencies of other politicians appears to be relatively stable over time with relatively little variation around election

district Representative. Bachus and Davis had served on the House committee for six years and one year respectively as of 2004. The value of *Total_Seniority* applied to Books-A-Million for 2004 represents the aggregate years of service for Shelby and Bachus only ($17 + 6 = 23$). Davis is not included in the seniority count as the firm is not located in Davis' congressional district.

quarters.

Table 5 presents regression results. Overall, the evidence is consistent with the evidence in Figure 2; we find that enforcement actions against firms in the constituencies of politicians serving on SEC-relevant committees are relatively more likely to be announced *after* an election. In Column 1, the coefficient on *Total_Seniority* is positive and statistically significant at the 5% level, indicating that the likelihood that an enforcement action is announced in the year after an election is increasing in the power of the firm's representation on SEC-relevant congressional committees. The results in columns 2 and 3 provide similar evidence. In economic terms, the results in column 1 indicate that a one standard deviation increase in committee seniority is associated with a 112% higher probability that the enforcement action occurs after the election. Importantly, our results are robust to the inclusion of control variables to capture factors that might influence the timing of an enforcement effort including the magnitude of the transgression, the lag between the first date of financial misconduct revelation, and explicit political links between the transgressing firm and politicians based on lobbying, political contributions, or political connections.

In sum, the results in Figure 2 and Table 5 provide evidence that SEC enforcement against firms in the constituencies of powerful politicians serving on SEC-relevant committees are opportunistically timed to limit voter attention on financial misconduct prior to elections.

5.3 Do Firms in the Constituencies of Politicians Serving on SEC-Relevant Committees Face Fewer Enforcement Actions?

Next, we investigate whether political representation on SEC-relevant committees is negatively linked to the initiation of enforcement actions against constituent firms. We estimate the following logit specifications:

$$Enforcement_{i,t} = \alpha + \beta_1 * Seniority_{i,t} + \beta_X * Controls_{i,t} + \zeta_{i,t} \quad (4)$$

We estimate Equation (4) using a panel dataset of 17,017 firm-year observations. Table 6 Panel A presents the detailed steps of our sampling procedure.

$Enforcement_{i,t}$ is an indicator variable set to one if firm i faces enforcement against financial misconduct in year t based on the date of the SEC's issuance of an enforcement action and set to zero otherwise. $Seniority_{i,t}$ represents one of the three firm-year measures of SEC-relevant committee representation, $Total_Seniority$, $Committee_Num$, or $Seniority_Dum$, as described above. $Controls_{i,t}$ is a vector of control variables which have been shown to be associated with corporate financial misconduct and enforcement (see Appendix B). We also include year fixed effects and control for unobserved time-invariant state or industry effects by including state and Fama-French industry fixed effects. Standard errors are adjusted for heteroscedasticity using a Huber-White Sandwich estimator and clustered by firm. In the Internet Appendix, we document that our results are robust if we: 1) use OLS rather than a logit specification to address concerns about an incidental parameter problem; and 2) cluster standard errors by state rather than by firm.

Table 6 Panel B presents descriptive statistics for proxies of measures of political influence at the state-level and the firm-level. State-level values (500 state-year observations based on 50 states multiplied by the 10-year sample period) indicate that the average aggregate seniority of a state's SEC-relevant committee representation is approximately 8.8 years, with a median of 6 years. Each state has an average of about 0.4 representatives across the committees. In addition, approximately 26% of states have a politician serving in the top seniority quartile across both SEC-relevant committees. Panel B also presents seniority measures for the firm-level full sample of 17,017 observations. Differences in the state-level and firm-level seniority measure values are mechanically driven by the uneven distribution of sample firms across states and districts.

Panel C presents firm-level descriptive statistics for the full sample used in multivariate tests. The mean value of $Enforcement_{i,t}$ is 0.021, indicating that 2.1% of our sample firm-year observations are subject to SEC enforcement action. We find that roughly 17% of firm-year observations have political connections, while on average each firm makes political contributions of about \$466,000 annually and spends \$140,000 to lobby the SEC. Approximately 32.8% of sample observations are in

industries classified as having a high risk of litigation. The average (median) total assets is \$3,303 (\$407) million, while the median leverage is 11.3% and the median market-to-book ratio is 2.041. The median profitability (using ROA) is 3.3% and the average occurrence of firms issuing security is 44%. Sample firms have median institutional ownership of 62.3%, are followed by about 15 analysts, and the average auditor tenure is about 9.8 years.

Table 7 presents results from tests of equation (4) examining whether firms in the constituencies of powerful politicians serving on SEC-relevant committees are less likely to face SEC enforcement for financial misconduct. Column 1 shows that firms with more powerful SEC-relevant committee representation are significantly less likely to face SEC enforcement for financial misconduct. More specifically, the coefficient on *Total_Seniority* is negative and statistically significant at the 1% level. A one standard deviation increase in *Total_Seniority* is associated with an 18% decrease in the probability that a firm will be subject to an SEC enforcement action for financial misconduct, relative to firms in other constituencies.

The evidence in columns 2 and 3 provides similar inferences when we use *Committee_Num* and *Seniority_Dum* respectively to measure a constituency's political power on SEC-relevant committees. The effects are statistically significant at the 5% level. For instance, the marginal effect for the test using *Committee_Num* indicates that a one-politician increase in SEC-relevant committee membership is associated with an 8.5% decrease in the probability that a firm will be subject to an SEC enforcement action for financial misconduct, relative to firms in other constituencies. Finally, signs on coefficients for the control variables are largely consistent with prior studies. Of particular note is that our results are robust to the inclusion of controls to proxy for corporate efforts to influence regulators and politicians including lobbying, political contributions, and the presence of political connections (e.g., Yu and Yu, 2011; Correia, 2014).

5.4 Identification

It is possible that the findings above are attributable to some omitted variable that explains both

a politician's decision to serve on a SEC-relevant committee and the SEC's decision to undertake enforcement against a constituent firm. To reduce this concern, our tests includes state, Fama-French industry, and year fixed effects. State and industry fixed effects controls for unobserved time-invariant state or industry characteristics. Year fixed effects control for unobserved time-variant country-wide omitted effects.

To further attribute our findings to SEC-committee membership effects, we exploit two changes to firms' representation on SEC-relevant committees from plausibly exogenous politician turnover events. Following departures, constituent firms experience declines in the level of protection from SEC enforcement actions against financial misconduct, all else equal.

In order to satisfy the exclusion restriction, SEC-relevant committee member turnover events (the independent variable) should not directly cause subsequent period SEC enforcement action in the departing politician's constituency (the dependent variable). Two types of politician turnover cases satisfy the exclusion restriction: 1) politician departures due to committee transfers that typically occur after a reelection victory at the start of each new Congress; and 2) departures because of death or illness.²⁰

First, politician transfers to other congressional committees satisfy the exclusion restriction because committee transfers occur for a number of reasons, including the desire for increased power or prestige, interest in helping shape public policy in areas outside of the jurisdiction of the SEC-relevant committees, which may stem from a politician's pre-Congress work experience or education,

²⁰ In contrast, an example of a turnover case that is unlikely to satisfy the exclusion restriction is turnover due to election defeat; poor underlying state or district economic conditions affect both reelection outcomes and a firm's probability of survival, which in turn influences the likelihood that a firm engages in financial misconduct and is subject to an investigation. Furthermore, turnover due to retirements may also be endogenous. For example, consider Senator Phil Gramm (R-TX), who announced his retirement from the Senate in 2002. Gramm was the chairman of the Senate Committee on Banking, Housing, and Urban Affairs between 1999 and 2001. In December 2000, Gramm cosponsored a bill favorable to Enron Corp that exempted energy commodity trading from government regulation and public disclosure. Furthermore, Gramm's spouse, Wendy Gramm was an Enron board director between 1993 and Enron's collapse in 2001.

and the opportunity to more easily obtain federal funding or develop economic interests relevant to a subset of the constituency (Fenno, 1973; Bullock, 1976). Furthermore, the timing of a transfer is often out of the control of the politician requesting the transfer because the composition of each committee manifests as a result of committee assignments at the start of each Congress.²¹ Thus, the timing of a committee transfer is largely uncorrelated with the timing of a politician's desire to transfer committees. We also include committee departures that occur due to politician death as these are likely to be exogenous and in additional tests, check that our results hold when just using the death cases to identify turnover shocks.

There are 112 SEC-relevant committee turnover events during our sample window (29 Senators and 83 Representatives). We use LexisNexis and Google.com to identify the reason for each turnover case. Of the 112 turnover cases by politicians serving on SEC-relevant committees during our sample window, 46 cases (41%) occur because of committee transfers or death. These are our treatment cases. Of these 46 cases, 9 (20%) represent senior committee members and 37 (80%) represent non-senior members. There are 615 firms in the jurisdictions of these 46 turnover cases. The remaining 66 politician departure cases (59%) represent turnover for some other reason. These include departures due to election losses, for non-elected public or private sector positions, or because of retirement. We do not treat these 66 cases as exogenous cases.²²

The minimum loss in the seniority of a constituency's political representation on SEC-relevant committees is 1 year and the maximum loss is 34 years. The median loss is 10.5 years and the top

²¹ Committee assignments depend on a large number of factors including the number of vacancies on a given committee, the political needs of each party assigning members to committees, the number of members competing for a committee assignment, views on specific issues, seniority, party loyalty, and rules on the number and types of assignments that each member may hold (Smith, Roberts, and Vander Wielen, 2013). The GOP and Democratic parties and each chamber also have specific rules and restrictions on the number and type of committee assignments that each politician can hold.

²² We ignore committee appointments. The tenure system in Congress means that newly appointed members on a committee are the most junior members on a committee and are thus have the least amount of power of all committee members.

quartile is 20 years. Of the sample cases, 9 politicians (3 Senators and 6 Representatives) depart while in the top quartile of committee seniority.

We use propensity-score-matching to identify a set of firms as the control group. Treatment firms experience the loss of a powerful SEC-relevant committee member during our sample window, while control firms are in other states that do not experience a shock to their SEC-relevant committee representation in the same year, or in the two preceding and subsequent years.²³ All treatment cases are coded such that year 0 represents the year of the loss of a powerful SEC-relevant committee member. We match firms based on *Firm Size*, *FRQ*, *ROA*, *Leverage*, *MtB*, *Analyst_Following*, *Inst_Own*, *Unemployment_Rate*, *GDP_Growth*, and Fama-French industries, with no replacement, and with a caliper of 0.1%. All variables are defined in Appendix B. We estimate the following changes specification using a logit model:

$$\Delta Enforcement_{i,t} = \alpha + \beta_1 * Senior_Drop_{i,t} + \beta_X * \Delta Controls_{i,t} + \zeta_{i,t} \quad (5)$$

where $\Delta Enforcement_{i,t}$ is a variable capturing the time-series change in enforcement for firms over a two-year window around turnover in treatment firms' SEC-relevant committee representation at time t . Thus, we determine whether sample firms received an enforcement action in $t-2$ or $t-1$ and/or in $t+1$ and $t+2$.²⁴

$Senior_Drop_{i,t}$ is an indicator variable set to one if a firm experiences the exogenous loss of a powerful SEC-relevant committee member in year t , and zero otherwise. We denote “powerful”

²³ Our results are unaffected if we use the following conditions to identify possible control firms: firms in states 1) with no change to their SEC-relevant committee membership; 2) with no change to their senior SEC-relevant committee membership; or 3) with no SEC-relevant committee membership in the year of turnover.

²⁴ Because the enforcement action could be either 0 or 1 in the pre and/or post period, the variable $\Delta Enforcement$ takes the value of 0, -1, or 1 as shown in the table below. To simplify the interpretation of the results, we replace $\Delta Enforcement$ with 0 when it is -1 and use a logit specification.

	<i>Before (year t-1/t-2)</i>	<i>After (year t+1/t+2)</i>	<i>ΔEnforcement (After - Before)</i>
	0	0	0
Enforcement	1	0	-1
	0	1	1
	1	1	0

committee members as those in the top quartile of committee seniority at the time of turnover. The matching process yields 109 firms in the constituencies of senior committee members that depart from SEC-relevant committees and 109 similar firms that do not experience changes in their representation on SEC-relevant committees in the same year or the two-year window prior to or following the turnover year.

We also estimate a specification in which we examine the effects of turnover of non-senior SEC-relevant committee members. We replace *Senior_Drop* with *Non-Senior_Drop*, an indicator variable set to one for firms that experience turnover of SEC-relevant committee members who are *not* in the top quartile of committee seniority, and set to zero otherwise. The sample for empirical tests consists of 500 treatment firms in the constituencies of non-senior politicians that depart from SEC-relevant committees and 500 matched control firms in other constituencies that do not experience politician departures from SEC-relevant committees in the same year or the two-year window surrounding the turnover year.

$\Delta Controls_{i,t}$ represents the change form of a vector of control variables similar to those in equation (1), all measured as the difference between $t-1$ and $t+1$, where t represent the shock year. We drop variables that do not vary in the pre and post periods for the sample firms: *Political_Connection*, *Litigation_Risk*, and *Distance_to_SEC*. All specifications include state, industry, and year fixed effects. Our results are robust to using matched-firm-pair fixed effects instead of state fixed effects. Standard errors are adjusted for heteroscedasticity using a Huber-White Sandwich estimator and clustered by firm.

To validate the identification strategy, we examine and find that the observed treatment and control firms' covariates in the year prior to the shock are balanced (Table 8, Panel A). In addition, we use a leads and lags model to graphically ensure that the pre-treatment trends in SEC enforcement actions are parallel for treatment and control firms (Atanasov and Black, 2016). Figure 3 provides support for the parallel trends assumption in the pre-period. In the post-period, we observe a sharp and

sustained increase in SEC enforcement actions against treated firms relative to the trend for untreated firms.

Table 8 Panel B presents coefficients from estimations of equation (5) for tests of departures of senior committee members, other committee member departures, and departures due to death. Column 1 shows that senior SEC-relevant committee departures are positively associated with future enforcement against constituent firms. In economic terms, the loss of a senior SEC-relevant committee member results in a 26% increase in the probability that constituent firms will subsequently be subject to financial misconduct-related enforcement action relative to a matched sample of firms with no changes to their SEC-relevant committee representation. Column 2 presents results for the effect of non-senior committee member turnover. The coefficient on *Non-Senior_Drop* is positive but statistically insignificant. Thus, a constituency's loss of a non-powerful SEC-relevant committee member does not affect SEC enforcement actions against local firms. This is consistent with prior work that suggests that congressional committee influence is concentrated amongst senior committee members (e.g., Levitt and Poterba, 1999; Cohen et al. 2011).²⁵

It is possible that committee departures due to committee transfers are not exogenous.²⁶ We replicate our tests using just politician turnover events that occur because of death. There are 44 sample firms in the constituencies of the three politician death cases that occur during our sample period.²⁷ We compare SEC enforcement actions against these firms (treatment firms) to a matched sample of firms in other states that do not experience committee turnover in the same year (control firms), using the same matching criteria discussed above. The matching process yields 80 firms, representing 40

²⁵ The specification in column 2 also serves as a falsification test: if some omitted variable drives both SEC-relevant committee member turnover and SEC enforcement, then the omitted variable must affect turnover for all committee members, but simultaneously only affect SEC enforcement likelihood for firms that experience the loss of a powerful SEC-relevant committee member.

²⁶ For instance, it is possible that politicians hoping to switch committees attempt to delay the filing of enforcement actions against constituent firms, as such actions may harm their reelection and committee transfer prospects.

²⁷ The three deaths are Congresswoman Julia Carson, Congressman Paul Gillmor, and Congresswoman Stephanie Jones.

treatment firms and 40 control firms. We reestimate Equation (4) after replacing *Senior_Drop* with a new indicator variable called *Death_Drop*, which is set to 1 for firms in a constituency affected by one of the three SEC-relevant committee member deaths, and set to 0 otherwise.

The results in column 3 indicate that death-related politician turnover is positively and significantly associated (at the 5% level) with the likelihood of future enforcement actions against firms in the deceased politicians' constituencies. Although this test relies on a smaller number of turnover cases, the findings are consistent with the results in column 1 that uses a larger politician turnover sample.

Our findings are also robust to a number of sensitivity tests.²⁸ In sum, the evidence across all the columns is consistent with a causal relation between a firm's political representation on SEC-relevant committees and the likelihood of facing regulatory enforcement for financial misconduct.

Finally, we exploit firms' headquarters location changes to provide additional evidence of a causal link between SEC-relevant committee representation and the likelihood that a constituent firm will face SEC enforcement for financial misconduct. We describe the empirical tests and tabulate the results in the Internet Appendix. The results from these tests corroborate our conclusions using politician turnover events.

5.5 SEC-Relevant Committee Membership and Financial Misconduct Enforcement Penalties

Finally, we examine whether SEC-relevant committee representation is associated with regulatory penalties. Lower regulatory penalties can have spillover effects on the outcomes of class-action lawsuits and increase the probability that the firm continues operations. Politicians are likely to

²⁸ First, results tabulated in the Internet Appendix show that the inferences are unchanged if we replicate our tests after including firm-level fixed-effects (and removing industry and state fixed-effects). Second, the results are qualitatively similar when we control for governance characteristics over the 2001 to 2007 period using firm-specific governance characteristics based on the G-Index (Gompers et al., 2003). Finally, to rule out potential state-specific confounding factors, we compare the firms from the shock states to themselves, i.e., firms from the same states when they do not experience committee member turnover.

prefer this outcome because it reduces the scale and magnitude of potential investment and job losses for voters.

For our sample of 360 firms that face SEC enforcement, we collect data on penalties by examining the SEC's regulatory filings, court verdicts, LexisNexis, and Google.com.²⁹ We exclude 25 investigations that are ongoing at the time of our search, as well as another 69 cases because of the difficulty in accurately mapping the assessed penalty with the scale of the financial manipulation.³⁰ For the remaining 266 cases, the mean aggregate income or profit manipulation is approximately \$19.8 million and ranges from \$76,000 to \$15 billion. Our findings are qualitatively similar if we winsorize penalty cases at the 1 and 99% levels. The aggregate regulatory penalties issued against these firms and/or their employees ranges between \$0 and \$2.25 billion. We exclude amounts paid as a result of class action lawsuits by investors as such payments are separate to penalties issued by regulators.

Firms in the constituencies of SEC-relevant committee members that are in the top quartile of seniority report an average penalty of \$7.7 million compared to \$13 million for all other cases. The difference is statistically significant at the 5% level. In almost all the cases, the SEC also issues a "cease and desist" notification against the firm. In four cases, the SEC simply drops the enforcement investigation against the firms. In roughly 13% (35 cases) of the 266 misconduct cases, employees receive jail sentences, ranging from several months up to 286 years (aggregated at the firm level). In the vast majority of cases that do not result in incarceration, the SEC imposes bans against convicted employees from subsequently serving as an executive or a director of a public company and/or imposes a suspension on professional licenses. Bans for our sample range from one year to life. We estimate

²⁹ Refer to Karpoff et al. (2008b) for a comprehensive detailed analysis of the consequences of financial misconduct for executives. Our analysis aggregates the consequences of financial misconduct across penalties issued to both firms and all employees.

³⁰ For example, in the SEC's case against Dynegy Inc., the SEC "found that Dynegy violated federal securities laws by improperly disguising [a] \$300 million loan as cash flow from operations on its financial statements, thereby misleading investors about the level of its energy trading activity." Our results are robust to including these non-income or sales manipulation related cases and either excluding the control variable that captures the amount of the manipulation amount (which is defined as total manipulation in income) or using a crude dollar value of manipulation in all income and non-income accounts to capture the amount of manipulation.

the following multivariate specification to examine the effect of SEC-relevant committee representation on the magnitude of penalties assessed for financial misconduct:

$$Penalty_{i,t} = \alpha + \beta_1 * Seniority_{i,t} + \beta_X * Controls_{i,t} + \xi_{i,t} \quad (6)$$

where $Penalty_{i,t}$ is a continuous variable capturing the logged monetary value of the aggregate regulatory penalty on the firm and/or employees. $Seniority_{i,t}$ is one of the three measures of seniority as previously defined. $Controls_{i,t}$ is a vector of controls defined in Appendix B. We also include state, industry, and year fixed effects.

We present multivariate test results in Table 9. The results are robust across all three measures of committee power: *Total_Seniority*, *Committee_Num*, and *Seniority_Dum*. In economic terms, a one standard deviation increase in the value of *Total_Seniority* is associated with a modest \$1.3 million penalty reduction. The relatively modest regulatory penalties are consistent with Karpoff et al. (2008b) who document that the primary penalties for firms as a result of financial misconduct come from stock markets rather than regulators or courts by a factor of over 7.5 times. Our regressions include controls for the alleged amount of income manipulation, firm size and proxies for political capture including political contributions and lobbying. Finally, the evidence in column 4 suggests that the effect of committee power is more pronounced in the severity of the manipulation.

6. Additional Analyses and Robustness Checks

6.1 Tests of Turnover Events by Politicians Serving on Other Powerful Congressional Committees

Next, we examine whether the likelihood of SEC enforcement actions is statistically linked to powerful politicians that serve on the top ten other powerful but unrelated committees that have no jurisdiction over the SEC. We re-estimate equation (5) after replacing the *Senior_Drop* and *Non-Senior_Drop* variables with these new variables: *Senior_Drop_OtherComm* and *Non-Senior_Drop_OtherComm*. We match each firm that experiences the turnover of a senior/non-senior

non-relevant committee politician with a firm in another state that also has representation on one of the ten most powerful alternative committees but does not experience a shock to the committee representation. We use the same matching variables as previously discussed. For tests using senior and non-senior committee member turnover on other powerful committees that do not have congressional jurisdiction over the SEC, the matched sample yields 7,000 and 9,972 firm-year observations respectively. The regression results tabulated in the Internet Appendix indicate that coefficients on both *Senior_Drop_OtherComm* and *Non-Senior_Drop_OtherComm* in columns 1 and 2 respectively are statistically insignificant. In other words, the loss of a powerful politician (or a relatively less powerful politician) from an important congressional committee other than an SEC-relevant committee does not appear to change the likelihood of SEC enforcement actions against the politician's constituent firms.

6.2 Alternative Methodology to Link Firms and States

A possible issue for our study is the correct link between firms and the politicians that have the greatest incentives to act to prevent adverse effects for voters. In particular, linking state politician representation with firm headquarters location may not accurately capture politician incentives for geographically diverse firms or for firms for which the primary operations are in a different location to their headquarters location. In order to address this concern, we examine state-level operational dispersion using the firm-specific measure from Garcia and Norli (2012). The measure captures the number of times states are mentioned in a firm's 10-K filing. The greater the number of states mentioned, the greater the dispersion of the firm's operations. The frequency with which a given state is mentioned is a proxy for the expected importance of that state for the firm.³¹ We find that for 82%

³¹ For example, Boeing Corporation, which is headquartered in Chicago, Illinois, identifies six unique states in its 2006 10-K filing: Washington, South Carolina, Missouri, Kansas, and Oklahoma. However, 50% of all the state mentions in the 10-K are Washington, where Boeing has major manufacturing facilities. Thus, it is possible that politicians from Washington that serve on SEC-relevant committees have the greatest incentives to limit potential SEC enforcement action against Boeing.

of firms in our sample, 82% identify the headquarters state as the state most mentioned in their 10-K report. To address the other 18% of our firm sample, we check that our results are robust to two alternate methods to identify the most appropriate state-level Senate and House representation for each sample firm observation (presented in the Internet Appendix): 1) we use a weighted average of a firm's representation on SEC-relevant committees based on the geographical distribution of the firm's operations using all states identified in the 10-K filing; and 2) we determine firm-year measures of representation on SEC-relevant committees based on the state with the highest count in the firm's 10-K filing.

6.3 Effects of Subcommittee Membership

Congressional committees divide their tasks among subcommittees that handle specific tasks. We repeat our analyses after partitioning politicians based on whether they serve on one of the two subcommittees within the SEC-relevant committees responsible for financial reporting oversight.³² Results tabulated in the Internet Appendix indicate that both subcommittee and non-subcommittee representation have a negative and significant effect on the likelihood that constituent firms will face SEC enforcement action. The results are similar across all three seniority measures. *F*-tests indicate that the subcommittee effect is statistically larger than that for non-subcommittees. A potential explanation for why non-subcommittee membership is important is that all SEC-relevant committee members (regardless of their subcommittee assignments) have the ability to influence SEC actions, either directly or via relationships with their fellow committee members.

6.4 Differential Effects Between Senate and House SEC-Relevant Committees

It is possible that our results vary based on whether firms have representation on either the Senate or the House SEC-relevant committees. For example, the Senate SEC-relevant committee is

³² The two subcommittee are Securities, Insurance, and Investment Subcommittee (Senate) and the Subcommittee on Capital Markets and Government-Sponsored Enterprises (House). We treat committee chairpersons and ranking members as ex-officio members of the subcommittees, consistent with Senate and House subcommittee rules.

tasked with the responsibility to confirm or deny the president's recommendations for SEC commissioner appointments and thus may have more influence over the SEC, which in turn affects firm behavior. We calculate three new measures of committee member power based on a state's representation on the Senate and House committees separately. Results tabulated in the Internet Appendix indicate that across all three measures of committee power, the relation between SEC-relevant committee representation and enforcement actions is statistically significant for firms in the constituencies of either Senate or House committee members. An F -test indicates that there is no statistical difference between the effect from the SEC-relevant Senate and House committees.

6.5 Effects of SEC-Relevant Committee Chairmen

We examine if our results are driven by the SEC-relevant committee chairmen rather than a broader set of committee members. Five states have SEC-relevant committee chairmen during our sample period (OH, MA, CT, MD, AL), of which two are in the House and three are in the Senate. We replace *Seniority_Dum* with two indicator variables. The first variable is set to one for firms in the constituencies of a SEC-relevant committee chairman and set to zero otherwise. The second variable is set to one for firms in the constituencies of politicians that are not chairmen but serve in the top quartile of SEC-relevant committees, and set to zero otherwise. Empirical results tabulated in the Internet Appendix indicate that the effects for firms in the constituencies of both chairmen and senior non-chairmen committee members are statistically significant at conventional levels. In economic terms, the effect is about 25% larger for firms in the constituencies of chairmen relative to other senior non-chairmen committee members. We conclude that committee chairmen do not have exclusive ability to influence SEC actions.

6.6 Differential Effects of Majority and Minority Party Representation

We consider whether our results are affected based on whether firms are located in the constituencies of SEC-relevant committee members that are in the majority or minority party in each Congress. Empirical results tabulated in the Internet Appendix indicate that the effect for *both* majority

and minority party representation is statistically significant but the effect of majority party representation is significantly greater than that of minority party representation. These results are consistent with Cohen et al. (2011) which finds both chairpersons and ranking members have political influence and Mayhew (2004) who suggests that the continuing presence of minority party influence in our setting is the outcome of rational behavior by the majority party members: “congressional majorities obviously do not shut out minorities...it would make no sense in doing so; the costs of cutting in minority members are very low, whereas the costs of losing majority control in a cutthroat partisan politics of this kind would be very high”.

6.7 House of Representatives State Apportionment

We examine whether our results are driven by states that are disproportionately represented on the House’s Financial Services Committee. This possibility exists because House seats are apportioned to a state based on the state’s population (i.e., each Representative serves an approximately equal number of constituents). In contrast, each state has equal representation in the Senate. Thus, the most populous U.S. states (California, Texas, Florida, New York, Pennsylvania, and Illinois) have the largest number of House seats. Firms located in these six states represent 47.6% of all firms in our sample. The findings tabulated in the Internet Appendix excluding each of these five states provide qualitatively similar results to those presented above.

6.8 Potential Spillover Effects from Enron and WorldCom Collapses

In order to rule out the possibility that our results are driven by increased scrutiny against financial reporting following the corporate collapses of Enron and WorldCom, we replicate our tests after removing all observations for 2001, 2002, and 2003. The results from these tests are qualitatively similar to the reported findings.

7. Conclusion

This study examines whether (1) SEC enforcement against financial misconduct has adverse

effects on politicians' careers and whether politicians opportunistically use their power to limit these effects. We first document that politicians serving on the congressional committees that have responsibility for SEC oversight (SEC-relevant congressional committees) are more likely to lose their reelection campaigns if a firm in their constituencies receive an SEC enforcement actions for financial misconduct leading up to the election. We then document that for firms in the constituencies of SEC-relevant committee members, the announcement of an investigation against misconduct is opportunistically timed around those politicians' elections. Furthermore, we find that relative to other politicians, firms in the constituencies of SEC-relevant committee members are unconditionally less likely to face SEC enforcement for financial misconduct. These findings are consistent with the notion that politicians proactively act to limit adverse effects on their voters arising from local-area corporate financial misconduct. Our findings provide insights about a previously undocumented stakeholder that faces consequence from corporate financial misconduct and also provides insights about a political friction that affects the SEC's enforcement efforts.

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Figure 1. News Media Coverage around Enforcement

This figure presents an annual time-series count of the number of annual news articles for firms that face SEC enforcement actions for financial misconduct in year $t = 0$ based on a search of NewsBank for articles that include the firm name and at least one of the words “financial”, “accounting” or “misconduct”. We present the news article count for the two years prior to and following the enforcement start year. The y-axis represents the number of news articles.

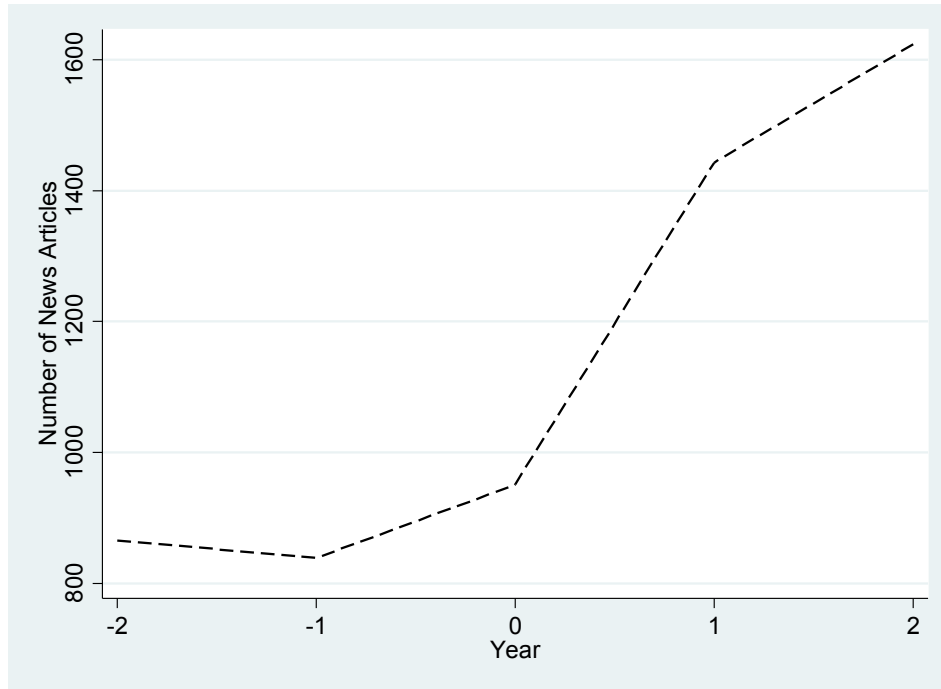


Figure 2. Timing of SEC Enforcement Actions Around Congressional Elections

This figure presents a quarterly time-series of the number of firms receiving SEC enforcement actions for financial misconduct in each of the four quarters centered around congressional elections at time $t=0$ for SEC-relevant committee members and the average for members on powerful unrelated congressional committees.

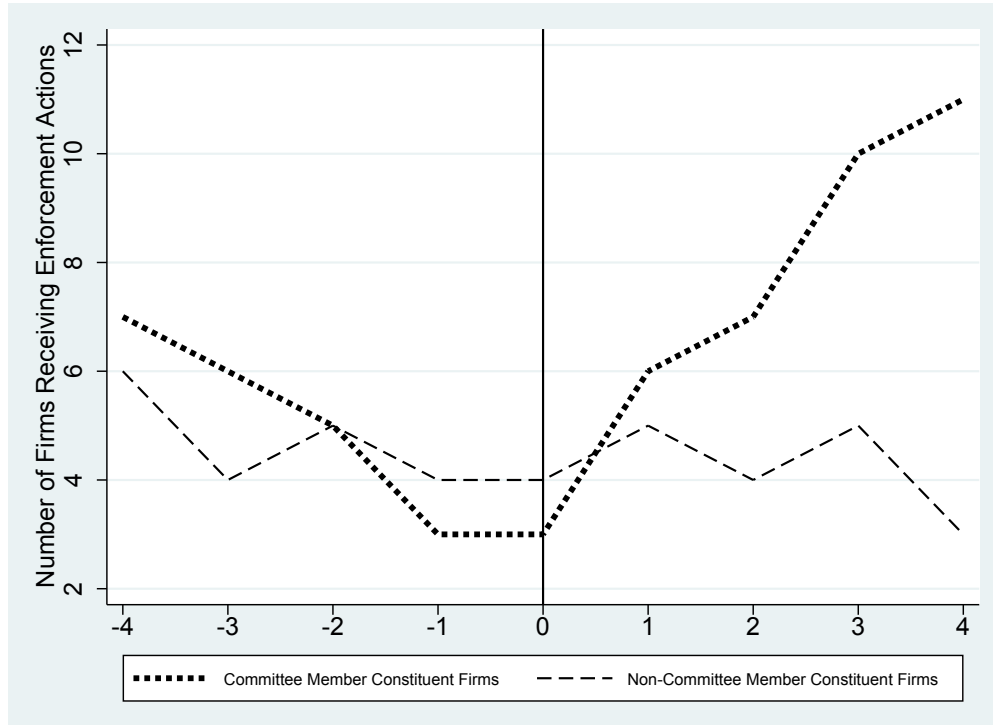


Figure 3. Pre-Trends Analysis for SEC Enforcement Actions Around SEC-Relevant Committee Member Turnover Events

This figure presents a time-series of the proportion of firms receiving enforcement actions in the two years around SEC-relevant committee member turnover cases. The treatment sample consist of firms in constituencies that experience the loss of a SEC-relevant committee member (centered at year 0) and the control sample consist of a matched sample of firms in the constituencies of SEC-relevant politicians that do not experience the loss of a SEC-relevant committee member during the same two-year window.

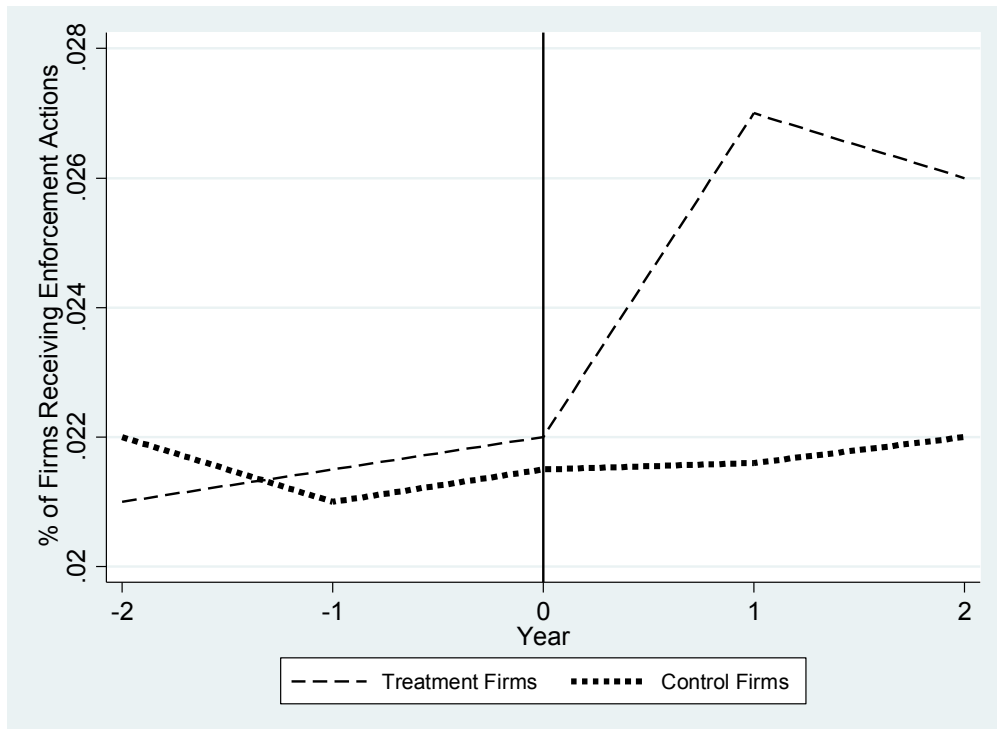


Table 1: Descriptive Statistics

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

Panel A presents the number of SEC enforcement cases by year and Panel B presents the states with the highest and lowest number of SEC enforcement cases. Panel C presents firm-level descriptive information split by firms that are subject to an SEC enforcement event and for other sample firms. Panel D presents descriptive statistics about SEC-relevant committees: the House Financial Services Committee (*House Committee*), the Senate Committee on Banking, Housing, and Urban Affairs (*Senate Committee*), and other non-SEC related powerful committees. Panel E presents the descriptive information about the number of elections for relevant politicians during our sample period. Panel F presents SEC enforcement cases partitioned by House election competitiveness. Competitiveness is measured using the margin of victory in the prior election for that same electorate.

Panel A: SEC Enforcement Cases By Year

Year	Number of SEC Enforcement Cases	Percentage of Sample
1998	29	8%
1999	23	6%
2000	45	13%
2001	41	11%
2002	64	18%
2003	27	8%
2004	29	8%
2005	29	8%
2006	39	11%
2007	13	4%
2008	12	3%
2009	9	3%
Total	360	

Panel B: States with Highest and Lowest Number of SEC Enforcement Cases

Top 10 States: CA (62); NY (39); TX (39); FL (18); NJ (15); IL (11); OH (11); MA (10); CO (9); GA (9)

Bottom States (all without any SEC enforcement cases during our sample period): AK, DE, HI, ID, IN, KY, ME, MT, ND, NM, UT, VT, WY

Panel C: Descriptive Statistics for SEC Enforcement Firm Sample

	SEC Enforcement Firms (n = 357)		Non-Enforcement Firms (n = 16,660)		Mean Test	Median Test
	Mean	Median	Mean	Median		
Total_Seniority	11.39	0.00	10.57	0.00	2.00**	1.50
Committee_Num	1.02	1.00	0.90	0.00	1.22	6.05**
Seniority_Dum	0.40	0.00	0.37	0.00	2.30**	5.30**
Political_Connection	0.23	0.00	0.10	0.00	5.83***	33.92***
Political_Contribution	5.48	0.00	2.89	0.00	6.61***	38.93***
Lobby_SEC	0.14	0.00	0.03	0.00	2.12**	3.89**
SEC_Connection	0.05	0.00	0.03	0.00	0.88	0.17
Litigation_Risk	0.39	0.00	0.33	0.00	1.99**	3.96**
Total_Assets (millions)	8,842.51	1,689.35	2,863.33	402.45	7.73***	64.57***
Size (log of Total Assets)	7.55	7.43	6.04	6.00	10.56***	64.57***
Leverage	0.19	0.15	0.17	0.12	1.45	4.41**
MTB	2.75	2.05	2.82	2.03	0.22	0.05
Profit	-0.03	0.04	-0.03	0.03	2.01**	0.42
Issuance	0.42	0.00	0.44	0.00	0.32	0.10
Stdev_Cashflow	0.08	0.05	0.11	0.06	1.61	9.71***
Stdev_Sales	0.27	0.21	0.26	0.19	0.63	0.95
Oper_Cycle	4.60	4.65	4.57	4.65	0.37	0.04
Inst_Own	0.71	0.80	0.57	0.62	6.48***	39.61***
Analyst_Following	3.07	3.42	2.32	2.71	5.28***	20.96***
Distance_to_SEC	6.96	7.41	7.04	7.36	0.63	0.63
Auditor_Share	0.22	0.22	0.20	0.21	1.58	1.93
Auditor_Tenure	10.28	8.00	9.84	7.00	0.51	1.04
Office_Size	2.74	2.74	2.72	2.77	0.23	0.05
GC_Dummy	0.03	0.00	0.02	0.00	0.32	0.11

Panel D: Congressional Committee Descriptive Statistics

	SEC-Relevant		Other Powerful House Committees	Other Powerful Senate Committees
	House Committee	Senate Committee		
Average size (in number of members)	69.25	21.25	51.10	25.15
Average # of states represented on committee	29.05	20.67	26.29	19.26
Average # of state representatives	2.28	1.02	2.87	1.48
Max # of state representatives	11	2	12	2
Average politician tenure on committee (in years)	3.62	6.94	3.71	8.14
Maximum politician seniority on committee (in years)	19.00	29.00	27.00	51.00

Panel E: Politician Election Sample

	House	Senate	Total
	Total Number of Elections for sample politicians	2,817	172
Elections for SEC-Relevant committee members	673	89	762
Elections for politicians serving on other committees	2,144	83	2,227

Panel F: Enforcement Cases by House Electorate Competitiveness

	5% - 10%		10% - 20%		20% - 30%		30% - 40%		40% - 50%		>50%	
	Number of Elections	% of Enforcement Sample	Number of Elections	% of Enforcement Sample	Number of Elections	% of Enforcement Sample	Number of Elections	% of Enforcement Sample	Number of Elections	% of Enforcement Sample		
Number of Elections	231	6.68%	155	2.78%	367	9.44%	480	19.72%	555	22.78%	404	27.22%
Margin of Victory (%)	<5%		5% - 10%		10% - 20%		20% - 30%		30% - 40%		40% - 50%	
# of Enforcement Actions	24		10		34		71		41		82	
% of Enforcement Sample		6.68%		2.78%		9.44%		19.72%		11.39%		22.78%
												27.22%

Table 2: Consequences of SEC Enforcement for Financial Misconduct
 *, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

Panel A presents the Cumulative Abnormal Returns (CARs) for firms subject to SEC enforcement for financial misconduct. Returns are measured between the first date that the financial misconduct is publicly known and the last day of October prior to the next congressional elections which occur on the first Tuesday after November 1 in election years. Panel B presents the change in reported employment as reported in 10-K filings. Year t is the election year.

Panel A: Stock Price Effects Between Public Revelation And The Following Election

	(1)	(2)	(3)	
	All SEC Enforcement Firms	SEC Enforcement Firms with Bankruptcy (n = 95)	SEC Enforcement Firms without Bankruptcy (n = 265)	(2) = (3) t-test (z-test)
Cumulative Abnormal Return	-0.25 (-0.12)	-0.39 (-0.20)	-0.14 (-0.07)	3.65*** (3.33**)
	Mean (Median)			

Panel B: Average Employment Effects (Year before to Year after Misconduct Revelation Date)

	(1)	(2)	(3)	(2) = (3) t-test
	All SEC Enforcement Firms	SEC Enforcement Firms with Bankruptcy (n=95)	SEC Enforcement Firms without Bankruptcy (n=265)	
Employee Count	9,208	5,240	9,739	4.09***
Δ Employee Count				
$t-1$ to $t+1$	-635	-346	-691	2.72***
$t-1$ to $t+3$	-1,354	-1,821	-722	3.55***
% Change in Employee Count				
$t-1$ to $t+1$	-6.9%	-6.6%	-7.1%	0.07
$t-1$ to $t+3$	-14.7%	-34.8%	-7.4%	2.89***

Table 3: SEC Enforcement Actions and Politician Reelection Outcomes

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

Panel A presents descriptive statistics for variables used in multivariate tests of the link between SEC enforcement actions and election outcomes. Panel B presents logit regressions examining whether conditional on undertaking a reelection campaign, the likelihood that a politician loses the reelection campaign is associated with a constituent firm facing SEC enforcement for financial misconduct in the two years prior to the reelection date. The dependent variable, *Election_Loss*, is an indicator variable set to one for politicians that lose a reelection campaign, and zero otherwise. The independent variable of interest is *SECEnforce*, an indicator variable set to one if in the two years prior to a Senator's (Representative's) reelection date, at least one firm in that politician's state (district) or district is subject to SEC enforcement for financial misconduct. All variables are defined in Appendix B. In all regressions, standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses. State and year fixed effects are included in all regressions.

Panel A: Descriptive Statistics

	SEC-Relevant Committees			Other Committees		
	Mean	Median	St Dev.	Mean	Median	St Dev.
Election_Loss	0.152	0.00	0.359	0.097	0.00	0.297
Recent_Enforcement	0.123	0.00	0.328	0.099	0.00	0.298
Close_Election	0.100	0.00	0.301	0.074	0.00	0.262
Seniority	1.050	1.10	0.690	1.110	1.11	0.654
Female	0.157	0.00	0.364	0.160	0.00	0.367
Democratic	0.463	0.00	0.499	0.522	1.00	0.500
President_Same_Party	0.707	1.00	0.455	0.699	1.00	0.459
Presidential_Election_Year	0.879	1.00	0.326	0.848	1.00	0.359
GDP_Growth	0.049	0.05	0.028	0.050	0.05	0.029
Unemployment_Rate	5.741	5.42	1.991	5.657	5.19	2.014
Average_Return	0.066	0.04	0.379	0.054	0.01	0.371
Average_ΔROA	-0.023	-0.01	0.136	-0.015	-0.01	0.133

Panel B: Multivariate Results

Dependent Variable:	(1)	(2)	(3)
	Election Loss		
Constant	-18.505 (-0.02)	-18.468 (-0.02)	-19.881 (-0.03)
Recent_Enforcement	0.028 (0.13)	0.137 (0.52)	0.425** (2.41)
SEC_Committee	-	0.521*** (3.41)	-
Recent_Enforcement*SEC_Committee	-	0.290** (2.10)	-
Close_Election	0.896*** (4.59)	0.847*** (4.32)	0.613 (1.64)
Seniority	-0.123 (-0.78)	-0.030 (-0.90)	-0.228 (-0.82)
Female	0.416** (2.37)	0.406** (2.31)	0.628 (1.55)
Democratic	0.628*** (3.04)	0.643*** (3.10)	0.834* (1.79)
President_Same_Party	0.508** (1.99)	0.523** (2.04)	0.232 (0.43)
Presidential_Election_Year	0.911* (1.69)	0.921* (1.71)	-0.958 (-0.80)
GDP_Growth	3.786 (0.99)	3.493 (0.91)	6.559 (0.82)
Unemployment_Rate	0.076 (0.77)	0.070 (0.70)	0.434** (1.97)
Average_Return	-0.107 (-0.50)	-0.123 (-0.57)	-0.276 (-0.59)
Average_ΔROA	-0.190 (-0.38)	-0.150 (-0.30)	1.486 (1.48)
<i>State and Year Fixed Effects</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
Observations	2,637	2,637	560
Pseudo R ²	0.150	0.156	0.241

Table 4: Moderating Effects on The Relation Between SEC Enforcement Actions and Politician Reelection Outcomes

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

Panel A presents logit regressions examining whether various proxies to measure the scale of the effects of enforcement on local area voters affects the likelihood that a politician loses a reelection campaign in the two-year window after a constituent firm facing SEC enforcement for financial misconduct. Panel B presents logit regressions examining whether election related characteristics affects the likelihood that a politician loses a reelection campaign in the two-year window after a constituent firm facing SEC enforcement for financial misconduct. In both panels, the dependent variable, *Election_Loss*, is an indicator variable set to one for politicians that lose a reelection campaign, and zero otherwise. All variables are defined in Appendix B. In all regressions, standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses. State and year fixed effects are included in all regressions.

Panel A: Does SEC Enforcement Affect a Material Set of Voters?

Dependent Variable:	(1)	(2)	(3)	(4)
	Election Loss			
Constant	-19.800 (-0.03)	-19.881 (-0.03)	-20.621 (-0.03)	-19.722 (-0.03)
Recent_Enforcement	0.183 (1.37)	0.184 (1.41)	0.115 (1.03)	0.159 (1.38)
Bankruptcy	0.677 (0.88)	-	-	-
Recent_Enforcement*Bankruptcy	1.522** (2.53)	-	-	-
Big_Firm	-	-0.502 (-1.30)	-	-
Recent_Enforcement*Big_Firm	-	0.415** (2.20)	-	-
ESOP	-	-	1.025*** (2.58)	-
Recent_Enforcement*ESOP	-	-	0.457** (2.49)	-
Local	-	-	-	0.807 (1.56)
Recent Enforcement*Local	-	-	-	1.524** (2.47)
Seniority	-0.205 (-0.74)	-0.228 (-0.82)	-0.292 (-1.07)	-0.135 (-0.48)
Female	0.676 (1.64)	0.621 (1.53)	0.196 (0.43)	0.705* (1.71)
Democratic	0.849* (1.80)	0.837* (1.80)	0.647 (1.35)	0.902* (1.91)
President_Same_Party	0.241 (0.45)	0.229 (0.43)	0.241 (0.45)	0.285 (0.53)
Presidential_Election_Year	-0.659 (-0.55)	-0.971 (-0.81)	-0.633 (-0.52)	-0.357 (-0.29)
GDP_Growth	5.354 (0.66)	6.797 (0.84)	6.274 (0.78)	6.779 (0.84)
Unemployment_Rate	0.372* (1.70)	0.440** (1.99)	0.386* (1.75)	0.336 (1.50)
Average_Return	-0.291 (-0.61)	-0.287 (-0.61)	-0.272 (-0.57)	-0.268 (-0.55)
Average_ΔROA	1.546 (1.53)	1.472 (1.47)	1.215 (1.19)	1.221 (1.20)
<i>State and Year Fixed Effects</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
Observations	560	560	560	560
Pseudo R ²	0.241	0.242	0.249	0.252

Panel B: Moderating Effects of Election Characteristics

Dependent Variable:	(1)	(2)
	Election Loss	
Constant	-19.309 (-0.03)	-19.935 (-0.03)
Recent_Enforcement	0.388 (1.44)	0.102 (1.21)
House	-1.480 (-1.02)	-
Recent_Enforcement*House	0.272** (2.27)	-
Close_Election	-	0.679* (1.67)
Recent_Enforcement*Close_Election	-	0.434** (2.40)
Seniority	-0.251 (-0.90)	-0.228 (-0.82)
Female	0.641 (1.58)	0.621 (1.53)
Democratic	0.879* (1.88)	0.837* (1.80)
President_Same_Party	0.306 (0.57)	0.229 (0.43)
Presidential_Election_Year	-0.843 (-0.70)	-0.971 (-0.81)
GDP_Growth	6.402 (0.80)	6.797 (0.84)
Unemployment_Rate	0.408* (1.86)	0.440** (1.99)
Average_Return	-0.242 (-0.51)	-0.287 (-0.61)
Average_ΔROA	1.323 (1.33)	1.472 (1.47)
<i>State and Year Fixed Effects</i>	<i>Yes</i>	<i>Yes</i>
Observations	560	560
Pseudo R ²	0.237	0.242

Panel C: Persistency of Enforcement Effect on Election

Dependent Variable:	(1)	(2)
	Election Loss	
Constant	-19.327 (-0.03)	-19.517 (-0.03)
Recent_Enforcement	0.269* (1.80)	0.325** (2.02)
Duration	0.521* (1.77)	-
Recent_Enforcement*Duration	0.463* (1.90)	-
Recent_Enforcement_t-2,t-3	-	0.203* (1.92)
Recent_Enforcement_t-4,t-5	-	0.042 (0.89)
Seniority	-0.233 (-0.83)	-0.291 (-1.04)
Female	0.708* (1.74)	0.776* (1.83)
Democratic	0.969** (2.07)	0.867* (1.87)
President_Same_Party	0.141 (0.26)	0.283 (0.53)
Presidential_Election_Year	-0.818 (-0.67)	-0.904 (-0.75)
GDP_Growth	5.401 (0.67)	6.117 (0.76)
Unemployment_Rate	0.399* (1.79)	0.419* (1.89)
Average_Return	-0.233 (-0.49)	-0.220 (-0.47)
Average_ΔROA	1.207 (1.20)	1.309 (1.31)
<i>State and Year Fixed Effects</i>	<i>Yes</i>	<i>Yes</i>
Observations	560	560
Pseudo R ²	0.243	0.238

Table 5: Elections and the Timing of SEC Enforcement Announcements

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

This table presents logit regressions examining whether the timing of an SEC enforcement action against a firm for financial misconduct is associated with the power of the firm's political representation on SEC-relevant committees. The dependent variable *Enforcement_PostElec* is an indicator variable set to one if an enforcement action is issued in the year after an election and set to zero if the enforcement action is in the year of an election. The independent variable of interest is one of three proxies for the power of firms' representation on SEC-relevant committees: *Total_Seniority*, *Committee_Num*, or *Seniority_Dum*. All variables are defined in Appendix B. In all regressions, standard errors are Huber-White sandwich estimators and clustered at the state level, z-values are in parentheses, and marginal effects in brackets. All specifications include state, industry, and year fixed effects.

Dependent Variable:	(1)	(2)	(3)
	Enforcement PostElec		
Constant	1.555 (0.66)	0.680 (0.62)	0.780 (0.53)
Total_Seniority	0.081** (2.47)	-	-
Committee_Num	-	0.361*** (2.62)	-
Seniority_Dum	-	-	2.522*** (2.70)
Days_Until_Election	-0.005*** (-3.40)	-0.005*** (-3.25)	-0.005*** (-2.78)
MisconductSeverity\$	0.232*** (2.69)	0.225*** (2.80)	0.231*** (2.65)
Political_Connection	-0.519 (-0.51)	-0.330 (-0.47)	-0.385 (-0.38)
Political_Contribution	-0.087 (-1.30)	-0.083 (-1.22)	-0.073 (-0.94)
Lobby_SEC	0.819*** (8.90)	0.835*** (8.80)	0.820*** (8.86)
SEC_Connection	0.318 (0.60)	0.305 (0.56)	0.311 (0.61)
Size	1.668*** (3.27)	1.360*** (3.70)	1.463*** (3.65)
Leverage	-4.815** (-2.50)	-4.683** (-2.22)	-4.502** (-2.05)
FRQ	0.031 (1.55)	0.030 (1.30)	0.032 (1.45)
Inst_Own	-0.522 (-0.29)	-0.103 (-0.12)	-0.161 (-0.10)
Analyst_Following	-1.778* (-1.90)	-1.559** (-2.42)	-1.357** (-2.31)
Distance_to_SEC	-0.195 (-0.88)	-0.146 (-0.79)	-0.153 (-0.88)
<i>State, Industry, and Year Fixed Effects</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
Observations	360	360	360
Pseudo R ²	0.465	0.453	0.450

Table 6: Descriptive Information For Tests Examining Differences In SEC Enforcement Against Firms Based on SEC-Relevant Committee Representation

The panels in this table present descriptive information for the sample used for regressions testing the likelihood that firms located in the constituencies of powerful politicians that serve on SEC-relevant congressional committees face relatively less SEC enforcement actions for financial misconduct than other firms. Panel A presents details about the sample selection process. Panel B presents descriptive statistics for state-level and firm-level SEC-relevant committee representation. Panel C presents descriptive statistics for all other variables. All variables are defined in Appendix B.

Panel A: Sample Selection for SEC Enforcement Cases

All Compustat Firms 2001-2010	94,531
Less	
Financial firms and utility firms	21,857
Foreign Firms	23,333
Non-Big N clients	19,190
No-auditor related information	9,257
No other variable information available	3,877
Final Sample	17,017

Panel B: State- and Firm-Level SEC-Relevant Committee Seniority Measures

	(1)	(2)	(3)
	Mean	Median	Std. Dev.
State-year Seniority Measures (n = 500)			
Total_Seniority	8.763	6.000	9.981
Committee_Num	0.420	0.000	0.525
Seniority_Dum	0.262	0.000	0.443
Firm-year Seniority Measures (n =17,017)			
Total_Seniority	10.576	2.000	14.962
Committee_Num	0.906	0.000	0.988
Seniority_Dum	0.271	0.000	0.448

Panel C: Summary Statistics

	(1)	(2)	(3)
	Mean	Median	Std. Dev.
Enforcement	0.021	0.000	0.115
Political_Connection	0.169	0.000	0.375
Political_Contribution (\$)	466,029	0.000	2,481,660
Lobby_SEC (\$)	140,113	0.000	1,538,735
SEC_Connection	0.032	0.000	0.181
Litigation_Risk	0.328	0.000	0.469
Total Assets (\$Million)	3,303	408	12,118
Size	6.064	6.010	2.039
Leverage	0.167	0.113	0.189
MtB	2.850	2.041	4.073
Profit	-0.010	0.033	0.174
Issuance	0.440	0.000	0.496
Stdev_Cashflow	0.110	0.062	0.167
Stdev_Sales	0.259	0.195	0.224

Oper_Cycle	4.567	4.646	0.810
Inst_Own	0.565	0.623	0.313
Analyst_Following	2.327	2.708	1.452
Distance_to_SEC (miles)	1,771	1,580	1,262
Auditor_Share	0.200	0.214	0.123
Auditor_Tenure	9.845	7.000	8.657
Office_Size	2.717	2.772	1.118
GC_Dummy	0.023	0.000	0.151

Table 7: Tests of the Link Between SEC-Relevant Committee Representation and SEC Enforcement

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

This table presents firm-level logit regressions of the link between political representation on SEC-relevant congressional committees and SEC enforcement against financial misconduct. The dependent variable, *Enforcement*, is an indicator variable set to one for firms that face SEC enforcement for financial misconduct. The independent variable of interest is one of three proxies for the power of firms' representation on SEC-relevant committees: *Total_Seniority*, *Committee_Num*, or *Seniority_Dum*. All variables are defined in Appendix B. In all regressions, standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses. All specifications include state, industry, and year fixed effects.

Dependent Variable:	(1)	(2)	(3)
		Enforcement	
Constant	-8.136*** (-8.16)	-8.739*** (-9.32)	-9.004*** (-8.99)
Total_Seniority	-0.016*** (-2.61)	-	-
Committee_Num	-	-0.085** (-2.33)	-
Seniority_Dum	-	-	-0.139** (-2.21)
Political_Connection	-0.605* (-1.82)	-0.627* (-1.88)	-0.613* (-1.92)
Political_Contribution	-0.042* (-1.91)	-0.042* (-1.92)	-0.041* (-1.85)
Lobby_SEC	-0.032 (-0.34)	-0.032 (-0.34)	-0.027 (-0.29)
SEC_Connection	-0.613 (-1.60)	-0.596 (-1.56)	-0.608 (-1.56)
Litigation_Risk	0.226 (0.53)	0.229 (0.53)	0.213 (0.50)
Size	0.565*** (5.29)	0.566*** (5.30)	0.572*** (5.33)
Leverage	-0.161 (-0.26)	-0.155 (-0.25)	-0.144 (-0.24)
MtB	-0.032* (-1.70)	-0.032* (-1.69)	-0.035* (-1.79)
Profit	0.022 (0.46)	0.022 (0.46)	0.025 (0.51)
Issuance	-0.350 (-1.63)	-0.354* (-1.65)	-0.379* (-1.76)
FRQ	-0.005 (-1.22)	-0.005 (-1.30)	-0.004 (-1.21)
Stdev_Cashflow	1.125 (1.27)	1.112 (1.25)	1.144 (1.28)
Stdev_Sales	0.942* (1.91)	0.939* (1.91)	0.929* (1.89)
Oper_Cycle	0.279 (1.40)	0.278 (1.39)	0.266 (1.34)
Inst_Own	0.923 (1.52)	0.922 (1.52)	0.903 (1.49)
Analyst_Following	-0.089 (-0.57)	-0.093 (-0.59)	-0.082 (-0.53)
Distance_to_SEC	-0.129* (-1.90)	-0.121* (-1.75)	-0.123* (-1.80)
Auditor_Share	-0.422 (-0.36)	-0.377 (-0.32)	-0.499 (-0.43)

Auditor_Tenure	-0.013 (-1.01)	-0.013 (-0.98)	-0.012 (-0.96)
Office_Size	-0.175 (-1.52)	-0.180 (-1.56)	-0.172 (-1.51)
GC_Dummy	1.247* (1.70)	1.253* (1.69)	1.251* (1.69)
<i>State, Industry, and Year Fixed Effects</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
Observations	13,914	13,914	13,914
Pseudo R ²	0.264	0.264	0.264

Table 8: Tests of SEC-Relevant Committee Member Departures on SEC Financial Misconduct Enforcement

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

In this table, we present covariate balance results (Panel A) and matched sample logit regressions of the change in the likelihood that firms located in the constituencies of powerful politicians that serve on SEC-relevant congressional committees face SEC enforcement actions for financial misconduct around shocks to a constituency's representation, relative to other firms (Panel B). The dependent variable in all columns, $\Delta Enforcement$, is an indicator variable set to one for firms that face SEC enforcement for financial misconduct in the two years after one of their elected politicians serving on an SEC-relevant committee departs the committee because of a committee transfer or death. The independent variable of interest is *Senior_Drop*, *Non-Senior_Drop*, or *Death_Drop*. *Senior_Drop* (*Non-Senior_Drop*) is an indicator variable set to one for firms in jurisdictions that experience the turnover of an SEC-relevant committee member ranked in the top quartile (non-top quartile) for a more prestigious committee position, and set to zero otherwise. *Death_Drop* is an indicator variable set to one for firms in jurisdictions that experience the turnover of an SEC-relevant committee member because of death, and set to zero otherwise. All other variables are defined in Appendix B. In all regressions, standard errors are Huber-White sandwich estimators and clustered at the firm level, z-values are in parentheses, and marginal effects are in brackets. All specifications include state, industry, and year fixed effects.

Panel A: Covariate Balance for Pre-Treatment Control Variables

	(1)	(2)	(1) – (2)
	Treatment	Control	<i>t</i> -test
	Observations	Observations	
Political_Contribution	5.655	5.678	0.99
Lobby_SEC	5.140	5.152	0.67
Size	5.892	6.055	0.92
Leverage	0.158	0.163	0.55
MtB	2.887	2.856	1.11
Profit	0.010	0.007	1.23
Issuance	0.434	0.443	0.76
FRQ	0.016	0.015	0.34
Stdev_Cashflow	0.116	0.109	0.82
Stdev_Sales	0.266	0.251	1.09
Oper_Cycle	4.578	4.557	0.90
Inst_Own	0.572	0.566	1.11
Analyst_Following	2.325	2.331	0.78
Auditor_Share	0.196	0.202	0.67
Auditor_Tenure	9.833	9.849	0.35
Office_Size	2.720	2.711	0.61
GC_Dummy	0.024	0.023	0.18

Panel B: Regression Results

Dependent Variable:	(1)	(2)	(3)
	ΔEnforcement		
Constant	-4.259*** (-9.56)	-4.862*** (-9.70)	-4.402*** (-5.31)
Senior_Drop	0.402*** (2.60)	-	-
Non-Senior Drop	-	0.209 (1.18)	-
Death_Drop	-	-	0.952** (2.53)
ΔPolitical_Contribution	-0.051* (-1.80)	-0.050* (-1.82)	-0.052* (-1.85)
ΔLobby_SEC	-0.278 (-1.33)	-0.259 (-1.36)	-0.152 (-1.22)
ΔSEC_Connection	-0.033 (-0.39)	-0.041 (-0.55)	-0.010 (-0.32)
ΔSize	0.351* (1.86)	0.382* (1.86)	1.046** (2.19)
ΔLeverage	-1.362 (-0.57)	-1.349 (-0.79)	-2.563 (-1.46)
ΔMtB	-0.019 (-1.23)	-0.020 (-1.24)	-0.035 (-0.99)
ΔProfit	0.302 (1.33)	0.311 (1.32)	0.292 (0.75)
ΔIssuance	0.318 (1.05)	0.360 (1.20)	0.053 (0.51)
ΔFRQ	-0.005 (-1.05)	-0.006 (-1.11)	-0.006 (-0.92)
ΔStdev_Cashflow	1.422* (1.90)	1.470* (1.93)	1.368 (1.47)
ΔStdev_Sales	0.818* (1.81)	0.855* (1.88)	1.951 (1.36)
ΔOper_Cycle	0.779* (1.82)	1.011** (2.03)	2.657* (1.84)
ΔInst_Own	0.328 (0.30)	0.328 (0.34)	0.791 (0.90)
ΔAnalyst_Following	-0.112 (-1.03)	-0.122 (-1.15)	-0.080 (-0.59)
ΔAuditor_Share	-1.121 (-1.02)	-1.275 (-1.03)	-0.667 (-0.70)
ΔAuditor_Tenure	-0.018** (-2.22)	-0.016** (-2.11)	-0.225 (-1.27)
ΔOffice_Size	-0.540* (-1.85)	-0.533* (-1.80)	-0.372** (-2.15)
ΔGC_Dummy	0.258 (0.92)	0.270 (1.15)	0.285 (0.80)
<i>State, Industry, and Year Fixed Effects</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
Observations	218	1,000	80
Pseudo R ²	0.162	0.135	0.106

Table 9: SEC-relevant Committee Member Power and Penalties for Financial Misconduct

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

This table presents firm-level OLS regressions of the association between the power of firms' representation on SEC-relevant congressional committees and the financial penalty issued by government regulators, conditional on firms facing an SEC enforcement action for financial misconduct. The dependent variable, *Penalty*\$, is the log of the total dollar value of the penalties imposed by regulators for firms that face SEC enforcement for financial misconduct. The independent variable of interest is one of three proxies to measure the power of SEC-relevant committee member representation: *Total_Seniority*, *Committee_Num*, or *Seniority_Dum*. All variables are defined in Appendix B. In all regressions, standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses. All specifications include state, industry, and year fixed effects.

Dependent Variable:	(1)	(2)	(3)	(4)
	Penalty\$			
Constant	7.371** (2.18)	6.567* (1.91)	6.037* (1.85)	6.892* (1.91)
Total_Seniority	-0.085** (-2.22)	-	-	-0.070* (-1.88)
Committee_Num	-	-0.234** (-2.36)	-	-
Seniority_Dum	-	-	-0.741*** (-2.61)	-
MisconductSeverity\$	0.353*** (3.87)	0.355*** (3.90)	0.359*** (3.99)	0.377*** (3.16)
Total_Seniority*MisconductSeverity\$	-	-	-	-0.011* (-1.92)
Political_Connection	-2.159** (-2.53)	-2.047** (-2.40)	-2.062** (-2.40)	-2.159** (-2.55)
Political_Contribution	-0.056 (-0.50)	-0.058 (-0.51)	-0.067 (-0.55)	-0.053 (-0.45)
Lobby_SEC	-0.320** (-2.56)	-0.276** (-2.32)	-0.257** (-2.13)	-0.328*** (-2.64)
SEC_Connection	-2.096 (-1.04)	-2.279 (-1.04)	-2.313 (-1.02)	-1.905 (-0.95)
Litigation Risk	1.016 (0.93)	1.107 (1.01)	1.175 (1.10)	1.023 (0.94)
Size	0.389 (1.41)	0.379 (1.36)	0.378 (1.40)	0.392 (1.43)
Distance_to_SEC	-0.683** (-2.09)	-0.604* (-1.78)	-0.560* (-1.82)	-0.669** (-2.06)
<i>State, Industry, and Year Fixed Effects</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
Observations	266	266	266	266
Adjusted R ²	0.273	0.271	0.271	0.274

Appendix A: News Article Excerpt

May 2, 2003
Birmingham News
Page: 1-B

LAWMAKERS DIVIDED ON FINANCIAL PANEL PROBE

Birmingham's congressmen are divided over whether the financial committee they serve on should conduct its own investigation into the accounting scandal at HealthSouth Corp.

U.S. Rep. Artur Davis, D-Birmingham, last week asked the committee to schedule a hearing, but Rep. Spencer Bachus, R-Vestavia Hills, said the panel should stay out of it until federal regulators and prosecutors finish their work. Another House committee already has announced plans to hold a hearing on HealthSouth.

"It's quite apparent to anybody this is good old-fashioned cooking the books and fraud," Bachus said. "There is a need for us to look at HealthSouth, but I would rather wait until the prosecution of the criminal and civil trials winds down."

Davis is a freshman in the minority party on the House Financial Services Committee; Bachus is the fifth-ranked Republican on the panel and cosponsor of the 2002 corporate reform law being used to convict former HealthSouth executives of fraud. "I didn't know the result would mean one of the biggest corporations in Birmingham blowing up, but the bottom line is it needs to blow up. It's just a shame it took innocent employees and investors with it," Bachus said.

Appendix B: Variable Definitions

Dependent Variables:

Reelect_Loss: An indicator variable set to one if a politician representing a district or state loses a reelection campaign in year t , and set to zero otherwise.

Enforcement_PostElec: An indicator variable set to one if an enforcement action for financial misconduct is issued in the year following an election, and set to zero if the enforcement action is issued in the year leading up to the election.

Enforcement: An indicator variable set to one if a firm faces SEC enforcement for financial misconduct in the current year or past year and set to zero otherwise.

Δ Enforcement: An indicator variable set to one if a firm receives an enforcement for financial misconduct in $t+1$ or $t+2$, where t is the year of departure of an SEC-relevant committee representative, and set to zero otherwise.

Δ Enforcement_HQChange: An ordinal categorical variable set to one if a firm receives an enforcement for financial misconduct in $t+1$ or $t+2$ but not in $t-1$ or $t-2$; set to 0 if a firm does not receive an enforcement for financial misconduct in any of $t-1$, $t-2$, $t+1$, or $t+2$; set to negative one if a firm receives an enforcement for financial misconduct in $t-1$ or $t-2$ but not in $t+1$ or $t+2$, where t is the year of the change in the headquarters location.

Penalty\$: Log of the dollar value monetary penalty imposed by the SEC on a firm and its employees following the issuance of an enforcement for financial misconduct.

Variables of Interest:

Total_Seniority: A firm-year measure of political representation on SEC-relevant committees measured as the aggregate tenure (in years) of total political representation on SEC-relevant committees.

Committee_Num: A firm-year continuous measure of political representation on SEC-relevant committees measured as the total number of political representatives that serve on SEC-relevant committees.

Seniority_Dum: A firm-year indicator variable measure of political representation on SEC-relevant committees and set to one for firms with at least one political representative in the top quartile of an SEC-relevant committee, and zero otherwise.

Senior_Drop: An indicator variable set to one for firms in the constituencies of senior SEC-relevant committee members that depart from the committee because of committee transfer or death, and set to zero otherwise. Senior SEC-relevant committee members are politicians in the top tenure quartile of all committee members.

Non-Senior_Drop: An indicator variable set to one for firms in the constituencies of non-senior SEC-relevant committee members that drop from the committee because of committee transfer or death, and set to zero otherwise. Non-senior SEC-relevant committee members are politician not in the top tenure quartile of all committee members.

Death_Drop: An indicator variable set to one for firms in the constituencies of politicians that suffer death while serving on an SEC-relevant committee, and set to zero otherwise.

HQChange: An indicator variable set to one for firms that change the zipcode of their headquarters location, and set to zero otherwise.

Senior_Drop_OtherComm: An indicator variable set to one for firms in the constituencies of senior politicians that depart non-SEC-relevant powerful congressional committees because of a transfer to another committee or death, and set to zero otherwise. Senior representation is defined as politicians in the top tenure quartile of their powerful committee assignment.

Non-Senior_Drop_OtherComm: An indicator variable set to one for firms in the constituencies of non-senior politicians that depart non-SEC-relevant powerful congressional

committees because of transfer to another committee or death, and set to zero otherwise. Non-senior representation is defined as any politician not in the top tenure quartile of their powerful committee assignment.

Recent_Enforcement: An indicator variable set to one if a politician represents a constituency in which a firm has received an enforcement for financial misconduct in the current year, and set to zero otherwise.

Control Variables:

Analyst_Following: A firm-year measure defined as $\log(1 + \text{number of analysts covering the firm during the year})$.

Auditor_Share: A firm-year measure defined as the proportion of the industry audited by the firm's auditor, and measured as the proportion of the total industry assets audited, based on Fama-French industry classifications.

Auditor_Tenure: A firm-year measure defined as the number of years that a firm has retained their current auditor.

Bankruptcy: A firm-level indicator variable set to one if a firm subject to SEC enforcement declares bankruptcy within two years after the end of the enforcement period, and set to zero otherwise.

Prominent: A firm-level indicator variable set to one for firms in the top size quartile based on all firms in the state, and set to zero otherwise.

Close_Election: An indicator variable set to one if the margin of victory is 5% or less and set to zero otherwise.

Days_Until_Election: Log of the number of days between the date of public revelation of the financial misconduct and the next Congressional election date.

Democratic: An indicator variable set to one if a politician is a Democrat, and set to zero otherwise.

Distance_to_SEC: A firm-year measure of the distance in logged miles between the firm's headquarters ZIP code to the closest SEC regional office.

Enforcement_Prior1: An indicator variable set to one if a firm in the politician's constituency received an SEC enforcement action for financial misconduct in $t-2$ or $t-3$, where t is the election year, and set to zero otherwise.

Enforcement_Prior2: An indicator variable set to one if a firm in the politician's constituency received an SEC enforcement action for financial misconduct in $t-4$ or $t-5$, where t is the election year, and set to zero otherwise.

ESOP: An indicator variable set to one if the firm has an Employee Stock Ownership Plan (ESOP), and set to zero otherwise.

Female: An indicator variable set to one if the politician is female, and set to zero otherwise.

FRQ: Unsigned abnormal accruals based on Hribar and Nichols (2007).

GC_Dummy: A firm-year indicator variable set to one if a firm receives a going-concern audit opinion in that year, and set to zero otherwise.

House: An indicator variable set to one if the politician serves in the House, and set to zero if the politician serves in the Senate.

Inst_Own: A firm-year measure defined as the percentage of a firm's common stock owned by institutional investors at year-end.

Issuance: A firm-year indicator variable set to one if in the prior three years, a firm has issued long-term debt or stock worth more than ten percent of the prior year's long-term debt or common equity respectively, and set to zero otherwise.

Leverage: A firm-year measure defined as a firm's long-term debt scaled by total assets.

Litigation_Risk: A firm-year indicator variable set to one if a firm is in one of the following industries: biotech (SIC codes 2833-2836 and 8731-8734), computer (3570-3577 and 7370-7374), electronics (3600-3674), retail (5200-5961), and set to zero otherwise.

Local: An indicator variable set to one if the firm's in-state operational concentration is in the top quartile of all firms, based on the measure from Garcia and Norli (2012).

Lobby_SEC: A firm-year measure of SEC-related lobbying spending, calculated as $\text{Log}(1 + \text{total dollar amount of annual SEC-related lobbying spending})$.

MisconductSeverity\$: The logged dollar amount of net profit financial misrepresentation.

MtB: A firm-year measure defined as market value of equity scaled by book value of equity at year-end.

Office_Size: Log of the number of clients of the firm's auditor office.

Oper_Cycle: A firm-year measure defined as $\text{log}(\text{days in account receivables} + \text{days in inventory})$.

Political_Connection: A firm-year indicator variable set to one when a firm has a preexisting relationship with a politician serving on an SEC-relevant committee based on whether the politician previously served as an executive or director of the firm, and set to zero otherwise.

Political_Contribution: A firm-year measure defined as the total logged dollar value of political contributions.

President_Same_Party: An indicator variable set to one if the politician is from the same party as the incumbent U.S. president, and set to zero otherwise.

Presidential_Election_Year: An indicator variable set to one if the reelection case occurs in a presidential election year, and set to zero otherwise.

Profit: A firm-year measure defined as earnings before extraordinary items scaled by total assets.

SEC_Committee: An politician-level indicator variable set to one if the politician serves on an SEC-relevant committee, and set to zero otherwise.

SEC_Connection: A firm-year indicator variable set to one for firms for which an executive has prior work experience at the SEC, and set to zero otherwise.

Seniority: A politician's number of years of service in Congress.

Size: A firm-year measure defined as logged total assets.

GDP_Growth: A state-year measure based on the annual GDP growth rate.

Unemployment_Rate: A state-year measure of the year-end state unemployment rate.

Stdev_Cashflow: A firm-year measure defined as the standard deviation of cash flow from operations between $t-4$ and t .

Stdev_Sales: A firm-year measure defined as the standard deviation of sales between $t-4$ and t .

Internet Appendix for
“Politician Careers and Corporate Financial Misconduct”

Table IA1. The Link Between SEC Enforcement and Reelection Outcome of SEC-Relevant Committee Members: Alternative Specifications

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

This table presents logit regressions examining variables that affect whether conditional on undertaking a reelection campaign, the likelihood that a politician loses the reelection campaign is associated with a constituent firm facing SEC enforcement for financial misconduct in the two years prior to the reelection date. The dependent variable, *Election_Loss*, is an indicator variable set to one for politicians that lose a reelection campaign, and zero otherwise. The independent variable of interest is *Recent_Enforcement*, an indicator variable set to one if at least one firm in that politician's state (district) or district is subject to SEC enforcement for financial misconduct in the two years prior to a Senator's (Representative's) reelection date. In this table, we check the robustness of the results correcting for incidental parameter problem in logit model when including fixed effects. Column 1 shows the base logit regression results where state and year fixed effects are included. Column 2 presents results using OLS specification. Column 3 shows results without state and year fixed effects. All variables are defined in Appendix A. In all regressions, standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses.

	(1)	(2)	(3)
	Logit	OLS	Logit
Dependent Variable:	Election_Loss		
Constant	-17.504 (-0.04)	-0.179** (-2.35)	-3.714* (-1.84)
Recent_Enforcement	0.134 (1.52)	0.035 (1.65)	0.254 (1.08)
SEC_Committee	0.309** (1.99)	0.050*** (3.02)	0.597*** (4.46)
Recent_Enforcement * SEC_Committee	0.256** (2.16)	0.068* (1.75)	0.421** (2.10)
Close_Election	0.867*** (4.44)	0.097*** (3.54)	0.844*** (4.97)
Seniority	-0.030 (-0.92)	-0.029 (-0.91)	-0.067 (-0.89)
Female	0.395** (2.25)	0.042** (2.17)	0.412*** (2.80)
Democratic	0.587*** (2.85)	0.056*** (3.20)	0.411*** (2.69)
President_Same_Party	0.515** (2.02)	0.039* (1.85)	0.319* (1.86)
Presidential_Election_Year	0.938* (1.74)	0.012 (0.65)	0.497** (2.23)
GDP_Growth	3.373 (0.88)	0.294 (0.98)	-0.725 (-0.28)
Unemployment_Rate	0.064 (0.64)	0.007 (0.75)	0.071** (2.12)
Average_Return	-0.089 (-0.41)	-0.008 (-0.48)	0.058 (0.34)
Average_ΔROA	-0.170 (-0.34)	-0.016 (-0.38)	-0.201 (-0.46)
<i>State and Year Fixed Effects</i>	<i>Yes</i>	<i>Yes</i>	<i>No</i>
Observations	2,637	2,637	2,637
Pseudo R ² /Adjusted R ²	0.150	0.093	0.039

Table IA2. The Link Between SEC Enforcement and Reelection Outcome of SEC-Relevant Committee Members: Robustness Tests Using Partitions Instead of Interaction Terms

***, ** and * indicate significance at the 90%, 95%, and 99% confidence level, respectively. This table presents identical tests to those in Table 4 Panel A and Panel B of the manuscript but with partitions instead of interaction terms. The logit regressions examine whether conditional on undertaking a reelection campaign, the likelihood that a politician loses a reelection campaign is associated with a constituent firm facing SEC enforcement for financial misconduct in the two years prior to the reelection date. The dependent variable, *Election_Loss*, is an indicator variable set to one for politicians that lose a reelection campaign, and zero otherwise. The independent variable of interest is *Recent_Enforcement*, an indicator variable set to one if at least one firm in that politician's state (district) or district is subject to SEC enforcement for financial misconduct in the two years prior to a Senator's (Representative's) reelection date. All variables are defined in Appendix A in the manuscript. In all regressions, standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses. State and year fixed effects are included in all regressions.

Dependent Variable:	Election_Loss											
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Sample:	Bankruptcy	Non-Bankruptcy	Big Firm	Small Firm	ESOP	Non ESOP	Local	Non Local	House	Senate	Close Election	Non Close-Election
Constant	-19.768 (-0.03)	-20.585 (-0.02)	-19.675 (-0.03)	-20.300 (-0.03)	-19.689 (-0.03)	-20.171 (-0.02)	-19.214 (-0.03)	-22.676 (-0.03)	4.676** (-2.00)	-7.155 (-1.47)	-22.643** (-0.03)	-21.727 (-0.01)
Recent_Enforcement	1.040** (2.30)	0.491 (1.11)	0.372* (1.90)	0.128 (1.25)	0.523** (2.09)	0.148 (1.09)	1.550** (2.08)	0.918 (1.49)	0.338** (2.34)	0.191 (1.25)	1.127** (2.11)	0.150* (1.72)
Seniority	-0.252 (-0.91)	-0.512 (-1.19)	-0.209 (-0.76)	-0.545* (-1.68)	-0.245 (-0.88)	-0.011 (-0.03)	-0.162 (-0.58)	-0.795* (-1.93)	-1.440*** (-3.42)	1.252* (1.87)	-0.861** (-2.16)	-0.497 (-1.21)
Female	0.672* (1.66)	0.411 (0.62)	0.713* (1.75)	0.632 (1.36)	0.692* (1.69)	0.194 (0.35)	0.766* (1.88)	0.872 (1.49)	0.590 (1.24)	1.873 (0.78)	0.679 (-1.22)	1.078* (1.91)
Democratic	0.875* (1.89)	-0.118 (-0.16)	0.926** (1.99)	1.114** (2.10)	0.883* (1.90)	0.921* (1.75)	0.970** (2.07)	1.332** (2.02)	1.409** (2.38)	-3.903 (-1.55)	1.322 (1.26)	0.912 (1.40)
President_Same_Party	0.287 (0.54)	-0.379 (-0.52)	0.270 (0.50)	0.304 (0.51)	0.276 (0.52)	0.006 (0.01)	0.302 (0.56)	0.408 (0.57)	0.723 (1.09)	0.566 (0.78)	0.849 (0.80)	-0.539 (-0.75)
Presidential_Election_Year	-0.841 (-0.70)	1.069 (0.66)	-0.722 (-0.60)	0.282 (0.20)	-0.849 (-0.71)	-0.763 (-0.57)	-0.601 (-0.50)	1.464 (0.90)	0.798 (0.53)	1.655 (0.75)	1.067 (0.87)	-0.847 (-0.52)
GDP_Growth	6.392 (0.80)	4.371 (0.43)	6.033 (0.75)	4.637 (0.55)	6.009 (0.75)	7.454 (0.89)	6.498 (0.81)	1.427 (0.15)	-0.250 (-0.03)	6.162 (0.33)	3.168 (0.34)	1.553 (0.16)
Unemployment_Rate	0.407* (1.85)	0.173 (0.62)	0.381* (1.73)	0.314 (1.23)	0.407* (1.85)	0.404* (1.71)	0.370* (1.67)	0.239 (0.84)	0.439 (1.62)	0.988 (1.25)	1.134 (0.63)	0.350 (1.19)
Average_Return	-0.232 (-0.49)	-0.150 (-0.29)	-0.252 (-0.54)	-0.300 (-0.62)	-0.225 (-0.48)	-0.274 (-0.56)	-0.260 (-0.55)	-0.325 (-0.63)	-0.382 (-0.78)	-0.477 (-0.13)	-0.338 (-1.22)	-0.337 (-0.37)
Average_AROA	1.280 (1.29)	0.390 (0.34)	1.457 (1.46)	0.952 (0.89)	1.299 (1.31)	1.031 (0.99)	1.313 (1.33)	1.328 (1.17)	1.666 (1.57)	8.398 (1.43)	1.342 (1.21)	1.574 (1.27)
State and Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	335	493	384	487	482	272	496	282	465	49	84	401
Pseudo R ²	0.237	0.236	0.240	0.241	0.237	0.236	0.245	0.235	0.327	0.320	0.393	0.320

Table IA3. SEC-Relevant Committee Representation and SEC Enforcement Efforts: Alternative Specifications

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

This table presents results from alternative specifications of Equation 3 which is a firm-level logit regression of the likelihood that firms located in the constituencies of powerful politicians that serve on SEC-relevant congressional committees face SEC enforcement actions for financial misconduct, relative to other firms. The dependent variable, *Enforcement*, is an indicator variable set to one for firms that face SEC enforcement for financial misconduct. The independent variable of interest is one of three proxies for the power of firms' representation on SEC-relevant committees: *Total_Seniority*, *Committee_Num*, or *Seniority_Dum*. In columns 1-3, we present results if we use OLS instead of a logit model. In columns 4-6, we present results from logit regressions and cluster standard errors by state rather than firm. All variables are defined in Appendix A. In all regressions, standard errors are Huber-White sandwich estimators and (t) z-values are in parentheses.

Dependent Variable:	OLS			Logit		
	(1)	(2)	(3)	(4)	(5)	(6)
Constant	-0.027* (-1.89)	-0.028** (-2.06)	-0.028** (-2.07)	-38.476*** (-13.33)	-37.620*** (-13.63)	-39.073*** (-13.92)
Total_Seniority	0.001** (2.21)	-	-	-0.015** (-2.50)	-	-
Committee_Num	-	0.001* (1.86)	-	-	-0.055** (-2.22)	-
Seniority_Dum	-	-	0.002** (2.23)	-	-	-0.228** (-2.41)
Political_Connection	-0.000 (-0.02)	-0.000 (-0.01)	-0.000 (-0.06)	-0.652** (-2.11)	-0.660** (-2.19)	-0.655** (-2.15)
Political_Contribution	-0.000 (-0.12)	-0.000 (-0.11)	-0.000 (-0.07)	-0.028 (-1.21)	-0.028 (-1.22)	-0.027 (-1.16)
Lobby_SEC	0.001 (0.80)	0.001 (0.80)	0.001 (0.80)	0.159 (1.19)	0.159 (1.20)	0.156 (1.15)
SEC_Connection	-0.001 (-1.18)	-0.001 (-1.18)	-0.001 (-1.20)	-0.124 (-1.22)	-0.099 (-1.18)	-0.131 (-1.23)
Litigation_Risk	0.002 (0.91)	0.002 (0.90)	0.002 (0.90)	0.281 (0.69)	0.282 (0.69)	0.274 (0.68)
Size	0.005*** (5.84)	0.005*** (5.84)	0.005*** (5.93)	1.048*** (7.18)	1.048*** (7.18)	1.059*** (7.48)
Leverage	-0.002 (-0.50)	-0.002 (-0.49)	-0.001 (-0.46)	-0.530 (-0.65)	-0.516 (-0.64)	-0.532 (-0.67)
MTB	-0.000** (-2.33)	-0.000** (-2.34)	-0.000** (-2.42)	-0.074*** (-3.39)	-0.074*** (-3.39)	-0.078*** (-3.54)
Profit	-0.000 (-1.32)	-0.000 (-1.31)	-0.000 (-1.32)	0.041 (0.96)	0.041 (0.97)	0.043 (1.04)
Issuance	-0.003** (-2.03)	-0.003** (-2.03)	-0.004*** (-2.03)	-0.661*** (-2.03)	-0.666*** (-2.03)	-0.698*** (-2.03)

FRQ	(-2.57) 0.000	(-2.56) 0.000	(-2.70) 0.000	(-3.91) 0.000	(-4.00) 0.000	(-3.97) 0.000
Stdev_Cashflow	(0.51) 0.004	(0.47) 0.004	(0.50) 0.004	(0.03) 1.656*	(0.00) 1.638*	(0.02) 1.697*
Stdev_Sales	(0.97) 0.008**	(0.96) 0.008**	(0.99) 0.008**	(1.83) 1.825***	(1.80) 1.833***	(1.83) 1.823***
Oper_Cycle	(2.50) 0.001	(2.51) 0.001	(2.48) 0.001	(2.59) 0.305	(2.62) 0.300	(2.58) 0.318
Inst_Own	(0.71) 0.001	(0.72) 0.001	(0.85) 0.001	(1.43) 0.907	(1.41) 0.907	(1.50) 0.883
Analyst_Following	(0.42) -0.001	(0.42) -0.001	(0.36) -0.001	(1.16) -0.136	(1.16) -0.138	(1.10) -0.129
Distance to SEC	(-0.77) -0.002**	(-0.77) -0.002**	(-0.71) -0.002***	(-0.61) -0.292***	(-0.62) -0.286***	(-0.57) -0.286***
Auditor_Share	(-2.57) -0.010*	(-2.48) -0.010*	(-2.59) -0.010*	(-4.87) -0.759	(-4.70) -0.732	(-4.66) -0.851
Auditor_Tenure	(-1.83) -0.000	(-1.81) -0.000	(-1.94) -0.000	(-0.63) -0.023**	(-0.61) -0.023**	(-0.73) -0.023**
Office_Size	(-1.21) -0.001**	(-1.20) -0.001**	(-1.13) -0.001**	(-2.04) -0.305***	(-2.01) -0.306***	(-1.99) -0.300***
GC_Dummy	(-2.04) 0.008**	(-2.09) 0.008**	(-2.02) 0.008**	(-3.44) 2.076**	(-3.47) 2.090**	(-3.35) 2.090**
<i>State, Industry, and Year Fixed Effects</i>						
Observations	Yes 17,017	Yes 17,017	Yes 17,017	Yes 13,914	Yes 13,914	Yes 13,914
Adjusted R ² /Pseudo R ²	0.026	0.026	0.026	0.264	0.265	0.266

Table IA4. Tests of the Link Between SEC-Relevant Committee Representation and SEC Enforcement: Alternative Measures of Firm-Level SEC-Committee Representation

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

This table presents firm-level logit regressions of the link between political representation on SEC-relevant congressional committees and SEC enforcement against financial misconduct. The dependent variable, *Enforcement*, is an indicator variable set to one for firms that face SEC enforcement for financial misconduct. The independent variable of interest is two variants of *Total_Seniority* which measures the power of firms' political representation on SEC-relevant committees. We present two different approaches to measure firms' political representation on SEC-relevant committees. In column 1, *Total_Seniority_Weighted* is weighted average of a firm's representation on SEC-relevant committees based on the geographical distribution of the firm's operations using all states identified in the 10-K filing. In column 2, *Total_Seniority_MainState* is a firm-year measures of representation on SEC-relevant committees based on the state with the highest count in the firm's 10-K filing. All variables are defined in Appendix A. In all regressions, standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses.

Dependent Variable:	(1)	(2)
	Enforcement	
Constant	-8.220*** (-8.02)	-8.672*** (-9.28)
Total_Seniority_Weighted	-0.018*** (-2.67)	-
Total_Seniority_MainState	-	-0.015** (-2.52)
Political_Connection	-0.599* (-1.83)	-0.602* (-1.88)
Political_Contribution	-0.041* (-1.90)	-0.040* (-1.87)
Lobby_SEC	-0.033 (-0.37)	-0.032 (-0.35)
SEC_Connection	-0.622 (-1.57)	-0.605 (-1.59)
Litigation_Risk	0.230 (0.60)	0.231 (0.62)
Size	0.582*** (5.35)	0.580*** (5.37)
Leverage	-0.152 (-0.29)	-0.153 (-0.37)
MtB	-0.030* (-1.72)	-0.030* (-1.72)
Profit	0.025 (0.56)	0.026 (0.53)
Issuance	-0.332 (-1.60)	-0.341 (-1.60)
FRQ	-0.005 (-1.16)	-0.005 (-1.19)
Stdev_Cashflow	1.130 (1.28)	1.132 (1.29)
Stdev_Sales	0.967* (1.90)	0.956* (1.89)
Oper_Cycle	0.288 (1.55)	0.285 (1.59)
Inst_Own	0.910 (1.45)	0.911 (1.45)
Analyst_Following	-0.090 (-0.58)	-0.093 (-0.62)

Distance_to_SEC	-0.133* (-1.88)	-0.120* (-1.77)
Auditor_Share	-0.416 (-0.41)	-0.356 (-0.35)
Auditor_Tenure	-0.015 (-1.07)	-0.013 (-0.99)
Office_Size	-0.183 (-1.51)	-0.190 (-1.55)
GC_Dummy	1.209* (1.79)	1.212* (1.78)
<hr/>		
<i>State, Industry, and Year Fixed Effects</i>	<i>Yes</i>	<i>Yes</i>
Observations	13,914	13,914
Pseudo R ²	0.263	0.263
<hr/>		

Table IA5. Tests of the Link Between SEC-Relevant Committee Representation and SEC Enforcement: Differences for SEC-Relevant Subcommittee Representation

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

This table presents firm-level logit regressions of the link between political representation on SEC-relevant congressional committees and SEC enforcement against financial misconduct. The dependent variable, *Enforcement*, is an indicator variable set to one for firms that face SEC enforcement for financial misconduct. The independent variables of interest capture firm-level representation on SEC-relevant subcommittee and other subcommittees. *SubCommittee_Seniority* (*NonSubCommittee_Seniority*) is the total seniority of the SEC-relevant sub-committee (non-subcommittee) member representation based on the number of years serving on that committee. All variables are defined in Appendix A. Standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses.

Dependent Variable:	(1) Enforcement
Constant	-8.092*** (-8.11)
SubCommittee_Seniority	-0.024*** (-2.60)
NonSubCommittee_Seniority	-0.011* (-1.90)
Political_Connection	-0.605* (-1.88)
Political_Contribution	-0.035* (-1.78)
Lobby_SEC	-0.031 (-0.40)
SEC_Connection	-0.637 (-1.60)
Litigation Risk	0.215 (0.52)
Size	0.575*** (5.22)
Leverage	-0.150 (-0.31)
MtB	-0.033* (-1.80)
Profit	0.021 (0.50)
Issuance	-0.356 (-1.61)
FRQ	-0.005 (-1.20)
Stdev_Cashflow	1.139 (1.29)
Stdev_Sales	0.955* (1.91)
Oper_Cycle	0.272 (1.50)
Inst_Own	0.926 (1.49)
Analyst_Following	-0.087 (-0.55)
Distance_to_SEC	-0.141* (-1.92)
Auditor_Share	-0.420

Auditor_Tenure	(-0.37)
	-0.016
	(-1.11)
Office_Size	-0.188
	(-1.60)
GC_Dummy	1.221*
	(1.88)
<hr/>	
<i>State, Industry, and Year Fixed Effects</i>	<i>Yes</i>
Observations	13,914
Pseudo R ²	0.263
<hr/>	

Table IA6. Tests of the Link Between SEC-Relevant Committee Representation and SEC Enforcement: Differences for SEC-Relevant Committee Chairman Representation

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

This table presents firm-level logit regressions of the link between political representation on SEC-relevant congressional committees and SEC enforcement against financial misconduct. The dependent variable, *Enforcement*, is an indicator variable set to one for firms that face SEC enforcement for financial misconduct. We include two indicator variables indicating whether the firm's SEC-relevant committee representation includes committee chairman or otherwise. *Committee_Chair* is an indicator variable set to one if the SEC-relevant committee chair is from the firm's constituency and set to zero otherwise. *Committee_NonChair* is an indicator variable set to one if the firm has non-chairman SEC-relevant committee representation and set to zero otherwise. All variables are defined in Appendix A. Standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses.

Dependent Variable:	(1) Enforcement
Constant	-7.992*** (-8.35)
Committee_Chair	-0.232** (-2.50)
Committee_NonChair	-0.182* (-1.90)
Political_Connection	-0.611* (-1.82)
Political_Contribution	-0.033* (-1.81)
Lobby_SEC	-0.026 (-0.51)
SEC Connection	-0.628 (-1.53)
Litigation Risk	0.222 (0.62)
Size	0.571*** (5.02)
Leverage	-0.142 (-0.30)
MtB	-0.035* (-1.83)
Profit	0.020 (0.55)
Issuance	-0.362 (-1.60)
FRQ	-0.005 (-1.26)
Stdev_Cashflow	1.144 (1.35)
Stdev_Sales	0.950* (1.92)
Oper_Cycle	0.280 (1.55)
Inst_Own	0.901 (1.37)
Analyst_Following	-0.091 (-0.63)
Distance_to_SEC	-0.140* (-1.91)
Auditor_Share	-0.411

Auditor_Tenure	(-0.32)
	-0.018
	(-1.16)
Office_Size	-0.193
	(-1.61)
GC_Dummy	1.203*
	(1.85)
<hr/>	
<i>State, Industry, and Year Fixed Effects</i>	<i>Yes</i>
Observations	13,914
Pseudo R ²	0.263
<hr/>	

Table IA7. Tests of the Link Between SEC-Relevant Committee Representation and SEC Enforcement: Differences for Majority vs. Minority Party Committee Representation

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

This table presents firm-level logit regressions of the link between political representation on SEC-relevant congressional committees and SEC enforcement against financial misconduct. The dependent variable, *Enforcement*, is an indicator variable set to one for firms that face SEC enforcement for financial misconduct. We include two indicator variables for the party orientation of the firm's SEC-relevant committee representation. *Committee_Majority* (*Committee_Minority*) are indicator variables set to one if the majority (minority) party based on the party of the sitting president representing the firm's constituency are from the majority (minority) party based on the party of the sitting president and set to zero otherwise. All variables are defined in Appendix A. Standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses.

Dependent Variable:	(1) Enforcement
Constant	-8.109*** (-8.33)
Committee_Majority	-0.258** (-2.46)
Committee_Minority	-0.172** (-2.22)
Political_Connection	-0.602* (-1.80)
Political_Contribution	-0.031* (-1.84)
Lobby_SEC	-0.023 (-0.50)
SEC_Connection	-0.633 (-1.50)
Litigation_Risk	0.225 (0.63)
Size	0.566*** (5.11)
Leverage	-0.140 (-0.31)
MtB	-0.031* (-1.80)
Profit	0.022 (0.59)
Issuance	-0.358 (-1.61)
FRQ	-0.005 (-1.27)
Stdev_Cashflow	1.126 (1.36)
Stdev_Sales	0.955* (1.92)
Oper_Cycle	0.287 (1.51)
Inst_Own	0.892 (1.35)
Analyst_Following	-0.090 (-0.60)
Distance_to_SEC	-0.141* (-1.90)
Auditor_Share	-0.421

Auditor_Tenure	(-0.40)
	-0.016
	(-1.11)
Office_Size	-0.196
	(-1.60)
GC_Dummy	1.222*
	(1.92)
<hr/>	
<i>State, Industry, and Year Fixed Effects</i>	<i>Yes</i>
Observations	13,914
Pseudo R ²	0.263
<hr/>	

Table IA8. Tests of the Link Between Changes In SEC-Relevant Committee Representation and SEC Enforcement: Robustness Checks

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

In this table, we present matched sample logit regressions of the change in the likelihood that firms located in the constituencies of powerful politicians that serve on SEC-relevant congressional committees face SEC enforcement actions for financial misconduct around shocks to a constituency's representation, relative to other firms. The dependent variable in all columns, $\Delta Enforcement$, is an indicator variable set to one for firms that receive an enforcement from the SEC for financial misconduct in the two years after one of their elected politicians serving on an SEC-relevant committee departs the committee because of a committee transfer or because of death, and when the firm does not obtain enforcement in the two years prior to the politician turnover. The independent variable of interest is $Senior_Drop$, an indicator variable set to one for firms in jurisdictions that experience the turnover of an SEC-relevant committee member ranked in the top quartile of industry seniority and set to zero otherwise. The politician turnover must occur because the politicians transfers to a more powerful committee position. In column 1, we replace state and industry fixed effects with firm fixed effects. In column 2, we include an additional control variable for corporate governance. G-Index is the corporate governance index based on Gompers et al. (2003). All variables are defined in Appendix A. In all regressions, standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses.

Dependent Variable:	(1)	(2)
	$\Delta Enforcement$	
Constant	-2.782*** (-4.56)	-4.177*** (-5.21)
Senior_Drop	0.255** (2.19)	0.389** (2.55)
$\Delta Political_Contribution$	-0.047* (-1.80)	-0.067* (-1.90)
$\Delta Lobby_SEC$	-0.102 (-0.78)	-0.160 (-1.23)
$\Delta SEC_Connection$	-0.092 (-1.38)	-0.162 (-1.56)
$\Delta Size$	0.233* (1.71)	0.356* (1.88)
$\Delta Leverage$	-1.001 (-0.55)	-1.256 (-0.78)
ΔMtB	-0.016 (-0.78)	-0.022 (-1.18)
$\Delta Profit$	0.162 (0.66)	0.292 (1.28)
$\Delta Issuance$	0.251 (0.79)	0.323 (1.19)
ΔFRQ	-0.004 (-0.66)	-0.006 (-0.92)
$\Delta Stdev_Cashflow$	0.782* (1.78)	1.452* (1.83)
$\Delta Stdev_Sales$	0.673 (1.61)	0.832* (1.91)
$\Delta Oper_Cycle$	0.702* (1.82)	1.092* (1.90)
$\Delta Inst_Own$	0.172 (0.30)	0.302 (0.50)
$\Delta Analyst_Following$	-0.089 (-0.90)	-0.122 (-1.21)

Δ Auditor_Share	-0.722 (-0.82)	-1.190 (-1.02)
Δ Auditor_Tenure	-0.011* (-1.72)	-0.020** (-2.09)
Δ Office_Size	-0.290 (-1.32)	-0.302** (-2.23)
Δ GC_Dummy	0.200 (0.79)	0.222 (1.10)
G-Index	-	-0.041 (-0.89)
<hr/>		
<i>State, Industry, and Year Fixed Effects</i>	-	<i>Yes</i>
<i>Firm and Year Fixed Effects</i>	<i>Yes</i>	-
Observations	1,000	765
Pseudo R ²	0.182	0.133
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Tests of the Link Between Changes In SEC-Relevant Committee Representation and SEC Enforcement: An Alternative Identification Strategy Using Firm Headquarters Location Changes

Headquarters changes affect the state in which a firm is located (and thus a firm's representation in both the House and Senate), which mechanically affects the strength of the firm's SEC-relevant committee representation. This shock to firm-level SEC-relevant committee representation is plausibly exogenous because it is unlikely that a firm's decision to change headquarters location also directly causes SEC enforcement actions against financial misconduct, implying that firm headquarters changes satisfies the exclusion restriction.

We identify 78 unique firms in our sample that change their headquarters location.¹ Among these cases, 39 (38) firms experience an increase (decrease) in *Total_Seniority*. One firm experiences no change in total seniority. The average increase (decrease) in *Total_Seniority* for the respective groups is 14.28 years (14.97) years. The maximum increase (decrease) in *Total_Seniority* around a headquarter change is 57 (48) years.

We use propensity score matching to identify a set of control group firms in other states that do not switch headquarters locations in the same year, or in the two preceding or subsequent years. We match in the year prior to the headquarters location switch and based on *Firm Size*, *FRQ*, *ROA*, *Leverage*, *MtB*, *Analyst_Following*, *Inst_Own*, *Unemployment_Rate*, *GDP_Growth*, and Fama-French industries, with no replacement, and with a caliper of 0.1%. The matching sample yields 78 treatment firms and 78 control sample firms using a 1 to 1 match. We estimate the following changes specification using an ordered logit model:

$$\Delta Enforcement_HQChange = \alpha + \beta_1 * HQChange + \beta_2 * \Delta Total_Seniority + \beta_3 * HQChange * \Delta Total Seniority + \beta_X * \Delta Controls + \xi \quad (6)$$

Where $\Delta Enforcement_HQChange$ is an ordinal categorical variable set to one if a firm receives an enforcement action for financial misconduct in $t+1$ or $t+2$ but not in $t-1$ or $t-2$; set to 0 if a firm does not receive an enforcement action for financial misconduct in any of $t-1$, $t-2$, $t+1$, or $t+2$; set to negative one if a firm only receives an enforcement action for financial misconduct in $t-1$ or $t-2$ but not in $t+1$ or $t+2$, where t is the year of the change in the headquarters location. $HQChange$ is an indicator variable set to one for treatment firms (i.e., those that change their headquarters location) and set to zero for control sample firms. $\Delta Total_Seniority$ is the change in the value of *Total_Seniority* from year $t-1$ to $t+1$. The interaction term captures the effect of a change in headquarters location on SEC enforcement actions that is incremental to the effect of SEC-relevant committee seniority changes. All specifications include state, industry, and year fixed effects. Our results are robust to using matched-firm-pair fixed effects instead of state fixed effects. Standard errors are adjusted for heteroscedasticity using a Huber-White Sandwich estimator and clustered by firm.²

In Table IA9 Panel A, we validate our empirical strategy by checking that observed treatment and control sample covariates in the year prior to the headquarters change are balanced. Note that because of the construction of the $\Delta Enforcement$ variable, a leads and lags model does not provide insights about the validity of our approach. Table IA9 Panel B presents coefficients for equation (6). The evidence indicates that for firms that move headquarters locations, the change in SEC-relevant

¹ We use Compact Disclosure to identify accurate headquarter locations and changes. This data is only available for the period from 2000 to 2006.

² In untabulated tests, we find that empirical results are robust to: 1) using Ordinary Least Squares to address the incident parameter problem; and 2) clustering standard errors at the state-level.

committee representation is negatively related to the likelihood that the firms subsequently receive enforcements, relative to similar firms that do not change their headquarters locations. The coefficient on *HQChange* is positive but insignificant, suggesting that on average, firm headquarters changes do not affect the likelihood of SEC enforcement for financial misconduct. We find that $\Delta Total_Seniority$ is negatively associated with the likelihood of facing SEC enforcement, consistent with the main results. The marginal effect indicates that a ten-year increase in committee seniority is associated with a 18% decrease in the probability of receiving an enforcement. The interaction term *HQChange* * $\Delta Total_Seniority$ is negative and significant, indicating there is an incremental effect from headquarter changes on the likelihood of facing an SEC enforcement action. Economically, for firms that change their location, the marginal effect estimates indicate that a one-year increase in the seniority of a firm's SEC-relevant committee representation is associated with an average reduction in the probability of facing an SEC enforcement action by 9%, relative to firms that do not change their headquarters location. In sum, the evidence is consistent with a causal relation between being located in the constituency of powerful SEC-relevant committee members and a reduced likelihood of facing an SEC enforcement actions for financial misconduct.

Table IA9

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

In this table, we present covariate balance results (Panel A) and matched sample logit regression of the change in the likelihood that firms face SEC enforcement actions for financial misconduct around changes in the power of their political representation on SEC-relevant committees because of shifts in firms' headquarters state location, relative to other firms. The dependent variable, $\Delta Enforcement_HQChange$, is an indicator variable set to one for firms that face SEC enforcement for financial misconduct in the two years following a change to their headquarters location. The independent variable of interest is $HQChange * \Delta Total_Seniority$. $HQChange$ is an indicator variable set to one for firms that change their headquarter locations, and set to zero otherwise. $\Delta Total_Seniority$ is a continuous variable measured as the one-year change in a firm's $Total_Seniority$. All other variables are defined in Appendix B. Standard errors are Huber-White sandwich estimators and clustered at the firm level, z-values are in parentheses, and marginal effects are in brackets. State, industry, and year fixed effects are included in all regressions.

Panel A: Covariate Balance for Pre-Treatment Control Variables

	(1)	(2)	(1) – (2)
	Treatment	Control	<i>t</i> -test
	Observations	Observations	
Political_Contribution	5.622	5.635	0.91
Lobby_SEC	5.141	5.145	0.50
SEC_Connection	0.032	0.032	0.20
Size	6.060	6.021	1.22
Leverage	0.155	0.160	0.51
MtB	2.892	2.861	0.87
Profit	0.011	0.009	0.98
Issuance	0.441	0.440	0.12
FRQ	0.015	0.014	0.33
Stdev_Cashflow	0.112	0.113	0.22
Stdev_Sales	0.261	0.255	0.67
Oper_Cycle	4.566	4.569	0.23
Inst_Own	0.570	0.562	1.32
Analyst_Following	2.319	2.326	0.70
Auditor_Share	0.202	0.196	0.61
Auditor_Tenure	9.841	9.832	0.89
Office_Size	2.712	2.725	0.90
GC_Dummy	0.023	0.024	0.33

Panel B: Regression Results

Dependent Variable:	(1) Δ Enforcement_HQChange
HQChange	0.511 (1.45)
Δ Total_Seniority	-0.555** (-2.19)
HQChange * Δ Total_Seniority	-2.553** (-2.37)
Δ Political_Contribution	-0.150 (-1.42)
Δ Lobby_SEC	-0.066 (-0.89)
Δ SEC_Connection	-0.027 (-0.41)
Δ Size	0.039 (1.50)
Δ Leverage	-0.072 (-1.11)
Δ MtB	-0.055 (-1.50)
Δ Profit	0.073 (0.88)
Δ Issuance	-0.545 (-1.56)
Δ FRQ	-0.035 (-0.87)
Δ Stdev_Cashflow	1.482 (1.35)
Δ Stdev_Sales	1.687* (1.88)
Δ Oper_Cycle	0.060 (1.51)
Δ Inst_Own	0.088 (1.35)
Δ Analyst_Following	-0.347 (-1.26)
Δ Auditor_Share	-0.273 (-1.11)
Δ Auditor_Tenure	-0.024 (-1.33)
Δ Office_Size	-0.062 (-0.85)
Δ GC_Dummy	0.010 (0.26)
<hr/>	
<i>State, Industry, and Year Fixed Effects</i>	Yes
Observations	156
Pseudo R ²	0.238

Table IA10: SEC Enforcement and Politicians Serving On Other Non-SEC Related Congressional Committees

*, **, and *** indicate significance at the 90%, 95%, and 99% confidence level, respectively.

This table presents firm-level logit regressions of the link between political representation on powerful congressional committees that have no jurisdiction over the SEC and SEC enforcement against financial misconduct. The dependent variable, *Enforcement*, is an indicator variable set to one for firms that face SEC enforcement for financial misconduct. The independent variable of interest is *Senior_Drop_OtherComm* or *Non-Senior_Drop_OtherComm*. *Senior_Drop_OtherComm* (*Non-Senior_Drop_OtherComm*) is an indicator variable set to one for firms in jurisdictions that experience the turnover of a politician in the top quartile (non-top quartile) of one of the top 10 most powerful congressional committees other than an SEC-relevant committee, and set to zero otherwise. All variables are defined in Appendix B. In all regressions, standard errors are Huber-White sandwich estimators and clustered at the firm level, and z-values are in parentheses. All specifications include state, industry, and year fixed effects.

Dependent Variable:	(1)	(2)
	ΔEnforcement	
Constant	-7.672*** (-8.46)	-7.691*** (-8.42)
Senior_Drop_OtherComm	0.115 (0.89)	-
Non-Senior_Drop_OtherComm	-	-0.078 (-0.90)
ΔPolitical_Contribution	-0.052* (-1.85)	-0.050* (-1.85)
ΔLobby_SEC	-0.267 (-1.39)	-0.281 (-1.42)
ΔSEC_Connection	-0.035 (-0.39)	-0.032 (-0.41)
ΔSize	0.355* (1.85)	0.361* (1.89)
ΔLeverage	-1.371 (-0.78)	-1.362 (-0.80)
ΔMtB	-0.021 (-1.25)	-0.021 (-1.33)
ΔProfit	0.320 (1.33)	0.317 (1.31)
ΔIssuance	0.359 (1.11)	0.360 (1.10)
ΔFRQ	-0.006 (-1.16)	-0.007 (-1.20)
ΔStdev_Cashflow	1.376* (1.88)	1.418* (1.85)
ΔStdev_Sales	0.846* (1.89)	0.838* (1.89)
ΔOper_Cycle	1.013** (2.11)	1.086** (2.09)
ΔInst_Own	0.333 (0.35)	0.326 (0.34)
ΔAnalyst_Following	-0.120 (-0.99)	-0.121 (-1.10)
ΔAuditor_Share	-1.118 (-0.99)	-1.228 (-1.20)
ΔAuditor_Tenure	-0.022** (-2.27)	-0.020* (-2.25)
ΔOffice_Size	-0.536* (-1.75)	-0.532* (-1.77)

ΔGC_Dummy	0.264 (1.15)	0.258 (1.11)
<hr/>		
<i>State, Industry, Year Fixed Effects</i>	<i>Yes</i>	<i>Yes</i>
Observations	7,000	9,972
Pseudo R ²	0.055	0.085
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