The SEC revolving door and comment letters

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Abstract

Government officials, advocacy groups, and the business press have raised concerns that former SEC employees may continue to influence the SEC after leaving the agency. Using hand-collected data on the characteristics of 1,384 lawyers who represented firms in responding to SEC comment letters between 2005 and 2016, we examine the impact of post-revolving SEC employees on the SEC comment letter process. Among other determinants, we find that older and larger firms with a history of litigation are more likely to hire former SEC lawyers over non-SEC lawyers. Relative to firms that involve only non-SEC lawyers, we find that firms that involve former SEC lawyers in responding to SEC comment letters negotiate to a greater extent with the SEC, and have a lower likelihood and number of amendment filings, after matching on lawyer, law firm, comment letter, and firm characteristics.

1. Introduction

In this paper, we examine how the revolving door at the Securities and Exchange Commission (hereafter SEC) affects its oversight on corporate disclosure. Specifically, we examine whether firms that involve former SEC lawyers in the comment letter process negotiate to a greater extent with SEC, and have more favorable outcomes as a result of the process.

The flow of personnel and expertise from the SEC to the private sector has been the subject of scrutiny and debate by government officials, advocacy groups, the business press, and academics in recent years. A 2013 report by the Project On Government Oversight (POGO) found that over 400 former SEC employees filed statements between 2001 and 2010 that they intended to represent an external party before the SEC, and expressed the concern that "a rapidly spinning revolving door can weaken the agency's protection of investors" (Smallberg, 2013, quotation at p. 36).[1] In response to the POGO report, U.S. Senator Chuck Grassley wrote that "The SEC has

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[1] For two years after they have left the SEC, former SEC employees who intend to represent a client before the SEC or in communications with the SEC are required to file statements with the SEC's Office of the Ethics Counsel (see 17 CFR §200.735-8b).

to fix this problem once and for all" (Grassley, 2013). Furthermore, much of the recent media coverage on the SEC revolving door has skewed negatively, and the agency has also received numerous comments from the public about the issue.[2] Critics of the revolving door cite the risk of *regulatory capture*—the risk that regulators "created to act in the public interest […] end up acting directly or indirectly in the interests of those they regulate." (Brown, 2016, p. 1). Based on data compiled by POGO, the majority of former SEC employees who filed post-employment disclosures revolved to private law firms, where they may represent clients before the SEC.[3]

There are two mechanisms by which the revolving door might compromise regulatory oversight efforts. The first is that it could incentivize individuals at regulatory agencies to act in the interests of prospective employers *before* they join the private sectors. deHaan et al. (2015) provide empirical evidence against this form of regulatory capture, finding that SEC trial lawyers' enforcement efforts are not compromised before they revolve to private law firms; instead, these lawyers are associated with more aggressive enforcement, consistent with the human capital theory of the revolving door.[4] A second mechanism is that individuals formerly at a regulator may influence it *after* revolving to the private sector, on behalf of a private sector client. This mechanism is a primary concern of POGO's 2013 report.[5] Several studies have examined the impact of post-revolving SEC employees; for example, deHaan et al. (2015) and Shive and Forster (2017) find evidence that former employees of regulators, including the SEC, help their clients reduce damages from enforcement actions, although Shive and Forster (2017) cautions that they "do not find strong evidence" (p. 1480) that firms that hire former regulators face more lenient enforcement. The SEC itself has argued that ethics rules safeguard against conflicts of interest, and that the revolving door actually improves regulatory compliance.[6]

Our study extends this line of research by examining the impact of post-revolving SEC employees on the SEC comment letter process, which affects every issuer in the United States and could result in adverse consequences for firms. This is an ideal setting because each comment letter conversation involves a dialogue between representatives of the firm and SEC staff, and firms often involve lawyers in their response (see Bozanic et al., 2019), who may have formerly worked at the SEC. The SEC issues comment letters when its staff identifies disclosure deficiencies, and may make requests of the firm, for example to amend prior SEC filings (see Bozanic et al., 2017). The firm may negotiate for more desirable outcomes, for example to revise future filings instead. Former SEC lawyers may be better positioned to help their clients secure more desirable outcomes than other lawyers due to their familiarity with former colleagues still at the SEC, for example prior studies have documented that negotiation outcomes may be affected by the extent of familiarity and trust between the parties (e.g. Lumineau and Henderson, 2012; Druckman and Olekalns, 2013). In Appendix A, we describe the comment letter process in more detail, and include examples of comment letter conversations involving lawyers formerly employed the SEC.

In order to identify the involvement of former SEC lawyers in SEC comment letters, we hand-collect the characteristics of the individual lawyers involved in our sample of comment letter conversations from public sources, primarily LinkedIn profiles and biographies on law firm websites.[7] Our dataset includes the former SEC employment status, educational background, and other characteristics of over 1,300 unique lawyers. After attrition our final sample comprises 4,524 comment letter conversations initiated between 2005 and 2016 that involve external counsel; about 7.2 percent of the sample involve lawyers who were formerly employed by the SEC.

We first examine the determinants of hiring a former SEC lawyer over only non-SEC lawyers. We find that larger and older firms, firms that recently faced securities class action lawsuits, and firms that do not use top- or second-tier audit firms are more likely to retain a former SEC lawyer relative to only non-SEC lawyers. These results suggest that financial and reputational concerns, and the risk of litigation and misstatements, may contribute to the decision to hire a former SEC lawyer. As these incentives may confound our tests of the consequences of hiring such lawyers, in our main analyses we propensity-match conversations involving former SEC lawyers against conversations involving non-SEC lawyers along lawyer and law firm characteristics, the complexity of and the issues

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[2] Examples of negative media coverage include "SEC Lawyer One Day, Opponent the Next" (McGinty, 2010a, *The Wall Street Journal*); "SEC 'Revolving Door' Under Review" (McGinty, 2010b, *The Wall Street Journal*); "SEC staff's 'revolving door' prompts concerns about agency's independence" (Hilzenrath, 2011, *The Washington Post*); and "S.E.C.'s Revolving Door Hurts Its Effectiveness, Report Says" (Protess and Craig, 2013, *The New York Times*). A search for the term "revolving door" on the SEC's website also reveals numerous and often strongly-worded comments from the public about the revolving door.

[3] Based on 2001–2010 post-employment statements filed by former SEC employees that disclose their intention to represent an external party before the SEC, obtained by POGO via Freedom of Information Act requests. Retrieved in August 2017 from http://www.pogo.org/tools-and-data/s-revolving-door-database/.

[4] The human capital theory "focuses on incentives the revolving door creates for regulators to signal the type of human capital valued by industry employers" (Zheng, 2015, p. 1268).

[5] See (See Smallberg, 2013, p. 2): "Former employees of the Securities and Exchange Commission (SEC) routinely help corporations try to influence SEC rulemaking, counter the agency's investigations of suspected wrongdoing, soften the blow of SEC enforcement actions, block shareholder proposals, and win exemptions from federal law."

[6] In a 2005 speech, then-SEC Commissioner Paul Atkins said that the revolving door improves compliance in the private sector because "people with regulatory backgrounds become good proselytes for lawful behavior" (Atkins, 2005); and in 2007 he said that "people who leave government to return to industry can help to instill a proper sense of the importance of complying with legal obligations […] strong ethics rules guard against potential conflicts of interest when people leave the government for the private sector." (Atkins, 2007). Such ethics rules include former SEC employees being permanently barred from appearing before the SEC on a matter they worked on while at the SEC (see 18 USC §207).

[7] Firms often involve external counsel in responding to comment letters: they were involved in about a third of our initial sample of comment letter conversations. We restrict the hand-collection to lawyer-law firms with at least two conversations in our initial sample. Please see Section 4 and Table 1 for details on our sample selection procedure.

raised in the initial comment letter, and firm characteristics.

We next examine whether resistance to the SEC is greater when the firm retains a former SEC lawyer relative to when it retains other lawyers, consistent with regulatory capture. We construct a composite measure of the extent of negotiation based on the length of the conversation in days, the number of letters exchanged, and whether the conversation took multiple rounds to resolve. We find that relative to matching firms that involve non-SEC lawyers, firms that involve former SEC lawyers negotiate to a greater extent with the SEC. We additionally find that they are more likely to request confidential treatment.

Finally, we examine whether former SEC lawyer involvement is associated with fewer amendments. We find that relative to matching firms that involve non-SEC lawyers, firms that involve former SEC lawyers have about a 32 percent lower odds of amending their periodic filings after receiving a comment letter, and file 0.38 fewer amendments to periodic filings on average. We find that abnormal returns during the period are 3.9 percentage points greater for firms that involve former SEC lawyers. However, on aggregate we do not find that former SEC lawyer involvement is associated with the likelihood of adverse restatement or securities class action lawsuits, suggesting that they help firms reduce the cost of amending filings, but not to the extent of avoiding disclosures that would have resulted in adverse restatements or litigation.

As our study documents a relationship between involvement of former SEC lawyers and outcomes of the comment letter process, an alternative interpretation of our findings is that firms predisposed to certain outcomes are more likely to hire former SEC lawyers. That is, our findings may be influenced to an extent by endogenous sorting between firms and lawyers. We acknowledge and caution readers that this possibility limits to some degree our ability to draw causal inferences from our empirical analyses. However, we mitigate selection bias with our research design in several ways. First, we identify the impact of former SEC lawyers by using firms that hire non-SEC lawyers in the control group, which precludes selection bias due to the choice of whether to hire a lawyer. Second, we propensity-match conversations involving former SEC lawyers against those that involve only non-SEC lawyers along a large set of observable lawyer, law firm, comment letter, and firm characteristics, which mitigates selection bias due to the choice of whether to hire a former SEC lawyer relative to a non-SEC lawyer.

Finally, we examine our proposed mechanisms for the impact of former SEC lawyers on outcomes of the comment letter process using cross-sectional tests. As we detail in Section 2.2, former SEC lawyers are likely to be more familiar with current SEC staff, allowing them to more effectively influence the outcomes of the process on behalf of their clients. In cross-sectional tests, we find that the impact of former SEC lawyers on increasing the extent of negotiation, reducing the likelihood of amendments, and reducing the likelihood of restatements or litigation, are driven to a larger extent by former SEC lawyers who had left the SEC more recently.

To our knowledge, our study is the first to examine the impact of the revolving door between the public and private sectors on the SEC comment letter process. Our study therefore contributes to three streams of research. First, our study contributes to the literature on the revolving door itself. Extant literature on the revolving door examine how it affects regulatory agents' actions before they join prospective employees (e.g. Lucca et al., 2014; deHaan et al., 2015; Cornaggia et al., 2016; Tabakovic and Wollmann, 2018), and the impact of former agents on their new employers' outcomes (e.g. Luechinger and Moser, 2014; deHaan et al., 2015; Shive and Forster, 2017). We extend the latter literature by examining the impact of former SEC lawyers on the SEC comment letter process, a ubiquitous and consequential mechanism for disclosure oversight, in which negotiation between SEC staff and representatives of the firm plays a crucial role. Consistent with regulatory capture, we find evidence that former SEC lawyers impede the effectiveness of the comment letter process.

Second, our study contributes to the growing literature on the SEC comment letter process. Recent studies (e.g. Bens et al., 2016; Kubick et al., 2016; Wang, 2016; Johnston and Petacchi, 2017; Calderon and Gao, 2022) have documented that SEC regulatory oversight over corporate disclosures improves firms' information environments and accounting choices. For example, Kubick et al. (2016) find that firms decrease their tax avoidance behavior after receiving tax-related comment letters, and Johnston and Petacchi (2017) find that the comment letter process decreases firms' information asymmetry and increases their earnings response coefficients. However, few studies have examined factors that could impede effective oversight of the comment letter process. One factor that has been examined empirically (e.g. Kedia and Rajgopal, 2011; Ege et al., 2020) is resource constraints at the SEC. For example, Ege et al. (2020) find that waves of transactional filings (e.g., IPO) reduces the quality of comment letters for periodic firm filings. Our paper extends this line of research by documenting that the SEC revolving door also impedes effective oversight on corporate disclosure by the SEC.

Last, our study contributes to the emerging literature on the role of firms' external legal counsel in financial reporting (e.g. deHaan et al., 2015; Bozanic et al., 2019; Dechow and Tan, 2021). Bozanic et al. (2019) find that firms that involve law firms in SEC comment letter conversations are more likely to file confidential treatment requests and file fewer amendments, but have improved disclosures in the long run, consistent with law firms serving as client advocates while also *improving* their clients' disclosures. In contrast, Dechow and Tan (2021) find that the spread of stock option backdating was facilitated by the network of shared external law firms. Our study examines former SEC lawyers within a sample of companies that retain law firms, so unlike Bozanic et al. (2019) we do not make inferences on the impact of hiring a law firm, relative to not hiring one. Instead, our study contributes to this line of research by documenting that the characteristics of individual lawyers—for example former SEC employment status—matter, and may be associated with adverse long-run accounting and shareholder outcomes.

2. Related literature and hypothesis development

2.1. Related literature

To our knowledge, our study is the first to examine the impact of the SEC revolving door on the SEC comment letter process, one of

the SEC's most important mechanisms for oversight over corporate disclosures. Our study therefore builds on literature that examines the impact of SEC lawyers on public companies after they have revolved from the SEC to the private sector. In particular, deHaan et al. (2015) and Shive and Forster (2017) examine the impact of former regulators, including former SEC personnel, on their clients' outcomes in enforcement actions.[8]

deHaan et al. (2015) focus on the regulatory actions of SEC lawyers while they are at the SEC, but also examine whether law firms with more former SEC lawyers with enforcement experience at the SEC help their clients secure more lenient enforcement outcomes. They find that law firms hiring more former SEC lawyers secure lower damages, and some evidence that they secure fewer criminal charges, for their clients. They find that the results are not driven by former SEC lawyers who had worked in the same team or office as a current SEC lawyer on the case, which is inconsistent with a social influence story, and more consistent with former SEC lawyers having gained "unique training and insider knowledge" from their tenure at the SEC (footnote 35). Shive and Forster (2017) find that financial firms that hire former employees of regulatory agencies including the SEC have lower firm risk and improved risk management activities, and "do not find strong evidence" (p. 1480) that these firms face more lenient enforcement, although they do not rule it out. Specifically, they find that no evidence that enforcement actions are less likely when a former regulator is hired, and some evidence that fines are smaller.

Our study extends this line of research by examining the SEC comment letter process instead of enforcement actions. First, the SEC comment letter process is a setting over which former SEC employees are much more likely to be able to exert influence, because the process is based on negotiations between representatives of firms and SEC staff. Filing reviews are completed by staff accountants and staff examiners, and senior staff members are only involved upon the firm's request.[9] In contrast, the outcomes of enforcement actions are decided at the highest levels of the SEC, limiting the extent to which a representative of the firm may influence outcomes.[10]

Second, the comment letter process represents an early and preemptive stage of the SEC's oversight on issuers' disclosures, and therefore has important implications for firms' future disclosure quality and shareholder value. For example, recent studies have found that the comment letter process improves firms' information environments (e.g. Bens et al., 2016; Wang, 2016; Johnston and Petacchi, 2017; Calderon and Gao, 2022), and may also trigger restatements (e.g. see Kubic, 2020) and lead to enforcement actions (Karpoff et al., 2008). In contrast, enforcement actions are typically the end of a long investigation, occurring long after disclosure deficiencies are revealed and most of the damage done to shareholder value. Karpoff et al. (2008) document that abnormal negative returns are greatest around the trigger events (-25.24% per trigger on average), and smallest around the enforcement filings themselves (-6.56% per filing on average).

Finally, outcomes of the SEC comment letter process affect thousands of firms every year, while few firms ever reach the stage where they would be attempting to influence the outcome of an enforcement action: Karpoff et al. (2008) document a total of only 585 enforcement actions initiated by the SEC and the DOJ between 1978 and 2002. In contrast, as discussed in more detail in Appendix A, the SEC reviews firms' filings every three years; over 100,000 comment letter conversations were initiated between 2005 and 2016 (see Table 1).

Another thread of related literature examines the impact of firms' external legal counsel on financial and financial reporting outcomes (e.g. Krishnan and Masulis, 2013; deHaan et al., 2015; Bozanic et al., 2019; Dechow and Tan, 2021). In particular, Bozanic et al. (2019) compare firms that involve external legal counsel in SEC comment letter conversations against firms that do not, finding that the former are more likely to file confidential treatment requests and file fewer amendments as a result of the comment letters, but have improved disclosures and fewer restatements and comment letters in the two years following resolution of the comment letter. While our study also uses the SEC comment letters setting, we do not make inferences on the impact of hiring a law firm and instead examine a different research question: the impact of the SEC revolving door on the comment letter process. Our study therefore contributes to this line of research by documenting that the characteristics of individual lawyers—for example former SEC employment status—matter, and may be associated with adverse long-run accounting and shareholder outcomes.[11]

2.2. Hypothesis development

We hypothesize that former SEC lawyers are better able to influence the outcomes of their clients' comment letter conversations with SEC staff, relative to lawyers who had never been employed by the SEC. Former SEC lawyers are likely to be more familiar with

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[8] Several empirical studies have examined the revolving doors at other government offices or regulatory agencies, including state public utility commissions (Law and Long, 2012), the U.S. Department of Defense (Luechinger and Moser, 2014), legislators' offices (Igan and Mishra, 2014), credit rating agencies (Cornaggia et al., 2016), and the U.S. Patent and Trademark Office (Tabakovic and Wollmann, 2018).

[9] We outline the comment letter process and provide examples of legal counsel involvement at Appendix A. Detailed information on how the SEC conducts the comment letter process is also publicly available on the SEC's website, for example https://www.sec.gov/divisions/corpfin/cffiling-review.htm and https://www.sec.gov/oig/reportspubs/aboutoigaudit259finhtm.html.

[10] For example, formal orders of investigation are authorized and issued by the director of the Division of Enforcement, and enforcement actions are voted upon by the SEC commissioners, who may question the recommendations of the staff. See the SEC's Enforcement Manual, particularly Sections 2.3.4 and 2.5, available at the SEC's website at https://www.sec.gov/divisions/enforce/enforcementmanual.pdf, and see also Correia (2014) for a discussion of the SEC enforcement process.

[11] Several studies (e.g. Kwak et al., 2012; Hopkins et al., 2015; Ham and Koharki, 2016) have also examined the role of general counsel on firms' disclosure policies, financial reporting quality, and risk management. Our study focuses on external counsel rather than general counsel because based on a database of 2001–2010 post-employment disclosures compiled by POGO (retrieved in August 2017 from http://www.pogo.org/tools-and-data/sec-revolving-door-database/), former SEC employees are substantially more likely to revolve to law firms than public companies.

current SEC staff, and prior literature has documented that the outcomes of negotiations are affected by the degree of trust between the parties (e.g. Lumineau and Henderson, 2012; Druckman and Olekalns, 2013). If former SEC lawyers exert their influence on the SEC comment letter process on behalf of their clients, we would expect to observe greater resistance by the clients to the process in the form of more protracted negotiation. The null hypothesis is therefore that there is no difference in resistance between firms that retain former SEC lawyers and other lawyers. We summarize this in the following formal hypothesis, in alternative form.

Hypothesis 1. The involvement of a lawyer formerly employed by the SEC in the SEC comment letter process is associated with greater negotiation than the involvement only of lawyers who had not been employed by the SEC, *ceteris paribus*.

If former SEC lawyers are more effective at influencing the SEC comment letter process, we would expect to observe more favourable outcomes of the comment letter, particularly a reduction in the likelihood and number of amendment filings, and fewer adverse events including restatements and shareholder litigation.

Hypothesis 2. The involvement of a lawyer formerly employed by the SEC in the SEC comment letter process is associated with more favourable firm outcomes than the involvement only of lawyers who had not been employed by the SEC, *ceteris paribus*.

3. Research design

3.1. Impact of involving former SEC lawyers

We test Hypotheses 1 and 2 by regressing each outcome variable against a dummy variable (*SEC*) that takes the value of one if the firm referenced a former SEC lawyer in a comment letter in the conversation, and zero otherwise:

$$\text{Extent of Negotiation} = \alpha + \beta \; SEC + \gamma \; \text{Lawyer, CL, and Firm Controls} \tag{1}$$

$$\text{Outcomes} = \alpha + \beta_1 \; SEC + \gamma \; \text{Lawyer, CL, and Firm Controls} \tag{2}$$

We include controls for lawyer and law firm characteristics, comment letter complexity and issues, firm characteristics, and industry and year fixed effects. We estimate the models using ordinary least squares, logistic regressions, and poisson regressions for the models with continuous, dummy, and count dependent variables respectively.

3.2. Propensity score matching

To further mitigate bias due to confounding by one or more control variables, we estimate each of the regression models after propensity-matching treatment (*SEC* = 1) and control (*SEC* = 0) conversations along the control variables (detailed at Section 3.5 below), including industry fixed effects. Specifically, we estimate the following model using a logistic regression:

$$SEC = \alpha + \gamma \; \text{Lawyer, CL, and Firm Controls} \tag{3}$$

The logistic regressions allow us to obtain the predicted probability that a conversation with a given set of lawyer, comment letter, and firm characteristics involves a former SEC lawyer.

We then apply matching procedures to minimize the difference in predicted probabilities, or the distance scores, between the treatment and control conversations. We first discard observations outside of the support of the distance score, which drops extreme observations from the sample and ensures that treatment and control conversations are comparable (see Stuart, 2010, Section 3.3). We next minimize the difference in distance scores using full matching (Rosenbaum, 1991; Hansen, 2004), which produces a set of weights that we apply to each observation remaining in the sample when estimating the regression models.[12]

3.3. The extent of negotiation

We measure the extent of negotiation using a composite variable, *Negotiation*, which is based on the length of the comment letter conversation both in days and in the number of letter exchanged. Specifically, we use the first principal component of the log-transformed length of the comment letter conversation in days (*ConvTime*), the number of comment letters in the conversation (*NumLetters*), and whether the conversation takes at least two rounds of exchanges (i.e. at least five letters) between the firm and the SEC to resolve (*MultiRound*). Please see Appendix B for detailed variable definitions.

To further explore how the negotiation process is influenced by former SEC lawyers, we also examine whether the involvement of former SEC lawyers is associated with a greater likelihood of confidential treatment requests. A lawyer who has greater influence on the SEC may use that influence to secure redaction of sensitive firm information in the comment letter disclosures. Bozanic et al. (2019), for example, documents that the involvement of lawyers in the comment letter process increases the likelihood of confidential

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[12] Full matching matches treatment and control units (or vice versa) one-to-many. To take into account potential changes in the underlying prediction model over time, we carry out the matching procedure within two-year windows. The matching procedures in our analyses are carried out using the MatchIt package (Ho et al., 2011) in R, and full matching uses functions from the optmatch package (Hansen and Klopfer, 2006). See also Armstrong et al. (2010) for one of the first studies in accounting that use propensity score matching.

treatment requests.

3.4. Outcomes of the comment letter conversation

Of the disclosure corrections usually requested by the SEC, amendments of prior filings are the most costly, and managers would prefer to obscure any deficiencies in its prior filings by revising future filings instead. As the comment letter process aims to correct disclosure deficiencies, any undue delay or reduction in amendments associated with former SEC lawyer involvement would be disadvantageous to shareholder welfare. We therefore examine 10-K or 10-Q amendments filed as a result of the comment letter (*Amendment*, *NumAmend*). As in Cassell et al. (2013, see footnote 34), we use the start and disclosure dates of the conversation as the window in which a company would make disclosure corrections related to the comment letters.[13] We also examine size-adjusted returns during the period (*CLReturns*): if firms involving former SEC lawyers file fewer amendments, we would expect them to have higher abnormal returns during the period.[14]

Finally, we also examine the relationship between former SEC lawyers involvement and whether the comment letter resulted in restatements or litigation. We use a composite variable, *Adverse*, that is equal to one if an adverse restatement or securities class action lawsuit was filed as a result of the comment letter.[15] A significantly negative relationship would suggest that former SEC lawyers help firms avoid the disclosure of information that would reveal GAAP misstatements or fraud.

3.5. Control variables

Following prior studies, we use three sets of control variables in this study: lawyer and law firm characteristics, SEC comment letter complexity and issues, and firm characteristics. Several of the lawyer and law firm characteristics are based on our hand-collected database of lawyers described in detail in Section 4. We outline the control variables in this section briefly for brevity; please see Appendix B for detailed variable definitions.

Lawyer and law firm characteristics. We include proxies for the lawyers' and law firms' prior experience in advising clients on SEC comment letters, and the lawyers' educational backgrounds. Lawyers often detail their prior experience and education in their online biographies, suggesting that this information is useful to current and prospective clients. Furthermore, in a different setting, Karsten et al. (2019) provide evidence that lawyers' education and expertise could affect their clients' outcomes. We include educational background proxies based on universities with top-fourteen ("T14") law schools, widely-regarded as the premier law schools in the United States.[16] Finally, we control for the number of lawyers involved by the firm, which could be mechanically correlated with the probability that one of the lawyers was formerly employed by the SEC, and include proxies for gender and estimated age. The literature on the legal profession (e.g. see Bruck and Canter, 2008; Adams and Engel, 2015) has suggested that there are differences in education, career trajectories, or salary between male and female lawyers, even at the SEC (Choi et al., 2019), while the lawyer's age provides an additional proxy for experience.[17]

Comment letter complexity and issues. We control for the complexity of the initial comment letter from the SEC using the length of the letter and the number of SEC filings referenced in the initial letter. We control for the specific issues raised by the SEC at the initial comment letters, coded based on Audit Analytics' issue variables and taxonomy keys. As in Bozanic et al. (2019), we use dummy variables that take the value of one if a specific issue was referenced. We include a dummy variable equal to one if the initial comment letter mentions the word "amend", to proxy for whether the SEC suggested or requested that the firm file an amendment of prior filings

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[13] For the few conversations in our sample with multiple disclosure dates, i.e. the letters in the conversation were made public on EDGAR at different dates, we use the last available date. A small number of conversations in our final sample have disclosure dates more than two years after the end of the conversation; we truncate these at two years.

[14] We use CRSP size deciles based on the year before the start of the conversation, and include delisting returns, assuming that shareholders invest in the corresponding size portfolio after delisting. In our regression involving *CLReturns*, observations with missing CRSP size portfolio or missing portfolio returns are dropped.

[15] We examine shareholder lawsuits filed on or after the start of the conversation, for which the class period overlaps with the period referenced by the comment letter conversation, and we examine adverse restatements filed between the start of comment letter conversation and the disclosure of the conversation, for which the restatement period overlaps with the periods referenced by the comment letters. Assuming that Forms 10-K (10-Q) are filed 90 days (45 days) after the end of the fiscal period, we use the period spanned by start of the earliest fiscal period referenced and the last periodic filing date referenced as the period referenced by the comment letter conversation.

[16] For example, see Adams and Engel (2015) ("Virtually all prospective law students who thoroughly research law schools across the nation are aware of a phenomenon referred to as the T-14, a list of 14 law schools that are annually ranked in the top 14 of the U.S. News & World Report Law School Rankings", page 1216, internal quotation marks omitted). The T14 are the law schools of Columbia University, Cornell University, Duke University, Georgetown University, Harvard University, New York University, Northwestern University, Stanford University, the University of California, Berkeley, the University of Chicago, the University of Michigan, the University of Pennsylvania, the University of Virginia, and Yale University. We thank an anonymous referee for suggesting that we partition the T14 schools further into the top three schools (Harvard, Stanford, or Yale Law School) and the rest of the T14.

[17] Companies may involve more than one lawyer in the comment letter conversation; in our sample, less than 20 percent of conversations do so. Since our unit of analysis is the comment letter conversation, we aggregate the lawyer and law firm control variables when necessary. For example, *Female* takes the value of one when *any* of the lawyers involved by the firm was female, and *HSYSchool* is equal to one if *any* of the lawyers involved in the conversation attended a university with a top-three law school (please see the notes to Table B.1 for further details).

in response. Finally, when estimating the relationship between the outcomes and former SEC lawyer involvement (Model 2), we also include a proxy for the extent of negotiation, *NumLetters*, in the matching and regressions to control for any indirect effect of former SEC lawyers via the length of the conversation.

Firm characteristics We control for a large set of firm characteristics. These include proxies for the size, growth, performance, volatility, and age of the firm, to proxy for the reputation and financial performance of the firm, which would affect incentives to retain higher-quality or more expensive external legal counsel. We also include recent evidence of disclosure issues including recent restatements and shareholder litigation, to control for underlying accounting and disclosure issues. Cassell et al. (2013), for example, find that companies that restated during the fiscal year under review by the comment letter, or the prior year, have longer comment letter conversations. Finally, we control for the tier of the firm's auditor, which may be associated with the extent to which the firm requires external assistance in responding to the SEC. Please see Table B.2 for a more complete list of the variables and their definitions. Finally, we include industry fixed effects based on one-digit SIC codes to control for possible variation between offices at the SEC.[18] We also include year fixed effects based on the calendar year in which the conversations began.

4. Sample and descriptives

4.1. Sample selection and data sources

We retrieve comment letter conversations initiated between 2005 and 2016 that reference a 10-K filing from Audit Analytics' Comment Letter Conversations database. We begin our sample in 2005 because the comment letters data is sparse before then. We require the firms in the conversations to be covered by Compustat as of the most recent fiscal year, and by CRSP as of the starting date of the conversation, resulting in an sample of 16,734 conversations. Similar to Bozanic et al. (2019), we omit conversations with only one letter and conversations below the bottom percentile of the time to resolution. These steps result in an initial sample of 16,351 conversations involving 5,534 unique firms. Please see Panel A of Table 1 for details.

Next, we retrieve and require legal advisor data (Panel B of Table 1). We retrieve data on law firm personnel referenced in firms' replies to SEC comment letters (i.e., CORRESP files) using the People Search tool on auditanalytics.com, restricting the search to comment letters referencing periodic filings. Of the 16,351 conversations in our initial sample, 5,580 conversations have replies by firms in which lawyers were referenced.[19] In other words, firms involved lawyers in about 34% of conversations. In these 5,580 conversations, firms referenced a total of 2,865 unique lawyers from 539 unique law firms.

We next require the availability of hand-collected data on the characteristics of the individual lawyers referenced in firms' replies. For each unique lawyer-law firm combination, we retrieve and read the lawyer's biographies on public sources, primarily LinkedIn profiles and biographies on law firm websites. We collect each lawyer's individual characteristics including the lawyer's educational history, gender, and SEC affiliation before joining the law firm, if any. We restrict our hand-collection to the lawyer-law firms with at least two conversations in our initial sample.[20] We also identify and omit several individuals that Audit Analytics appeared to have miscoded as external counsel. This restricts the sample to 4,689 conversations involving 1,407 unique lawyers and 326 unique law firms. We were able to collect data on 1,384 of the lawyers. For several lawyers for whom we could not locate certain educational characteristics needed to construct the control variables (particularly *LawyerAge* and *NumDegrees*), we extrapolate the missing

Table 1
Sample selection.

	Unique conversations	Unique firm-years	Unique firms
Panel A: Initial sample selection			
Conversations initiated between 2005 and 2016 that reference			
a 10-K filing, after requiring Compustat and CRSP coverage	16,734	16,531	5,584
Omit conversations with only one letter	16,470	16,376	5,550
Omit conversations in the bottom 1% of time to resolution	16,351	16,270	5,534
Panel B: Requiring legal advisor data and variables for analysis			
Restrict to conversations referencing legal counsel[†]	5,580	5,560	2,814
Require lawyer-law firm to have at least two conversations[‡]	4,689	4,671	2,221
Require the availability of variables used in the analyses	4,524	4,507	2,140

[‡] After requiring lawyer-law firms to be associated with at least two conversations, there are 1,407 unique lawyers and 326 unique law firms associated with the conversations in the sample. We were able to collect data for 1,384 of the unique lawyers from 320 unique law firms.

[†] We also omit 82 conversations in which the lawyer was not named. The 5,580 conversations at this step involve 2,865 unique lawyers and 539 unique law firms.

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[18] Review of filings at the SEC's Division of Corporation Finance is organized by industry: filings are assigned to one of eleven offices, each of which covers a broad industry group.

[19] We also omit 82 conversations in which the lawyers were not named.

[20] We avoid using lawyers who appear only once in the data, because they are more likely to have been involved incidentally, rather than as lawyers specialising in securities law and government relations.

Table 2
Descriptives of the lawyer characteristics database.

Panel A: Characteristics per unique lawyer

	N	Mean	SD	Q1	Q25	Q50	Q75	Q99
# Conversations	1,384	4.081	3.446	2	2	3	5	18
# Law firms	1,384	1.046	0.219	1	1	1	1	2
SEC	1,384	0.045	0.207	0	0	0	0	1
HSYSchool	1,384	0.211	0.408	0	0	0	0	1
OtherTopSch	1,384	0.452	0.498	0	0	0	1	1
NumDegrees	1,384	2.171	0.402	2	2	2	2	3
Female	1,384	0.165	0.371	0	0	0	0	1

Panel B: Former SEC lawyers (N = 62) versus other lawyers (N = 1,322)

	Overall mean	*SEC* = 0 mean	*SEC* = 1 mean	Diff. in means	$p-\text{value}_{t/\chi^2}$
# Conversations	4.08	4.01	5.53	1.52	(13.54%)
# Law firms	1.05	1.04	1.08	0.04	(30.23%)
HSYSchool	0.21	0.22	0.10	-0.12^{**}	(2.43%)
OtherTopSch	0.45	0.46	0.32	-0.14^{**}	(4.87%)
NumDegrees	2.17	2.17	2.27	0.11^{*}	(8.74%)
Female	0.16	0.16	0.16	-0.004	(100.00%)

This table shows descriptive statistics of the characteristics of the 1,384 lawyers from 320 law firms in our sample. # Conversations is the number of comment letter conversations in our sample that reference the lawyer, and # Law firms is the number of unique law firms the lawyer is associated with in our sample, before requiring the availability of other variables; and the other variables are as defined in Appendix B. Panel A documents descriptive statistics for the full sample of lawyers. Panel B documents univariate differences in the variables between the lawyers who were formerly employed by the SEC (*SEC* = 1) and the lawyers who had not been employed by the SEC (*SEC* = 0). For the binary outcome variables (*HSYSchool*, *OtherTopSch*, and *Female*) we examine the difference in proportions using chi-squared tests with p-values computed by Monte Carlo stimulation with 10,000 replicates. For the other outcome variables we examine the difference in means using t-tests.

educational information from other available information.[21]

Finally, we require the availability of variables used in our analyses, resulting in a final sample of 4,524 conversations involving 2,140 unique firms. The number of unique firm-years in the sample, 4,507, is very close to the sample size, indicating that the conversations in our sample map almost uniquely to firm-years.

For our analyses involving future lawsuits in the dependent variable (*Adverse*), we further omit comment letter conversations that follow a securities lawsuit filing (i.e. we omit conversations where *PastLit* = 1). We do so because securities lawsuits may take several years to resolve, and different lawsuit filings may be consolidated into a single case. Therefore if similar issues triggered both the comment letter conversation and the pre-conversation lawsuit filing, any future litigation related to the comment letter may be consolidated into the existing lawsuit.

4.2. Descriptive statistics

4.2.1. Lawyer characteristics

Our hand-collected dataset includes 1,447 unique combinations of lawyers and law firms represented in our sample.[22] There are 1,384 unique lawyers in the data, indicating that only a small proportion of the lawyers in our sample switched law firms, and 320 unique law firms in our sample. Table 2 documents the descriptive statistics for our dataset of lawyers involved in the comment letter process.[23] Panel A of Table 2 documents the characteristics of the 1,384 unique lawyers in our dataset. On average, a lawyer is referenced in about 4.1 comment letter conversations in our sample, and are almost always associated with only one unique law firm throughout the sample. 62 of the 1,384 lawyers had previously been employed by the SEC, about 4.5 percent of our sample. 21.1 percent of the lawyers had attended a university with a top-three law school, 45.2 percent had attended a university with other top-fourteen law schools, and most have up to two degrees. About 16.5 percent of the lawyers are female.

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[21] Specifically: (1) If the lawyer's degree years were all unavailable, we use the year the lawyer was admitted to the bar as the year of his or her terminal degree. From our reading of the lawyers' biographies, almost all were admitted to the bar at or around the year of their terminal degree. (2) If the year of the lawyer's first degree was unavailable, we use the year of his or her next available degree minus three years, the median time between first and second degrees of the lawyers for whom the data was available. (3) Several lawyers only disclosed one of their degrees. We set the floor of *NumDegrees* to two because lawyers generally require a graduate degree (e.g. a Juris Doctor) to practice.

[22] We collect the data at the lawyer-law firm level to take moves between law firms into account. For example, to collect the *SEC* variable, we examine whether the lawyer was employed by the SEC before joining the focal law firm.

[23] Unless otherwise stated, the descriptives in this subsection are based on raw values, without winsorization or other outlier removal method.

Table 3
Descriptives of the comment letter conversations sample.

	N	Mean	SD	Q1	Q25	Q50	Q75	Q99
Panel A: Outcome variables								
Negotiation	4,524	−0.000	1.549	−2.295	−1.405	−0.001	1.164	3.760
ConfTreat	4,524	0.196	0.397	0	0	0	0	1
Amendment	4,524	0.171	0.376	0	0	0	0	1
NumAmend	4,524	0.243	0.609	0	0	0	0	3
CLReturns	4,494	−0.003	0.335	−0.731	−0.139	−0.016	0.100	1.083
Adverse	4,524	0.076	0.265	0	0	0	0	1
Panel B: Lawyer and law firm characteristics								
SEC	4,524	0.072	0.259	0	0	0	0	1
LawyerExp	4,524	0.725	1.131	0	0	0	1	5
LawFirmExp	4,524	8.163	8.667	0	2	5	11	36
NumDegrees	4,524	2.195	0.411	2	2	2	2	3
NumLawyers	4,524	1.202	0.462	1	1	1	1	3
HSYSchool	4,524	0.260	0.438	0	0	0	1	1
OtherTopSch	4,524	0.495	0.500	0	0	0	1	1
Female	4,524	0.173	0.378	0	0	0	0	1
LawyerAge	4,524	3.303	0.319	2.485	3.091	3.332	3.555	3.892
Panel C: Comment letter complexity and issues								
LetterLength	4,524	6.893	0.478	5.999	6.553	6.847	7.197	8.135
NumFilings	4,524	1.821	0.943	1	1	2	2	5
AccIssue	4,524	0.771	0.420	0	1	1	1	1
EventIssue	4,524	0.185	0.389	0	0	0	0	1
MDAIssue	4,524	0.664	0.472	0	0	1	1	1
NonFitIssue	4,524	0.806	0.395	0	1	1	1	1
RegisIssue	4,524	0.160	0.367	0	0	0	0	1
RegSKIssue	4,524	0.562	0.496	0	0	1	1	1
RegSXIssue	4,524	0.173	0.378	0	0	0	0	1
RiskIssue	4,524	0.108	0.311	0	0	0	0	1
RefAmend	4,524	0.582	0.493	0	0	1	1	1
Panel D: Firm characteristics								
BHR	4,524	0.125	1.597	−0.840	−0.241	0.035	0.307	2.299
BigFour	4,524	0.783	0.412	0	1	1	1	1
BTM	4,524	0.580	0.644	−0.355	0.246	0.455	0.762	2.753
Delaware	4,524	0.647	0.478	0	0	1	1	1
Domestic	4,524	0.946	0.226	0	1	1	1	1
FirmAge	4,524	2.513	0.843	0.740	1.924	2.617	3.087	4.369
Growth	4,524	0.202	0.614	−0.644	−0.020	0.090	0.248	3.172
PastConv	4,524	0.467	0.499	0	0	0	1	1
PastLit	4,524	0.052	0.223	0	0	0	0	1
PastRes	4,524	0.169	0.375	0	0	0	0	1
RD	4,524	0.052	0.104	0	0	0	0.062	0.522
ROA	4,524	−0.002	0.185	−0.752	−0.017	0.026	0.072	0.357
Size	4,524	6.675	1.794	2.718	5.436	6.712	7.896	11.123
StdRet	4,524	0.130	0.094	0.031	0.073	0.109	0.160	0.473
TierTwo	4,524	0.112	0.315	0	0	0	0	1

This table shows descriptive statistics for the variables used in the study, for the 4,524 comment letter conversations in our final sample. Please see B for variable definitions.

Panel B of Table 2 compares the former SEC lawyers in our sample with the lawyers who were not formerly employed by the SEC. Former SEC lawyers are involved in more than one more conversation in our sample than non-SEC lawyers on average, although the statistical significance of the difference is slightly lower than conventional significance levels. There are statistically significant differences in educational background between former SEC and non-SEC lawyers: SEC lawyers are a little more likely to have earned more than two degrees, but are less likely to have attended a university with a top law school. The difference in the number of law firms the lawyers are associated with or the likelihood that the lawyers are female are not statistically significant at conventional significance levels.

4.2.2. Comment letter conversations

Our sample comprises 4,524 comment letter conversations initiated between 2005 and 2016, after our sample selection procedure detailed at Table 1. Table 3 documents descriptive statistics for our sample at the conversation level, which is the unit of observation in our study.[24]

Panel A of Table 3 shows descriptive statistics of the outcome variables. As a principal component, *Negotiation* is centered on zero, and about 19.6 percent of conversations discuss confidential treatment requests. About 17.1 percent of conversations result in a 10-K or 10-Q amendment, and the mean number of amendments is higher, at 0.243, because some conversations result in more than one amendment. On average, abnormal returns from the start to the disclosure of the conversation is close to zero, and about 7.6 percent of conversations result in adverse restatements or shareholder litigation.

Panel B of Table 3 shows descriptive statistics for the lawyer and law firm characteristics at the conversation level. About 7.2 percent of conversations involve a former SEC lawyer. This is higher than the 4.5 percent at the lawyer level, likely driven by former SEC lawyers being involved in more conversations in our sample than non-SEC lawyers (see Table 2). On average, the most experienced lawyer (law firm) in the conversation was involved in less than one (more than eight) other conversation(s) in the year before the focal conversation, and a conversation involves about 1.2 lawyers. Most lawyers have at least two degrees, and about 26.0 and 49.5 percent of conversations involve a lawyer who attended a university with a top-three law school or other top-fourteen law schools respectively. About 17.3 percent of conversations involved a female lawyer, and the average log-transformed age of the oldest lawyer in the conversation is 3.298, corresponding to about 27 years between the start of the conversation and the lawyer's first degree.

Panel C of Table 3 shows descriptive statistics for proxies for comment letter complexity and issues. The average log-transformed length of the initial comment letters is 6.893, corresponding to 985 words, and the initial comment letters reference 1.8 SEC filings on average. The proportion of the initial comment letters that raise specific issues range between 10.8 percent (risk factor issues) and 77.1 percent (accounting issues). About 80.6 percent of the initial comment letters reference issues that do not fit standard issue categories as coded by Audit Analytics. About 58.2 percent of the initial comment letters mention the word "amend".

Finally, Panel D of Table 3 shows descriptive statistics for the firm controls.[25] The average log-transformed firm size and age are 6.675 and 2.513 respectively, corresponding to a market capitalization of $792 million, and over 11 years since the firm's first appearance in CRSP. On average, the firms had raw buy-and-hold returns of 12.5 percent over the 12 months before the start of the conversation, the monthly returns had a standard deviation of 13.0 percent, and the book-to-market ratio was 0.580. The firms had return on assets close to zero on average, sales growth of about 20.2 percent, and R&D intensity of about 5.2 percent. Most firms (94.6 percent) are domestic, and 64.7 percent were incorporated in Delaware. About 78.3 percent were audited by a Big Four audit firm, and 11.2 percent were audited by a second-tier audit firm. Finally, 46.7, 5.2, and 16.9 percent of conversations had a prior comment letter conversation, a securities litigation filing, and a restatement within the two years leading up to the start of the focal conversation.

5. Empirical results

5.1. Determinants of retaining a former SEC lawyer

We first examine the determinants of retaining a former SEC lawyer by estimating logistic regressions of *SEC*, the dummy variable indicating that the firm retained a former SEC lawyer, against the controls for comment letter complexity and issues, firm characteristics, and industry and year fixed effects. The results are documented at columns 1 to 3 of Table 4. Column 1 includes controls for comment letter complexity and issues, column 2 includes controls for firm characteristics, and column 3 include both sets of controls. We include industry and year fixed effects in all three specifications.

Of the controls for comment letter complexity and issues, we find that the only two determinants are statistically significant. The length of the letter is positively associated with the likelihood of retaining a former SEC lawyer: the coefficient of 0.395 on *LetterLength* suggests that a ten percent increase in the length of the initial letter increases the odds that the firm retains a former SEC lawyer by about 3.8 percent ($= 1.1^{0.395} - 1$). However, the coefficient becomes insignificant in Column (3), suggesting that the impact of letter length is subsumed by firm characteristics. We also find that firms are significantly less likely to involve a former SEC lawyer when the initial comment letter mentions management discussion and analysis disclosure issues. Of the controls for firm characteristics, we find that larger and older firms are significantly more likely to retain a former SEC lawyer, as are firms that faced recent litigation or that do not have big four or tier two audit firms.

We note that the pseudo-R-squared of our determinants model is only 4.7 percent, indicating that many other factors drive the decision to hire a former SEC lawyer. Some additional factors could include whether the law firm retained or usually used by the company has a former SEC lawyer, or simply the availability of former SEC lawyers when the firm receives a comment letter. We note that it is rare for a lawyer to have had SEC experience—only about seven percent of our sample of conversations involve former SEC lawyers—so we would not expect every firm to be able to hire a former SEC lawyer if they chose to do so.

As these determinants may confound our main tests of the consequences of hiring a former SEC lawyer, we carry out a propensity matching of treatment (*SEC* = 1) and control (*SEC* = 0) observations along the control variables.

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[24] At the conversation level, we reduce the impact of outliers by winsorizing annually count variables such as *NumLawyers* and *NumFilings* at the top percentile, and other non-discrete variables such as *ConvTime* and *ROA* at the top and bottom percentiles. We do not winsorize variables based on returns, specifically *BHR* and *StdRet*. Please see Appendix B for variable definitions.

[25] Unless otherwise stated, the firm controls are based on the most recent fiscal year ended before the start of a conversation.

Table 4
Determinants of retaining a former SEC lawyer.

Model	Dependent variable: *SEC*; Logistic Regressions		
	Full Sample		
	(1)	(2)	(3)
LetterLength	0.395**		0.295
	(0.192)		(0.195)
NumFilings	0.025		0.061
	(0.070)		(0.071)
AccIssue	0.061		−0.003
	(0.166)		(0.169)
EventIssue	0.212		0.212
	(0.150)		(0.153)
MDAIssue	−0.234*		−0.245*
	(0.142)		(0.144)
NonFitIssue	−0.264		−0.230
	(0.162)		(0.164)
RegisIssue	−0.010		0.016
	(0.174)		(0.175)
RegSKIssue	−0.054		−0.023
	(0.143)		(0.144)
RegSXIssue	0.059		0.091
	(0.155)		(0.157)
RiskIssue	−0.265		−0.295
	(0.210)		(0.213)
RefAmend	−0.015		0.050
	(0.132)		(0.134)
BHR		−0.186	−0.189
		(0.131)	(0.132)
BigFour		−0.640***	−0.619***
		(0.203)	(0.204)
BTM		0.145	0.126
		(0.096)	(0.097)
Delaware		0.004	0.004
		(0.136)	(0.136)
Domestic		−0.111	−0.088
		(0.276)	(0.277)
FirmAge		0.349***	0.356***
		(0.081)	(0.081)
Growth		−0.026	−0.033
		(0.118)	(0.117)
PastConv		−0.150	−0.137
		(0.130)	(0.130)
PastLit		0.501**	0.477**
		(0.234)	(0.235)
PastRes		0.173	0.116
		(0.154)	(0.156)
RD		−1.479	−1.457
		(0.957)	(0.969)
ROA		−0.392	−0.368
		(0.462)	(0.465)
Size		0.152***	0.151***
		(0.045)	(0.045)
StdRet		−0.781	−0.861
		(0.957)	(0.964)
TierTwo		−0.557**	−0.557**
		(0.252)	(0.253)
Industry FEs	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes
Observations	4,524	4,524	4,524
McFadden R^2	0.019	0.041	0.047

The table documents the results from regressing *SEC* against the control variables for comment letter complexity and issues, firm characteristics, and industry and year fixed effects. Please see Appendix B for variable definitions. Year and industry fixed effects are based on the calendar year in which the conversation began, and one-digit SIC codes, respectively.

5.2. Impact of propensity score matching

Due to the differences between former SEC and non-SEC lawyers, and the comment letter and firm determinants of retaining a former SEC lawyers, our analyses control for potential confounding. We include the control variables in our regressions to mitigate linear confounding, and also implement propensity score matching between treatment (*SEC* $= 1$) and control (*SEC* $= 0$) observations

Table 5
Impact of propensity score matching on propensity scores and covariate balance.

| | After omitting observations outside the support of the propensity score (N = 3,429) | | | | | | | |
| | Means before weighting | | | | Means after weighting | | | |
	SEC = 0	SEC = 1	Diff.	|Std. Diff.|	SEC = 0	SEC = 1	Diff.	|Std. Diff.|
Propensity score	0.07	0.26	0.19†	**119.78%**	0.26	0.26	−0.001	**0.29%**
Covariate balance: lawyer and law firm characteristics								
LawyerExp	0.71	1.24	0.53†	42.03	1.24	1.24	0.01	0.36
LawFirmExp	7.87	6.84	−1.03	14.10	6.63	6.84	0.21	3.21
NumDegrees	2.21	2.24	0.03	6.82	2.22	2.24	0.02	4.46
NumLawyers	1.20	1.29	0.09	18.40	1.32	1.29	−0.03	4.59
HSYSchool	0.21	0.11	−0.10†	27.22	0.11	0.11	−0.0004	0.14
OtherTopSch	0.47	0.33	−0.13†	27.09	0.31	0.33	0.02	4.45
Female	0.18	0.22	0.03	8.51	0.22	0.22	−0.002	0.42
LawyerAge	3.33	3.43	0.11†	37.76	3.45	3.43	−0.01	5.57
Covariate balance: comment letter complexity and issues								
LetterLength	6.90	6.95	0.04	9.25	6.93	6.95	0.01	2.71
NumFilings	1.82	1.93	0.11	11.24	1.84	1.93	0.09	8.37
AccIssue	0.76	0.81	0.05	11.63	0.80	0.81	0.01	2.80
EventIssue	0.18	0.23	0.05	11.85	0.18	0.23	0.04	10.54
MDAIssue	0.69	0.65	−0.04	8.40	0.66	0.65	−0.003	0.72
NonFitIssue	0.81	0.80	−0.02	3.99	0.78	0.80	0.02	5.16
RegisIssue	0.17	0.18	0.01	2.22	0.18	0.18	−0.01	1.71
RegSKIssue	0.59	0.57	−0.02	3.48	0.55	0.57	0.02	3.99
RegSXIssue	0.17	0.21	0.03	8.95	0.17	0.21	0.03	7.94
RiskIssue	0.11	0.09	−0.02	6.19	0.09	0.09	−0.001	0.22
RefAmend	0.59	0.63	0.04	7.97	0.62	0.63	0.01	1.87
Covariate balance: firm characteristics								
BHR	0.12	0.06	−0.06	4.59	0.10	0.06	−0.03	4.48
BigFour	0.77	0.75	−0.02	5.45	0.74	0.75	0.01	3.06
BTM	0.60	0.64	0.03	4.67	0.69	0.64	−0.06	8.08
Delaware	0.63	0.60	−0.03	6.94	0.60	0.60	−0.01	1.51
Domestic	0.95	0.95	0.01	2.44	0.95	0.95	0.01	3.46
FirmAge	2.56	2.70	0.14	16.05	2.75	2.70	−0.05	5.85
Growth	0.18	0.16	−0.01	2.37	0.13	0.16	0.03	5.36
PastConv	0.50	0.47	−0.03	5.64	0.47	0.47	0.001	0.11
PastLit	0.05	0.06	0.01	2.42	0.06	0.06	−0.01	2.44
PastRes	0.16	0.17	0.01	2.81	0.17	0.17	0.01	1.93
RD	0.05	0.04	−0.01	11.16	0.04	0.04	0.001	1.21
ROA	0.001	0.01	0.01	4.95	0.002	0.01	0.01	4.30
Size	6.72	6.87	0.14	7.39	6.72	6.87	0.14	7.00
StdRet	0.13	0.12	−0.01	10.39	0.12	0.12	−0.004	4.71
TierTwo	0.12	0.11	−0.005	1.56	0.13	0.11	−0.01	4.32

This table documents the impact of our full matching procedure on the propensity scores and covariate balance over all years. We report the treatment and control means and the difference in means, after omitting observations not in the support of the propensity score. We also report the absolute values of the standardized difference in means, defined as the difference between the treatment and control means scaled by the root mean squared standard deviations in the treatment and control subsamples. Columns 2 to 5 are based on the means and standard deviations before applying the weights constructed by the matching procedure; columns 6 to 9 are based on the weighted means and standard deviations. † indicates absolute standardized differences greater than 25 percent.

as described in our research design at Section 3.2. Table 5 shows the impact of matching treatment (*SEC* = 1) and control (*SEC* = 0) observations on the propensity scores and covariate balance. For brevity, we only tabulate descriptives for the first matching procedure in our analyses: full matching for Model 1, along the controls for lawyer and law firms characteristics, comment letter complexity and issues, firm characteristics, and industry fixed effects.

Table 5 reports the propensity score and covariate balance before matching (columns 2–5 on the left), and after matching (columns 6–9 on the right), in both cases after observations outside the support of the propensity score are discarded. We report the difference in means of each variable, and the absolute standardized difference between the variables for assessing covariate balance. We use a cutoff absolute standardized difference of 25 percent as an indicator for large differences in the covariate means (e.g. Rosenbaum and Rubin, 1985).

After matching, the difference in weighted average propensity score reduces from 19 percentage points to −0.1 percentage points, with the absolute standardized difference decreasing from 120 percent to less than one percent after matching. This indicates that the matching procedure was successful in reducing the difference in the propensity of treatment. From columns 2 to 5, before matching, a number of covariates have absolute standardized differences above the cutoff even after discarding observations outside the support of

Table 6
Representation by a former SEC lawyer and the extent of negotiation.

Dep. Var. (model)	*Negotiation* (OLS)	*ConfTreat* (Logistic)
	(1)	(2)
SEC	0.220***	0.501***
	(0.079)	(0.164)
LawyerExp	0.019	−0.177***
	(0.019)	(0.045)
LawFirmExp	0.002	−0.009
	(0.004)	(0.008)
NumDegrees	0.093*	−0.106
	(0.054)	(0.123)
NumLawyers	−0.046	0.177
	(0.048)	(0.109)
HSYSchool	0.069	0.307*
	(0.075)	(0.161)
OtherTopSch	0.159***	0.175
	(0.054)	(0.120)
Female	0.215***	0.242*
	(0.059)	(0.125)
LawyerAge	−0.160*	−0.808***
	(0.091)	(0.196)
LetterLength	1.610***	1.163***
	(0.076)	(0.169)
NumFilings	−0.201***	−0.133**
	(0.029)	(0.064)
AccIssue	0.217***	−0.420***
	(0.064)	(0.141)
EventIssue	0.127**	−0.450***
	(0.062)	(0.143)
MDAIssue	−0.091	−0.460***
	(0.057)	(0.136)
NonFitIssue	−0.012	0.571***
	(0.063)	(0.162)
RegisIssue	0.084	0.112
	(0.067)	(0.140)
RegSKIssue	0.019	0.124
	(0.058)	(0.135)
RegSXIssue	0.022	0.069
	(0.062)	(0.137)
RiskIssue	−0.097	0.056
	(0.083)	(0.165)
RefAmend	−0.096*	0.311**
	(0.053)	(0.123)
Other Controls & FEs	Yes	Yes
Observations	3,429	3,429
Adj./ McF. R^2	0.322	0.191

This table documents the results from estimating Model 1. *Negotiation* is the first principal component of *ConvTime*, *NumLetter*, and *MultiRound*, and we use full matching of the treatment and control subsamples. Please see Section 3 for details on our research design and matching, and Appendix B for other variable definitions. Year fixed effects are based on the calendar year in which the conversation began, and industry fixed effects are based on one-digit SIC codes. We report adjusted R^2s for the OLS model, and McFadden R^2s for the logistic models.

the propensity score. From columns 6 to 9, after matching, all the individual covariates in the table have absolute standardized differences of less than the cutoff of 25 percent.

5.3. The extent of negotiation

We test Hypothesis 1 at Table 6. Column (1) of Table 6 documents the results from estimating Model 1. The coefficient on *SEC* is 0.220 and statistically significant at 1%, indicating that the involvement of a former SEC lawyer is associated with a significant increase in the extent of negotiation, relative to matching control firms. To the extent that the extent of negotiation represents an undue delay in the correction of disclosure deficiencies, or efforts by the firm to avoid correcting disclosure deficiencies, this finding suggests that the involvement of former SEC lawyers is negatively related to shareholder welfare.

Column (2) examines the relationship between confidential treatment requests and former SEC lawyer involvement. The coefficient estimate on *SEC* is 0.501 and is statistically significant at 1% level, which corresponds to about a 65 percentage points increase in the

Table 7
Representation by a former SEC lawyer and outcomes of the comment letter.

Dep. Var.	Amendment	NumAmend	CLReturns	Adverse
Regression	Logistic (1)	Poisson (2)	OLS (3)	Logistic (4)
SEC	−0.384*	−0.380**	0.039**	0.067
	(0.215)	(0.163)	(0.018)	(0.295)
LawyerExp	−0.064	−0.020	−0.004	0.041
	(0.050)	(0.034)	(0.004)	(0.071)
LawFirmExp	−0.013	−0.0001	0.002**	−0.012
	(0.010)	(0.007)	(0.001)	(0.016)
NumDegrees	0.334***	0.121	0.027**	−0.034
	(0.124)	(0.086)	(0.013)	(0.217)
NumLawyers	0.046	0.051	−0.034***	0.643***
	(0.122)	(0.081)	(0.011)	(0.176)
HSYSchool	0.019	−0.061	0.003	0.419
	(0.212)	(0.154)	(0.018)	(0.290)
OtherTopSch	0.205	0.126	0.030**	−0.102
	(0.142)	(0.100)	(0.013)	(0.245)
Female	0.297**	0.104	−0.032**	0.055
	(0.150)	(0.106)	(0.013)	(0.233)
LawyerAge	−0.535**	−0.216	−0.038*	0.126
	(0.240)	(0.157)	(0.021)	(0.376)
LetterLength	−0.357*	−0.012	−0.079***	0.570*
	(0.207)	(0.141)	(0.019)	(0.321)
NumFilings	0.206***	0.155***	−0.002	0.182
	(0.070)	(0.045)	(0.007)	(0.121)
AccIssue	−0.084	−0.390***	0.062***	0.478
	(0.169)	(0.118)	(0.015)	(0.305)
EventIssue	−0.134	0.055	−0.017	0.172
	(0.154)	(0.098)	(0.014)	(0.243)
MDAIssue	0.347**	0.169	0.005	−0.430
	(0.168)	(0.124)	(0.013)	(0.273)
NonFitIssue	0.206	0.135	0.025*	−0.348
	(0.189)	(0.136)	(0.014)	(0.282)
RegisIssue	0.267*	0.021	0.009	0.552**
	(0.159)	(0.107)	(0.016)	(0.243)
RegSKIssue	0.704***	0.354***	−0.001	−0.248
	(0.163)	(0.120)	(0.013)	(0.242)
RegSXIssue	−0.016	0.038	0.005	−0.219
	(0.171)	(0.108)	(0.015)	(0.266)
RiskIssue	−0.281	0.029	−0.014	0.440
	(0.217)	(0.136)	(0.020)	(0.295)
RefAmend	1.389***	1.021***	−0.044***	−0.969***
	(0.160)	(0.114)	(0.012)	(0.236)
Other Controls & FEs	Yes	Yes	Yes	Yes
Observations	3,309	3,309	3,284	2,783
Adj./ McF. R^2	0.273	0.403	0.109	0.336

This table documents the results from estimating Model 2 using full matching of the treatment and control subsamples. Please see Section 3 for details on our research design and matching, and Appendix B for variable definitions. The control variables comprise the lawyer and law firm characteristics, comment letter complexity and issues, firm characteristics, and the number of comment letters in the conversation (*NumLetters*). Year fixed effects are based on the calendar year in which the conversation began, and industry fixed effects are based on one-digit SIC codes. We report adjusted R^2s for the OLS model, and McFadden R^2s for the poisson and logistic models.

odds of a confidential treatment request, and suggests that former SEC lawyers are more likely to assist firms in securing redaction of sensitive firm information in the comment letter disclosures than lawyers who had never been employed by the SEC. Turning to the control variables, we find that the extent of negotiation is associated with comment letter that raise accounting or event disclosure issues, and interestingly with longer letter that reference fewer filings.

5.4. Outcomes of the comment letter process

We test Hypothesis 2 at Table 7. The coefficients of *SEC* are significantly negative at conventional levels in Columns (1) and (2), suggesting that former SEC lawyer involvement is associated with both fewer amendments, and a decreased likelihood of filing any amendments. Specifically, former SEC lawyers are associated with a 31.9 percentage point decrease in the odds of an amendment and 0.380 fewer amendments on average, relative to non-SEC lawyers. This again suggests that the involvement of former SEC lawyers is negatively related to shareholder welfare, as it suggests that they are associated with a reduction in the correction of disclosure deficiencies. The coefficient on *SEC* in Column (3) is significantly positive at five percent level, indicating that firms that involve former

Table 8

Cross-sectional analyses by SEC lawyer characteristics.

Dep. Var. Regression	*Negotiation* OLS (1)	*Amendment* Logistic (2)	*NumAmend* Poisson (3)	*CLReturns* OLS (4)	*Adverse* Logistic (5)
Panel A: Former SEC lawyers who left the SEC recently					
SEC	0.446***	−0.609**	−0.488**	0.028	−1.119**
	(0.104)	(0.294)	(0.222)	(0.023)	(0.530)
Controls & FEs	Yes	Yes	Yes	Yes	Yes
Observations	3,308	3,188	3,188	3,163	2,668
Adj./ McF. R²	0.332	0.279	0.407	0.117	0.366
Panel B: Former SEC lawyers who left the SEC further in the past					
SEC	0.004	−0.202	−0.338	0.057**	1.007***
	(0.107)	(0.282)	(0.216)	(0.025)	(0.374)
Controls & FEs	Yes	Yes	Yes	Yes	Yes
Observations	3,299	3,175	3,175	3,150	2,659
Adj./ McF. R²	0.279	0.410	0.238	0.112	0.355
Panel C: Former SEC lawyers with prior experience at the Division of Corporation Finance					
SEC	0.275***	−0.350	−0.338*	0.024	−0.387
	(0.090)	(0.241)	(0.188)	(0.020)	(0.385)
Controls & FEs	Yes	Yes	Yes	Yes	Yes
Observations	3,366	3,246	3,246	3,221	2,722
Adj./ McF. R²	0.328	0.272	0.403	0.112	0.351
Panel D: Former SEC lawyers without prior experience at the Division of Corporation Finance					
SEC	0.189	−0.455	−0.580*	0.098**	1.215**
	(0.174)	(0.484)	(0.348)	(0.040)	(0.516)
Controls & FEs	Yes	Yes	Yes	Yes	Yes
Observations	3,204	3,080	3,080	3,055	2,573
Adj./ McF. R²	0.355	0.288	0.417	0.122	0.371
Panel E: Former SEC lawyers with more experience with SEC comment letters					
SEC	0.215**	−0.279	−0.425*	0.038	−0.644
	(0.103)	(0.285)	(0.220)	(0.023)	(0.464)
Controls & FEs	Yes	Yes	Yes	Yes	Yes
Observations	3,309	3,189	3,189	3,164	2,671
Adj./ McF. R²	0.333	0.281	0.411	0.118	0.361
Panel F: Former SEC lawyers with less experience with SEC comment letters					
SEC	0.226*	−0.505	−0.311	0.038	0.791**
	(0.118)	(0.319)	(0.238)	(0.027)	(0.384)
Controls & FEs	Yes	Yes	Yes	Yes	Yes
Observations	3,271	3,147	3,147	3,122	2,633
Adj./ McF. R²	0.334	0.278	0.408	0.113	0.355

This table documents the results from replicating the main regressions at Tables 6 and 7, under the restrictions to the treatment sample detailed at Section 6. Panels A, C, and E use treatment conversations involving former SEC lawyers who left the SEC more recently, previously worked at the Division of Corporation Finance, and have greater prior experience in representing clients in responding to SEC comment letters, respectively; Panels B, D, and F use the opposite cross-sections. The number of years since leaving the SEC was unavailable for several observations (28 of our final sample of 4,524); we retain these observations in both Panels A and B. The partitioning variable *LawyerExp* is omitted as a regression control in Panels E and F. Please see Section 6 for additional details.

SEC lawyers experience positive abnormal returns between the start and disclosure of the comment letter conversation, relative to matching firms.

Finally, in Column (4), we do not find a statistically significant relationship between the involvement of former SEC lawyers and adverse restatements or shareholder litigation. This suggests that while former SEC lawyer involvement is associated with a reduction in amendments, there is no evidence that this is to the extent to avoiding disclosures that would have resulted in restatements or litigation.

6. Cross-sectional analyses

The proposed mechanism for our findings is that former SEC lawyers are better able to influence the comment letter process than

other lawyers due to greater familiarity with former colleagues still at the SEC. We therefore perform cross-sectional analyses to validate this: our results should continue to hold when we restrict our treatment sample to comment letter conversations involving former SEC lawyers that had left the SEC more recently. For comparison, we examine two additional cross-sections more likely to capture the expertise and knowledge of the lawyer rather than their familiarity with SEC staff. Specifically, we examine whether the former SEC lawyer had experience with the Division of Corporation Finance (DCF), the SEC division that administers the comment letter process, and the extent to which the lawyer recently represented clients in response to SEC comment letters.

We collect data on the year each lawyer left the SEC, and information on whether he or she had worked at the DCF, from publicly-available biographies. We proxy for experience representing clients using *LawyerExp*. For each of the cross-sectional analyses, we partition the treatment sample to observations above or below the median time since leaving the Section (14 years), whether there was information that the lawyer had previously worked at the DCF, and whether the observation was above or below the annual median of *LawyerExp*. We then replicate our key regressions after the respective restrictions to the treatment sample, using the same propensity matching weights per observation to allow for comparability of the coefficients with our main results.[26]

Table 8 documents the results from replicating our main analyses with each cross-section of the treatment sample. Panels A, C, and E use treatment conversations involving former SEC lawyers who had left the SEC more recently, have prior experience at the DCF, and have greater experience in representing clients in responding to SEC comment letters, respectively. Panels B, D, and F use treatment conversations involving former SEC lawyers who had left the SEC further in the past, do not have prior experience at the DCF, and have less experience in representing clients in responding to SEC comment letters, respectively.

The results in Panel A show that former SEC lawyers who had left the SEC recently are associated with greater negotiation and fewer amendments, as expected. The corresponding coefficients in Panel B, for former SEC lawyers who had left further in the past, are not statistically significant. Interestingly, we find that abnormal returns between the start and disclosure of the comment letter conversation is significantly positive only for former SEC lawyers who had left the SEC further in the past (Column 4). We also find that former SEC lawyers who had left the SEC more recently are associated with fewer adverse restatements or shareholder litigation. Comparing the corresponding coefficients between Panels A and B statistically, we find that difference in coefficients between Panels A and B are statistically significant only for Columns (1) and (5), that is, the results for the extent of negotiation, and adverse restatements or shareholder litigation.

The cross-sectional analyses based on DCF experience (Panels C and D) and prior comment letter experience (Panels E and F) have mixed or null results, for example none of the coefficients on *SEC* is statistically significant in Column (2). We interpret these results as suggesting that the impact of former SEC lawyers is driven more by familiarity with colleagues at the SEC rather than experience with the comment letter process.

7. Conclusion

Our study examines whether former SEC lawyers increase firms' resistance to the SEC comment letter process, and affect the outcome of the process, relative to lawyers who had never been employed by the SEC. Using hand-collected data on the characteristics of individual lawyers involved in our sample of comment letters, we find that relative to matching firms that retain non-SEC lawyers, firms that retain former SEC lawyers negotiate to a greater extent with the SEC after receiving a comment letter, are less likely to issue amendments as a result of the comment letter, and issue fewer amendments on average as a results of the comment letter. They also experience higher abnormal returns between the start and disclosure of the comment letter conversation. Our results suggest that former SEC lawyers help companies secure more favourable outcomes for firms, but that their involvement may be disadvantageous to shareholder welfare as it is associated with a lower likelihood of correcting disclosure deficiencies. In cross-sectional tests, we also find that our results on negotiation and amendments are driven more by former lawyers who left the SEC more recently, consistent with our main results being driven by former SEC lawyers having greater familiarity with their former colleagues at the SEC.

Our study therefore sheds light on the impact of the SEC revolving door on the SEC comment letter process, and has important implications for firms, investors, and regulators. We find that the SEC revolving door impedes the effectiveness of one of the SEC's most important mechanisms for disclosure oversight. Our study has implications for future research, which could examine whether former SEC employees play a role in influencing the SEC in other settings, and whether changes to existing SEC regulations and codes of ethics could be effective at mitigating the effects of the SEC revolving door.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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[26] For several lawyers, we had to infer the year of leaving the SEC from other information, for example based on information on how long the lawyers had spent working at law firms since leaving the SEC. For conversations involving more than one former SEC lawyer, we use the minimum available time since leaving the SEC, and whether there was information that *any* lawyer had worked at the DCF. The treatment observations for which we were unable to collect the year of leaving the SEC are retained in both cross-sections, and we omit *LawyerExp* from the regression controls for cross-sectional analyses that partition on *LawyerExp*.

Data availability

Data are available from the public sources identified in the text.

Appendix A. The SEC's filing review process and outcomes

The Sarbanes–Oxley Act of 2002 requires the SEC to review firms' filings "for the protection of investors", at least once every three years.[27] At the SEC, review of filings is carried out by the Division of Corporation Finance through eleven offices categorized by industry. The SEC sends comments to the firm when its staff "identifies instances where it believes a company can improve its disclosure or enhance its compliance with the applicable disclosure requirements".

Initiation of a comment letter conversation leads to a dialogue between the firm and SEC staff. During the dialogue, the SEC may make requests of the firm, for example that the firm provide additional information, amend prior SEC filings, or revise future SEC filings. The firm, in turn, may propose alternative solutions. For example, in the following exchange between the SEC and the external counsel of Chase Issuance Trust, the SEC requested that the firm amend its Form 10-K or explain why an amendment is unnecessary. The firm declined amending through its external counsel and instead stated that they would clarify in future Form 10-Ks "if applicable".[28]

SEC Staff comments to Chase Issuance Trust (September 13, 2012, excerpt):
"Please amend your Form 10-K to identify in the body of the 10-K each instance of noncompliance and the scope of the transactions to which each instance of noncompliance relates or tell us why such an amendment is not necessary."
Chase Issuance Trust's response, via external counsel (October 2, 2012, excerpt):
"In the future, beginning with our next Form 10-K, if applicable and to avoid confusion, we will add a sentence in the body of the Form 10-K to clarify whether or not a disclosed material instance of noncompliance is relevant to the Company's transactions."

Since the comment letter conversation often involves negotiations between the company and the SEC, persuasion and social influence may play important roles. A conversation between the SEC and Owens-Illinois, Inc. in 2006, for example, had carried on for multiple exchanges of letters, but was resolved after a conference call between the company and SEC staff. The SEC had requested that the firm either explain its basis of accounting related to a special purpose vehicle, or amend prior 10-K and 10-Q filings. This exchange followed multiple exchanges of letters between SEC staff and the firm in which the SEC questioned the firm's accounting related to the special purpose vehicle. After a conference call with SEC staff, the SEC allowed the firm to resolve the issue by simply revising future filings.[29]

SEC Staff comments to Owens-Illinois, Inc. (August 21, 2006, excerpt):
"Please tell us your basis in GAAP for treating the collection of your accounts receivable by SPV1 as an operating cash inflow rather than an investing cash inflow. Otherwise, please amend your Forms 10-Q for the quarters ended March 31 and June 30, 2006 and, if material, your Form 10-K for the year ended December 31, 2005 to reflect subsequent collection of the receivables previously sold to SPV1 as an investing activity."
Owens-Illinois, Inc.'s response, copied to former SEC counsel (October 10, 2006, excerpt):
"As agreed in the telephone conference with the SEC Staff on Friday, September 15, 2006, the Company will, in future filings, reclassify certain items in its statement of cash flows to reflect the cash inflows related to the subsequent collection of the accounts receivable held by SPV1 at the consolidation date of December 13, 2005 as cash flows from investing activities."

Notably, the company copied an external counsel who was formerly the director of the SEC's Division of Corporation Finance, the division of the SEC that reviews filings.

When the firm has resolved all of the SEC's comments, the SEC sends a final letter confirming completion of the review. A comment letter conversation with only one round of exchanges will therefore generally comprise at least three letters—the SEC's initial comment letter, the firm's response, and the SEC's "no further comments" letter—and a conversation with two rounds of exchanges will generally comprise at least five letters, and so on. In the above example, the SEC replied with the following confirming review completion.[30]

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[27] See §408 of the Sarbanes–Oxley Act. Other information in this section on the SEC's filing review process is obtained from publicly-available sources, specifically the SEC's "Division of Corporation Finance Filing Review Process" webpage at https://www.sec.gov/divisions/corpfin/cffilingreview.htm, and comment letters on the SEC's online EDGAR database.

[28] The letters are available on the SEC's EDGAR database at https://www.sec.gov/Archives/edgar/data/869090/000000000012050064/filename1.pdf and https://www.sec.gov/Archives/edgar/data/1174821/000119312512412640/filename1.htm.

[29] The letters are available on the SEC's EDGAR database at https://www.sec.gov/Archives/edgar/data/812074/000000000006040461/filename1.pdf and https://www.sec.gov/Archives/edgar/data/812074/000110465906065678/filename1.htm.

[30] The letter is available on the SEC's EDGAR database at https://www.sec.gov/Archives/edgar/data/812074/000000000006057629/filename1.pdf.

SEC Staff's response to Owens-Illinois, Inc. (November 21, 2006, truncated):

"We have completed our review of your Form 10-K and related filings and have no further comments at this time."

The comment letter conversation is made public on EDGAR at least 20 business days after comments are resolved. Dechow et al. (2016) documents negative returns around and a negative drift after the date that comment letters related to revenue recognition are made public, and significant abnormal insider trading prior to that day.

Appendix B. Variable definitions

Tables B.1 and B.2 list definitions for variables used in this study.

Table B.1 includes the definitions of the dependent variables, and variables related to lawyer and law firm characteristics. Because our unit of analysis is the comment letter conversation, in the case of conversations in which the firm referenced more than one lawyer or law firm, the lawyer and law firm characteristics are aggregated as explained in the table notes.

Table B.2 includes definitions of variables capturing comment letter complexity and issues, and firm characteristics. Unless otherwise stated, the firm characteristics are based on the most recent fiscal year before the first comment letter in a conversation.

In addition, the year fixed effects used in our study are based on the calendar year in which a conversation began, and the industry fixed effects are based on one-digit SIC codes. Please see Section 3.5 for a more detailed discussion of the control variables.

Table B.1
Outcome variables and lawyer characteristics.

Variable	Definitions
	Outcome variables
Negotiation	The first principal component of *ConvTime*, *NumLetters*, and *MultiRound*.
ConvTime	The natural logarithm of one plus the length of the conversation in days.
NumLetters	The number of comment letters in the conversation.
MultiRound	One if *NumLetters* ⩾ 5 and zero otherwise.
ConfTreat	One if the company requests confidential treatment, and zero otherwise
Amendment	One if *NumAmend* > 0 and zero otherwise.
NumAmend	The number of 10-K or 10-Q amendments filed between the start and the disclosure of the conversation.
CLReturns	Size- and delistings-adjusted buy-and-hold abnormal returns from the month after the start of the comment letter conversation to the month of disclosure
Adverse	One if *Litigation* or *Restatement* are one, and zero otherwise.
Litigation	One if a securities class action lawsuit was filed on or after the start of the conversation, and the class period of the first or reference lawsuit overlaps with the period referenced by the conversation, and zero otherwise.[†]
Restatement	One if an adverse restatement was filed between start of the conversation and the disclosure of the conversation, and the restatement period overlaps with the period referenced by the conversation, and zero otherwise.[†]
	Lawyer and law firm characteristics
SEC	One if the firm involved a lawyer formerly employed by the SEC in a comment letter in the conversation, and zero otherwise.
LawyerExp	The number of conversations in which the lawyer was involved over the year prior to the start of the focal conversation.[‡]
LawFirmExp	The number of conversations in which the law firm was involved over the year prior to the start of the focal conversation.[‡]
NumDegrees	The number of degrees earned by the lawyer, truncated on the left at two.[‡]
NumLawyers	The number of lawyers involved in firms' responses to the SEC.
HSYSchool	One if the firm referenced a lawyer who attended a university with a top-3 law school (Harvard, Stanford, or Yale Law School), and zero otherwise.
OtherTopSch	One if the firm referenced a lawyer who attended a university with a top-14 law school other than the top 3, and zero otherwise.
Female	One if the firm involved a female lawyer in a comment letter, and zero otherwise.
LawyerAge	The natural logarithm of one plus the number of years between the start of a conversation and the year of the lawyer's first degree.[‡]

This table lists the definitions for the dependent variables and variables related to lawyer or law firm characteristics. See Table B.2 for definitions of our comment letter and firm controls.

[‡] We use the maximum values of *LawyerExp*, *LawFirmExp*, *NumDegrees*, and *LawyerAge* for conversations in which the firm referenced more than one lawyer or law firm.

[†] The period referenced by the conversation is defined as the period beginning with the start of the first fiscal period referenced, and ending with the filing date of the last 10-K or 10-Q referenced.

Table B.2
Comment letter and firm control variables.

Variable	Definitions
	Comment letter (CL) complexity
LetterLength	The natural logarithm of one plus the number of words in the initial CL.
NumFilings	The number of filings referenced in the initial CL.
	Specific issues raised by the SEC
AccIssue	One if the initial CL mentions accounting rule issues, and zero otherwise.
EventIssue	One if the initial CL mentions event disclosure issues, and zero otherwise.
MDAIssue	One if the initial CL mentions MD&A disclosure issues, and zero otherwise.
NonFitIssue	One if the initial CL mentions issues not fitting standard categories, and zero otherwise.
RegisIssue	One if the initial CL mentions registration statement issues, and zero otherwise.
RegSKIssue	One if the initial CL mentions Regulation S-K issues, and zero otherwise.
RegSXIssue	One if the initial CL mentions Regulation S-X issues, and zero otherwise.
RiskIssue	One if the initial CL mentions risk factor disclosure issues, and zero otherwise.
RefAmend	One if the initial CL mentions "amend", and zero otherwise.
	Firm characteristics
BHR	The firm's raw buy-and-hold return over the 12 months before the start of the conversation.
BigFour	One if the firm is audited by a Big 4 accounting firm (Compustat: *au* is non-missing and strictly less than 9) and zero otherwise.
BTM	Common equity (*ceq*) divided by the market value of equity (*prcc_f* × *csho*).
Delaware	One if the firm is incorporated in Delaware (*incorp* = "DE"), and zero otherwise.
Domestic	One if the firm is domestic (*loc* = "USA"), and zero otherwise.
FirmAge	Natural logarithm of one plus the public age of the firm, defined as the time between the start of the CL conversation and the firm's first appearance on CRSP in years.
Growth	The change in annual total revenue (Δ*revt*) divided by the previous year's total revenue.
PastConv	One if there was another CL conversation started in the two years prior to the focal conversation, and zero otherwise.
PastLit	One if a securities class action lawsuit was filed within the two years prior to the start of the conversation, and zero otherwise.
PastRes	One if the firm filed a restatement within the two years prior to the start of the conversation, and zero otherwise.
RD	R&D expense (*rd*) scaled by average assets (average *at*).
ROA	Income before extraordinary items (*ib*) scaled by average assets (average *at*).
Size	The natural logarithm of the firm's market capitalization (*prcc_f* × *csho*).
StdRet	The standard deviation of the firm's raw monthly return over the 12 months before the first comment letter in a conversation.
TierTwo	One if the firm is audited by a second-tier accounting firm (*au* is non-missing and equal to 11, 16, 17, or 21), and zero otherwise.

This table lists the definitions for our comment letter and firm control variables. See Table B.1 for definitions of the dependent variables and variables related to lawyer or law firm characteristics.

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