Partisan Regulatory Actions: Evidence from the SEC *

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February 8, 2025

Forthcoming, *Journal of Accounting and Economics*

*We thank Mark Lang (Editor), Elizabeth Blankespoor (Editor), and two anonymous reviewers for their extremely insightful and constructive feedback, which significantly improved the paper. We thank Pat Akey, Hami Amiraslani, Jennifer Arlen, John Barrios, Jennifer Blouin, Jim Brickley, Mary Ellen Carter, Jungho Choi, Christine Cuny, Aiyesha Dey, Yiwei Dou, Anya Kleymenova, Rich Frankel, Henry Friedman, Susanna Gallani, John Gallemore, Ray Gao, Rachel Geoffroy, Brandon Gipper, Eric Gelsomin, Jungkoo Kang, April Klein, Anthony Joffre (discussant), Jonas Heese, Gilles Hilary (discussant), Sudarshan Jayaraman, Jennifer Jia, Sinja Leonelli, Sara Malik, Xiumin Martin, DJ Nanda, Clive Lennox, Krishna Palepu, Hao Qu, Shiva Rajgopal, Tatiana Sandino, Bryce Schonberger, Wei Shi (discussant), Nikki Skinner, Gurpal Sran, Suhas Sridharan (discussant), Andrew Sutherland, Charles Wang, Charles Wasley, Xixi Xiao, Yuanzhe Zhang, Katie Zheng, Jerry Zimmerman, conference participants at FARS Midyear Meeting 2025, FIU Research Day Conference 2024, Fox and Haskeyne Accounting Conference 2024 at Temple University, Hawaii Accounting Research Conference 2025, London Business School Accounting Symposium 2024, and seminar participants at CUHK-Shenzhen, Harvard Business School, INSEAD, NYU, Peking University, SWUFE, UIUC, University of Rochester, Virginia Tech, and Washington University in St. Louis, for helpful feedback. We thank John Acker for editorial assistance. We are indebted to Dan Taylor, Terrence Blackburne, and Sara Toynbee for sharing SEC investigations data, Joseph Kalmenovitz for SEC payroll data, and authors of Babenko et al. (2020) for CEO political contributions data. We are grateful to the Simon Business School for financial support. Disclosure: The authors 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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ABSTRACT

We study the influence of political partisanship in SEC investigations and AAER enforcement actions against financial misconduct. We find that the SEC is more likely to launch an investigation against a firm that is misaligned with the agency's political ideology than other firms. The likelihood of an AAER appears unaffected by political misalignment, but once named in an AAER, a misaligned firm faces harsher penalties than other firms. We find evidence that collectively points to potential misallocation of scarce enforcement resources due to partisanship: conditional on investigation, misaligned firms are less likely to receive an enforcement action, and conditional on misreporting, non-misaligned firms are less likely to be investigated.

JEL codes: G18, K22, K42, M41

Keywords: SEC, Partisanship, Political ideology, Enforcement, Legal penalties, Accounting fraud, Misreporting, Career concerns

"To ensure that the Commission remains non-partisan, no more than three Commissioners may belong to the same political party." — SEC Website

"The agency seeks to direct its limited resources toward cases that are likely to have the greatest impact in furthering the SEC's mission." — SEC Annual Performance Report, FY 2022

1 Introduction

The Securities and Exchange Commission (SEC) plays a central role in maintaining the integrity of the U.S. securities markets by enforcing federal securities laws. The manner in which it carries out these enforcement activities has significant implications for the health of the financial markets. The stated missions of the SEC—protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation—allow no room for partisan politics. However, with the sharp rise of political partisanship in the U.S., few economic and social activities are completely immune from its influence (Iyengar and Westwood, 2015; Iyengar, Lelkes, Levendusky, Malhotra and Westwood, 2019; Boxell, Gentzkow and Shapiro, 2024).

The top leadership of the SEC is borne out of the political process because its five Commissioners are political appointees of the U.S. President, with the advice and approval of the Senate. Against this inherently political backdrop is a built-in mechanism to protect the SEC's independence from undue political influence: no more than three out of the five Commissioners may belong to the same political party. Still, the question remains whether partisan politics sway some of the SEC's most consequential functions—regulatory actions against financial misconduct. This is the focus of our study: whether political partisanship influences the SEC's investigations and enforcement of federal securities law violations. Understanding these questions will shed light on how the SEC deploys its scarce resources and whether federal securities law enforcement is skewed by partisan politics.

If partisan politics play a role in SEC regulatory actions against financial misconduct, we expect different intensities of these actions for firms that are misaligned vs. non-misaligned with the SEC's political ideology. We call this the *partisan regulatory actions hypothesis*. We measure the SEC's political leaning through its leadership team composition, i.e., the party affiliation (Democratic vs. Republican) of the majority of the Commissioners at a given point in time.[1] We proxy for a firm's political leaning based on which party the CEO contributes the most to. We also use the CEO's party (per voter registration records)

[1] We assign unaffiliated Commissioner(s) to the political party of the appointing President. In an additional test, we allow variations in the strength of partisanship of the Commissioners, to account for relevant factors such as the lack of official party affiliation.

as an alternative measure of firm ideology.[2] We define a firm as politically misaligned with the SEC if its political ideology does not match the SEC's political ideology. The partisan regulatory actions hypothesis predicts more intensive regulatory actions against firms that are politically misaligned with the SEC.[3]

At least two channels may drive partisan regulatory actions. First, political science research shows that political ideology has become a key aspect of social identity, marked by strong affective polarization, out-group animus, and distrust along party lines (e.g., Balliet, Tybur, Wu, Antonellis and Van Lange, 2018; Iyengar et al., 2019), which extend beyond politics to social and economic decisions (e.g., Iyengar and Westwood, 2015). This distrust toward opposing partisans can result in more intensive SEC regulatory actions against misaligned firms, fueled by greater suspicion of misconduct and skepticism of exonerating evidence. We refer to this as the *psychological effect channel* of partisan regulatory actions.

Second, beyond psychological mistrust of out-group members, SEC Commissioners may strategically target firms aligned with the opposing party to gain favor with their own party's politicians. Partisan politicians often aim to weaken their rivals, and as political appointees, Commissioners can demonstrate loyalty to party leadership, boosting their post-SEC career prospects. By leveraging enforcement actions to build political connections and credibility within their party, Commissioners can enhance their value within both the public and private sectors. These actions can damage the reputation or finances of opposing parties and their corporate allies, solidifying their own standing with party leaders. We refer to this as the *career concerns channel* of partisan regulatory actions.

While the Commissioners are top political appointees, the lower-level enforcement staff, who handle most of the enforcement process, are not.[4] Unlike political appointees, who often experience significant turnover with changes in the White House, civil servants typically enjoy greater continuity (Spenkuch, Teso and Xu, 2023), which can shield their actions from direct political influence. However, the SEC's hierarchical structure can allow political priorities from top leadership to influence lower-level career bureaucrats. Despite not being political appointees, these staff members may align with the "political tone at the top" when carrying out regulatory actions. Kalmenovitz (2021) highlights that far from a

[2]Following prior literature, we measure political leaning using the CEO's personal contributions rather than corporate political action committee (PAC) contributions (e.g., Hong and Kostovetsky, 2012; Hutton, Jiang and Kumar, 2014; Lee, Lee and Nagarajan, 2014; Bonica, 2016; Jiang, Kumar and Law, 2016; Fos, Jiang and Nie, 2023a); see Section 2.2. Additionally, voter registration data helps address potential biases from strategic motivations in CEO political contributions (e.g., Fulmer, Knill and Yu, 2023).

[3]We use the Democratic–Republican dichotomy as a proxy for differences in political belief systems. The hypothesized partisan behavior of the regulator may stem from either party labels or the belief systems they represent, though this distinction does not affect our inferences of partisan behavior.

[4]Only the Commissioners are political appointees (appointed by the U.S. President), while the Director of the Enforcement Division is appointed by the SEC Chair.

"faceless bureaucracy," the SEC hierarchy creates tournament incentives that drive the staff to pursue enforcement activities. The staff may align their actions with the Commissioners' partisan preferences to enhance their professional standing and career prospects at the SEC (i.e., *career concerns*). See Figure 1, Panel A, for a summary.

To test the partisan regulatory actions hypothesis, we focus on two types of SEC regulatory actions: 1) investigations, and 2) AAER (Accounting and Auditing Enforcement Release) enforcement actions. Ex ante, it is unclear whether political partisanship plays a role in SEC actions against misconduct. Any effect, if it exists, can also differ for investigations and AAER enforcement actions (see Figure 1, Panel B, for a summary). The issuance of an AAER requires a vote by the five SEC Commissioners. Recent work by Engelberg, Henriksson, Manela and Williams (2023) documents increasing partisanship at the SEC, as reflected in SEC Commissioners' speeches and their voting behavior in the Commission's decisions, orders, and rules. The Commissioners' ideological preferences, through either the psychological effect channel or the career concerns channel, may influence their voting decisions on AAER enforcement recommendations made by the staff. But investigations, a key prerequisite to AAERs, are initiated and pursued by the SEC's enforcement staff, who are typically career civil servants rather than political appointees. To further their careers, the staff may essentially select and pursue investigations they believe are more likely to gain approval from the Commissioners at the enforcement action stage by anticipating their partisan leanings, resulting in partisan investigations. Foreshadowing our later findings, we provide evidence that career concerns can introduce partisan motivations at both the Commissioner and the staff levels, indicating that partisanship can influence SEC investigations and AAERs through the career concerns channel.

AAERs and investigations also differ in ways that may affect the degree of partisan bias. First, issuing an AAER is a weightier decision than launching an investigation, due to the significant consequences for the targeted firm and its stakeholders (e.g., Feroz, Park and Pastena, 1991; Karpoff, Lee and Martin, 2008a,b; Choi and Gipper, 2024). The caution required in issuing an AAER could reduce or eliminate any partisan bias. Second, AAERs are public, unlike investigations, which can remain undisclosed (e.g., Blackburne and Quinn, 2023). The public scrutiny of AAERs can deter partisan behavior due to the reputational risk of being perceived as partisan. In other words, the SEC may serve its core mission without partisan influence when issuing AAERs, but the same may not apply to investigations.

Using a sample of 2,156 SEC investigations opened between 2001 and 2019, we find that firms with political ideologies misaligned with the SEC are significantly more likely to be investigated. To address concerns that these results could stem from shifting policy priorities that target specific industries under different political leaderships, all our tests compare misaligned and non-misaligned firms within the same SIC-3 industry and presidential administration, by including SIC-3 industry × presidential administration fixed effects. We find similar results in a smaller sample using CEO party affiliation from voter registration records, as well as in tests using a stacked difference-in-differences design around changes in misalignment due to shifts in SEC ideology or CEO turnover. These findings support the hypothesis of partisan influence in SEC investigations of financial misconduct.

We next examine AAER enforcement actions, using a sample of 796 AAERs issued between 2001 and 2021. Our analysis shows no difference in the likelihood of receiving an AAER for politically misaligned firms compared to other firms. However, misaligned firms that do receive an AAER face harsher penalties. To confirm that firm ideology is visible enough to prompt partisan SEC actions, we document that our main results—higher investigation rates and harsher penalties for misaligned firms—are stronger for firms where employees, from CEOs to staff, are generally aligned with the same party, making the firm's ideology more evident to outsiders.[5]

Collectively, the evidence suggests that partisan politics influence SEC actions, particularly when initiating investigations. However, the SEC enforcement system shows some ability to self-correct or shield itself from partisanship, as partisanship does not affect the likelihood of issuing an AAER (extensive margin). Still, the severity of AAER penalties (intensive margin) is not immune from partisan influence.

We also examine variations in the extent of partisanship of individual Commissioners, exploiting factors such as whether a Commissioner is independent and whether the President's party controlled the Senate during their appointment. We find that our main results are stronger when the majority-party Commissioners are more partisan. We shed more light on the *career concerns channel* of partisan regulatory actions by analyzing SEC Commissioners' ages. The literature suggests that partisanship is generally formed early in life and remains stable over time (e.g., Sears, 1975; Healy and Malhotra, 2013; Iyengar et al., 2019), while career concerns are more pronounced for younger individuals with longer career horizons (e.g., Gibbons and Murphy, 1992). Our findings indicate that partisan regulatory actions—both in terms of investigation likelihood and AAER penalty severity—are stronger when the majority-party Commissioners are younger, indicating the career concerns channel at work, where SEC Commissioners' partisan regulatory actions seem, at least in part, to be

[5]Our results hold with two additional measures of ideology visibility: consistently high media coverage and S&P 500 membership, both of which increase the likelihood that the firm's ideology is widely known. We do not analyze CEO social media commentary due to self-censorship and limited political expression (say, due to CEOs' lack of control over how their comments are perceived and potential misinterpretation). Larcker, Miles, Tayan and Wright-Violich (2018) report that few CEOs have personal Twitter feeds and fewer take political stances.

an effort to appease their own party for career gains.[6] To provide more direct evidence of career concerns, we show that the Commissioners with more partisan enforcement achieve better post-SEC career outcomes.

We explore whether SEC staff, who are not political appointees, respond to the Commissioners' partisan preferences to advance their own careers. Using payroll data for SEC attorneys (Kalmenovitz, 2021), we find that attorneys at SEC offices that bring more partisan enforcement are more likely to be promoted. Such ex post "reward for partisan enforcement" can encourage SEC staff to engage in partisan investigations ex ante.

We turn to firm behavior. Becker's economic theory of crime (Becker, 1968) argues that potential offenders weigh the costs and benefits of misconduct, and Kedia and Rajgopal (2011) suggest that firms internalize SEC enforcement preferences. While political misalignment could deter misconduct by increasing detection risk and penalties, the five-year statute of limitations on federal crimes introduces uncertainty, as a firm's misalignment status may shift with changes in the political climate or its own preferences. Our findings show that misaligned firms are no more or less likely to misreport, indicating that they do not internalize the SEC's partisan preferences.

Overall, our findings suggest that the SEC focuses disproportionately on politically misaligned firms, even though these firms are not more prone to misconduct, indicating potential resource misallocation driven by partisanship. If excessive resources are directed toward investigating misaligned firms rather than addressing actual misconduct, it could result in the SEC spending resources on investigations that do not warrant enforcement actions. Indeed, we find that, conditional on investigation, the SEC is less likely to bring enforcement actions against misaligned firms compared to other firms. Given the SEC's budget constraints (e.g., Kedia and Rajgopal, 2011), excessive attention to misaligned firms may reduce attention to misconduct by non-misaligned firms, as fewer resources are devoted to monitoring them. Supporting this, we find that, conditional on misreporting (captured by restatements), the SEC is more likely to investigate misaligned firms and less likely to investigate non-misaligned firms.[7]

We contribute to the literature on political influence in SEC enforcement actions (e.g., Correia, 2014; Mehta and Zhao, 2020). Prior studies primarily focus on "regulatory capture," where firms invest in political connections through PAC contributions and lobbying to sway SEC actions, or where politicians influence enforcement against local firms to enhance their

[6] While consistent with the *career concerns* channel, these results cannot fully rule out the *psychological effect* channel, as the two are not mutually exclusive.

[7] This analysis is subject to important limitations, such as the inability to observe all misconduct and investigative activities. For example, investigations may deter misconduct even without enforcement actions, and informal oversight without formal investigation may lead to restatements that reveal misreporting.

own reelection prospects (see Stigler, 1971; Peltzman, 1976; Watts and Zimmerman, 1986 for the theory; see Correia, 2014 for its application to SEC enforcement). In contrast, we examine how the alignment of a CEO's political ideology—shaped early in life (Healy and Malhotra, 2013; Iyengar and Westwood, 2015; Iyengar et al., 2019) and not motivated by a desire to establish political connections to yield regulatory favors—with that of the SEC can lead to partisan SEC actions. However, this ideological alignment can strengthen ideological connections when the aligned party is in power, resulting in incidental regulatory favors from the SEC.[8] Our emphasis on ideological alignment presents an alternative political channel for influencing SEC actions. This influence is conditional on the CEO's ideology and does not necessitate strategic investments in political connections or direct pressure from politicians in favor of local firms. Thus, while political alignment can yield political capital, it is a by-product of ideological alignment rather than the primary objective. From the SEC's perspective, both political connections and ideological alignment can lead to favoritism, but they differ in motivation: connections arise from strategic investments or pressure from local politicians while ideological alignment requires neither, and such alignment yields beneficial (detrimental) SEC treatment when the CEO's ideologically affiliated party is in (out of) power.

The above discussions highlight the critical conceptual differences between ideological alignment and political connections, while at the same time recognizing that political affinity can also give rise to political connections, which can in turn influence SEC actions. The mechanism of ideological alignment in the creation of political connections is distinct from the channels examined in prior literature (e.g., PAC contributions) in the context of SEC regulatory actions, and reflects our potential contribution to that literature. In addition, we examine how political influence may manifest in both SEC investigations and AAER enforcement actions, while prior studies focus on AAER enforcements (e.g., Correia, 2014; Mehta and Zhao, 2020).[9]

Our study also contributes to the literature on partisanship and the effect of political misalignment. While a large body of evidence suggests that political (mis)alignment affects the decisions of economic actors, including households (e.g., Gillitzer and Prasad, 2018;

[8]For example, a CEO strongly committed to their ideology may build connections with like-minded individuals, including politicians from the same party, who could influence the SEC when in power. In this sense, our study contributes to the existing literature on political connections by highlighting ideological alignment as a potential mechanism driving such connections.

[9]Heese, Khan and Ramanna (2017) associate political connections with increased SEC oversight through comment letters, in contrast to Correia (2014), who links such connections to regulatory capture. However, Hutton, Shu and Zheng (2022) suggest that the transparency of comment letters since 2004 explains the increased oversight. Unlike these studies, our conceptual focus is on political misalignment rather than connections.

Meeuwis, Parker, Schoar and Simester, 2022; McCartney, Orellana-Li and Zhang, 2024), firms (e.g., Engelberg, Guzman, Lu and Mullins, 2022; Duchin, Farroukh, Harford and Patel, 2024; Rice, 2024), and sophisticated economic agents such as bankers, credit analysts, and mutual fund managers (e.g., Kempf and Tsoutsoura, 2021; Dagostino, Gao and Ma, 2023; Fos, Kempf and Tsoutsoura, 2023b), the inferences in the literature are not unequivocal. For example, Mian, Sufi and Khoshkhou (2023) conclude that household spending is insensitive to partisan bias in household economic expectations. Our findings paint a nuanced picture: partisan bias appears to affect SEC investigations and AAER penalties (intensive margin) but not the likelihood of AAERs (extensive margin).[10]

We contribute to the literature on partisanship of financial regulators. The recent study by Engelberg et al. (2023) highlights partisanship in SEC Commissioners' speeches and voting, showing that they "talk" like their party's politicians and vote along party lines. Dube and Geoffroy (2024) examine the SEC's filing review process, finding more environmental comment letters under Democratic presidencies. However, these studies do not examine whether the SEC targets ideologically misaligned firms. We analyze the impact of partisanship on key SEC regulatory actions—investigations of financial misconduct and AAER enforcement actions. To our knowledge, this contribution is novel and addresses the call in Amiram, Bozanic, Cox, Dupont, Karpoff and Sloan (2018)'s survey to better understand the SEC's objective function. Our study complements and differs from concurrent work by Steel (2024) in several ways. First, we measure firm ideology using CEO personal contributions and party affiliation from voter records, while Steel (2024) relies on combined contributions from firm PACs and employees, which may conflate strategic PAC donations with employee ideology. Second, we provide evidence of partisan investigations, whereas Steel (2024) finds only partisan enforcement, a difference possibly due to our broader sample period and distinct ideology measure. Third, we explore the mechanisms in greater depth, analyzing career concerns, outcomes for partisan Commissioners and attorneys, and the influence of individual Commissioners' partisanship. Finally, we evaluate the SEC's resource (mis)allocation due to partisanship.

Federal regulatory agencies significantly influence various markets, sparking debate over the balance of political and non-political appointments to lead these agencies (e.g., Lewis, 2024). Our findings suggest that reducing political appointments, such as those at the SEC, might help mitigate partisan behavior and improve resource allocation, though this remains a promising area for future research.

[10] Since not all true cases of misconduct are observable, comparing enforcement rates to actual misconduct rates is challenging. If misaligned firms internalize higher enforcement risks and misreport less (contrary to our findings), equal enforcement levels could still reflect disproportionately higher enforcement against misaligned firms, relative to their actual misconduct.

2 Data and key variable measurements

2.1. Data sources and sample construction

We obtain data on S&P 1500 firm CEOs' individual political campaign contributions between 2000 and 2014 from Babenko, Fedaseyeu and Zhang (2020). The Federal Election Campaign Act (FECA) allows individuals to contribute directly to political candidates running in federal elections (House, Senate, or President) but imposes limits on individual contributions to candidates. The limit on individual contribution per election per candidate was $3,300 in 2023-24.[11] Political candidates, in turn, are required to itemize and disclose to the Federal Election Commission (FEC) the identity of the individual contributor (name, employer, occupation, and address) for all individual contributions above $200.[12] The FEC makes this data publicly available on its website. Babenko et al. (2020) merge S&P 1500 firm CEOs with the FEC individual contributions data, using individuals' names and employers. This dataset forms our primary basis for measuring firm political ideology. We also obtain data on voter registration records from Aristotle, a commercial voter files company that compiles voter registration files from all U.S. states and counties, and according to the vendor, covers the universe of voter files presently available in the U.S.

We obtain raw data on all closed SEC investigations between 2000 and 2017 from Blackburne, Kepler, Quinn and Taylor (2021) and Blackburne and Quinn (2023), and those from 2018 to September 2021 from Donelson, Kubic and Toynbee (2024). We obtain data on SEC Accounting and Auditing Enforcement Releases (AAERs) issued between May 17, 1982, and December 31, 2021, from Dechow, Ge, Larson and Sloan (2011). We hand-collect data on monetary penalties in AAERs from the SEC website. We create three separate categories for the penalty amounts—civil penalty, disgorgement, and prejudgment interest. The total penalty amount contains penalties that fall into the three categories, plus any other penalty amount outside these categories.

We obtain data on restatements from Audit Analytics, firm fundamentals from Compustat, stock returns from CRSP, media coverage from Ravenpack, and analyst followings from I/B/E/S. We obtain data on SEC Commissioners' historical start and end dates, political party affiliations,[13] and the locations of SEC regional offices from the SEC website. We hand-collect SEC Commissioners' dates of birth and their career trajectories from various online sources, including LinkedIn. We obtain corporate PAC contributions from the FEC

[11] https://www.fec.gov/help-candidates-and-committees/candidate-taking-receipts/contribution-limits/

[12] Babenko et al. (2020) report that unitemized individual contributions (less than $200) constituted only 21% of the total individual contributions in 2010.

[13] https://www.sec.gov/about/sechistoricalsummary

website and the Compustat-FEC link table from Christensen, Jin, Sridharan and Wellman (2022). Finally, we obtain payroll data for SEC attorneys between 2002 and 2017 from Kalmenovitz (2021).

We construct a firm-year panel of S&P 1500 firms in the Babenko et al. (2020) sample.[14] We calculate CEOs' individual political contributions to the candidates of the Republican Party and to the Democratic Party.[15] We then merge firm fundamentals from Compustat and stock returns data from CRSP. We also merge the incidence of future SEC investigations and AAERs, along with the monetary penalties imposed in AAERs. Our primary sample comprises 29,490 firm-years, for 2,140 distinct firms, between 2000 and 2018. The start and end year of our sample period is based on the availability of SEC investigations data and CEO individual contributions data. While our CEO contributions data ends in 2014, we roll over firm ideology beyond 2014, using the last available firm ideology to increase coverage. For firms in our primary sample, the SEC opened 2,156 investigations (1,039 unique firms, 1,740 firm-years) between 2001 and 2019, and released 796 AAERs (198 unique firms, 309 firm-years) between 2001 and 2021. We winsorize the continuous variables at the top and bottom 1%.

2.2. Measuring firm ideology

Motivated by the notion that the CEO is the face of the firm, and extensive prior literature that uses personal political contributions to measure ideology in the corporate setting (e.g., Hong and Kostovetsky, 2012; Hutton et al., 2014; Lee et al., 2014; Bonica, 2016; Jiang et al., 2016; Fos et al., 2023a), our main empirical strategy to identify firm political ideology is based on the CEO's individual political contributions.[16] We employ two versions of firm ideology: *time-varying* and *time-invariant*. First, at the beginning of the sample for each firm, we analyze the CEO's political contributions and classify the firm as a Republican (Democratic) firm if the CEO contributes more to the Republican (Democratic)

[14] Our choice of S&P 1500 firms is based on the availability of CEO individual political contributions data from Babenko et al. (2020). While our focus on S&P 1500 firms means we analyze firms that account for a large proportion of the market cap among public companies in the U.S. (approximately 90%, according to S&P), the results may not be generalizable to smaller firms.

[15] We do not consider contributions to other parties because they are not economically meaningful—CEOs in our sample contribute to other parties in less than 1% of the cases.

[16] To address potential strategic motivations in CEO contributions, we provide evidence in Appendix B supporting an ideological interpretation. First, about 71% of CEOs contribute exclusively to one party, compared to 9% of firm PACs. Second, the party in power does not correlate with the party a CEO contributes most to, unlike firm PACs. If CEO contributions were strategic, we would expect less skewed contributions and shifts with the party in power, which is not seen for CEOs but is for firm PACs. Thus, while CEO contributions may have some strategic elements, they appear more indicative of ideology. This is consistent with the patterns and conclusions in Bonica (2016), who examines 3,700 CEOs and board members of Fortune 500 firms from 2000 to 2012.

Party than to the Democratic (Republican) Party. Once assigned, the political ideology of the firm stays the same in subsequent years unless the pattern of CEO contribution changes, i.e., unless the CEO contributes more to the other party, in which case the firm's ideology changes to the other party.[17] We call this measure of firm ideology, *time-varying*.[18]

For the *time-invariant* firm ideology measure, we first aggregate the firm's CEO contributions to each party for the entire sample period. Using this cumulative contribution, we classify a firm as a Republican (Democratic) firm for the entire sample period if the cumulative contribution to the Republican (Democratic) Party is more than the cumulative contribution to the Democratic (Republican) Party. For a given firm, this measure of firm ideology does not change anytime during the sample period. For both measures, we also retain firms with no ideology, i.e., no CEO political contributions.[19]

In Section 4.2, we describe our alternative measure of firm ideology based on the CEO's party per voter registration records.

2.3. Measuring SEC ideology

The SEC has five Commissioners, each appointed for a term of five years by the U.S. President, with the advice and consent of the Senate. Terms are staggered such that each year, one Commissioner's term ends. At the end of their term, Commissioners may serve up to 18 months until a replacement is found. At any point in time, no more than three out of the five Commissioners may be affiliated with the same party.[20]

Similar to that for firm ideology, our empirical strategy to identify SEC ideology relies on the party affiliation of the SEC leadership, i.e., the Commissioners. For every day in our sample period, we assign the SEC the party that the majority of SEC Commissioners are affiliated with.[21] We assign Commissioners with no party affiliation (i.e., independents) to the party of the President who appointed them. The party of the SEC for a given year is the party that the majority of the Commissioners are affiliated with for the most number

[17]We replace missing values of the time-varying firm ideology, before the first observed instance of CEO contribution in our sample, with the ideology assigned based on that first contribution.

[18]Our primary motivation in using the *time-varying* measure of firm ideology is to account for CEO turnover that may bring in a CEO with a different ideology. This measure also allows a firm's ideology to change due to a change in the current CEO's ideology.

[19]The two measures of firm ideology are correlated. Among Republican (Democratic) firm-years as per our time-varying measure, around 92% (78%) of the firm-years are also Republican (Democratic) as per our time-invariant measure. Among firm-years with no ideology as per our time-varying measure, more than 95% of the firm-years have no ideology as per our time-invariant measure.

[20]https://www.sec.gov/about/commissioners

[21]In doing this, we do not use days with fewer than five Commissioners. For those days, we use the next available five-Commissioner party composition, though using fewer than five Commissioners does not affect our inferences.

of days in the year. For example, if for 300 out of 365 days in a year, three out of the five Commissioners are Republican (Democratic), then the SEC is Republican (Democratic) that year.

2.4. *Measuring ideological misalignment*

We define ideological misalignment for a given firm-year as an indicator that equals one if the firm's ideology is different from the SEC's ideology. Firms with no ideology are not misaligned with the SEC. For example, if the SEC is Republican in year 2004, then all the Democratic firms in 2004 are ideologically misaligned with the SEC, while the Republican firms and the firms with no political ideology are not misaligned with the SEC. When using the *time-varying* measure of firm ideology, misalignment for a firm can change if the firm's ideology changes (due to a change in the current CEO's ideology or a CEO turnover that brings in a new CEO with a different ideology) or if the SEC's ideology changes. However, when using the *time-invariant* measure of firm ideology, misalignment for a firm can only change with a change in SEC ideology. Thus, misalignment with the SEC can change due to (i) a change in the SEC's ideology, (ii) a change in the current CEO's ideology, or (iii) a CEO turnover that brings in a new CEO with a different ideology.

3 Research design and descriptive statistics

3.1. *Research design*

To examine the SEC's partisan regulatory actions, our basic regression specification is the following:

$$SEC\ Action_{it+1} = \beta\ Misalignment_{it} + \gamma' X_{it} + \alpha_{jp} + \alpha_t + \varepsilon \tag{1}$$

where i, j, p, and t denote the firm, the SIC-3 digit industry, the presidential administration, and the year, respectively. Depending on the test, *SEC Action* is (i) an indicator that equals one if the SEC opens an investigation against the firm i (*SEC Investigation*), (ii) an indicator that equals one if the SEC releases an AAER against the firm i (*AAER*), or (iii) the natural logarithm of one plus the monetary penalty imposed on the firm i in an AAER (*CivPen*, *Disg*, *PreInt*, or *TotalPen*, respectively). *Misalignment* is an indicator that equals one if the firm's ideology is different from the SEC's ideology (see Sections 2.2, 2.3, and 2.4 for construction details). To allow *SEC Action* to be a reaction to the firm's misalignment status, we measure *SEC Action* (*Misalignment*) in year *t+1* (t). To avoid measurement error in *Misalignment*, we drop observations in year t if *Misalignment* at t is different from *Misalignment* at $t+1$.[22] Our *partisan regulatory actions* hypothesis predicts that the SEC's regulatory actions are more intensive against firms that are politically misaligned with the SEC, i.e., $\beta > 0$.

X is a vector of control variables guided by prior literature (e.g., Kedia and Rajgopal, 2011; Correia, 2014; Blackburne, Bozanic, Johnson and Roulstone, 2020; Blackburne et al., 2021; Holzman, Marshall and Schmidt, 2024). To control for firm fundamentals that might affect the likelihood of misreporting and, in turn, SEC actions against the firm, X includes various firm characteristics—size (*Size*), book-to-market (*BM*), leverage (*Leverage*), profitability (*ROA*), annual stock returns (*Stock Return*), and annual stock return volatility (*Idiosyncratic Volatility*). We also control for discretionary accruals (*DACC*) (Kothari, Leone and Wasley, 2005). To additionally control for firm visibility and monitoring by the SEC, we control for analyst following (*Analyst Following*), distance to the nearest SEC regional office (*Distance to SEC*) (Kedia and Rajgopal, 2011), and whether the firm is in the S&P 500 index (*SP500*). Finally, to control for the effect of a firm's political connections on SEC actions (Correia, 2014), we control for firm political contributions through corporate PACs in the last five years (*PAC Contribution*). All variables are defined in Appendix A. We include SIC-3 industry × presidential administration fixed effects to absorb presidential administration-specific policy priorities for different industries that might affect SEC actions, and we include year fixed effects to absorb time-varying factors, such as macroeconomic conditions and the SEC's total budget, that might affect SEC actions. We verify in Appendix C that there is meaningful variation in the misalignment variable within a given industry during the same administration. We cluster standard errors by SIC-3 industry to account for any within-industry correlation in residuals.

3.2. Descriptive statistics

Figure 2 shows the distribution of firm ideology (using the time-varying measure) over time and across Fama-French 12 sectors. Across all years and most sectors, more firms are Republican than Democratic. The gap between the proportion of Republican and Democratic firms is more pronounced in some sectors than in others. For example, the energy and the manufacturing sectors have much more Republican firms than Democratic firms, whereas this gap is much smaller in the business equipment and software sector and reverses in the telecom sector.

[22]This ensures that the misalignment status measured at t has not changed at $t+1$ when we measure the SEC action, while still allowing the SEC action to be a response to the misalignment. This adjustment is applied in regressions but not when plotting univariate figures.

Figure 3 shows the political party composition of SEC Commissioners over time. With one Commissioner's term ending each year, the staggered appointment of SEC Commissioners follows the rule that no more than three out of the five Commissioners may belong to the same political party. This means that sometimes, the President may need to appoint a Commissioner from the opposite party or an independent Commissioner with no official party affiliation. As is evident in the figure, the political affiliation of the majority of SEC Commissioners at any point in our sample period largely aligns with the party of the President in power (we assume that an independent Commissioner is more likely to align with the party of the appointing President). This suggests that the President carefully, and strategically, manages the party composition of the Commissioners so as to maintain their own party majority on the Commission.[23,24] Figure 4 shows the ideological misalignment over time and across sectors. Figure 5 shows the incidence of SEC investigations opened over the years and across sectors.

Table 1 reports the descriptive statistics for our firm-year sample. The SEC opens an investigation against firms in our sample in 5.9% of the firm-years and releases an AAER in 1.0% of the firm-years, without requiring non-missing controls. Around 30% of the firm-years are ideologically misaligned (using the time-varying measure of firm ideology) with the SEC. The average CEO who makes personal political contributions to the Republican (Democratic) Party donates $3,588 ($3,383) in a two-year election cycle. The average firm has total assets of $2.1 billion, ROA of 3.7%, and annual stock returns of 14.5%. The average firm is followed by around 5 analysts, and 26.7% of the firm-years are in the S&P 500. The average five-year PAC contribution for firms who make PAC contributions is $785,000. Panel B reports the descriptive statistics for monetary penalty amounts in AAERs. The median monetary penalty in AAER cases is $1.587 million. Panel C reports the correlation matrix.

4 Results

To test our *partisan regulatory actions* hypothesis, we focus on two important SEC actions—SEC investigations and AAER enforcements.

[23]Anecdotal evidence also suggests that the majority party pays close attention to the party composition of the SEC to carefully manage the majority. For example, see the Wall Street Journal article published on December 20, 2021, "*Republican SEC Commissioner Roisman to Leave Agency*" (Michaels, 2021).

[24]To alleviate concerns that our main results (see Section 4) might be driven by firms misaligned with the party of the President (and not the SEC), which might make firms reliant on federal support (e.g., subsidies, government contracts, etc.) perform poorly, engage in more misreporting to hide their deteriorating performance, and thus face a greater SEC investigation rate, all our tests control for a host of time-varying firm characteristics, especially firm performance (return on assets, stock returns) and discretionary accruals. We also show later that misaligned and non-misaligned firms are no more or less likely to misreport.

4.1. Ideological misalignment and SEC investigations

To examine whether the SEC is more likely to investigate politically misaligned firms as compared to other firms, we start by plotting the average incidence of SEC investigations for misaligned and non-misaligned firms in Figure 6. Panels (a) and (b) use the time-varying and time-invariant measures of firm ideology, respectively. Across both measures, we find that the incidence of SEC investigations is higher for misaligned firms compared to other firms, on average. When we plot these averages for each year in Figure 7, in most years, we find higher SEC investigation rates for misaligned firms than for other firms. Next, we estimate Eq. (1) for SEC investigations in Table 2. Column (1) uses misalignment calculated with our time-varying measure of firm ideology, and includes year fixed effects and SIC-3 industry × presidential administration fixed effects, essentially comparing misaligned and non-misaligned firms within the same industry, during the same presidential administration. The coefficient on *Misalignment* suggests that the SEC is more likely to open investigations against firms politically misaligned with the SEC.[25] We find similar results in Column (2) when we additionally include all the control variables. We also find similar results in Column (3) when we replace SIC-3 industry × presidential administration fixed effects with SIC-3 industry × SEC Chair fixed effects, comparing misaligned and non-misaligned firms within the same SIC-3 industry, during the same SEC Chair's tenure. The estimates in Column (2) suggest that the SEC's investigation rate is 1.0 percentage point higher for politically misaligned firms than for other firms. When compared to the mean SEC investigation rate of 6.1% in our sample, this estimate equates to a 16.4% higher investigation rate for politically misaligned firms as compared to other firms.

We find similar results in Columns (4)-(6) using our time-invariant measure of firm ideology to calculate misalignment (i.e., firm ideology stays constant and misalignment only changes due to changes in SEC ideology). The estimates in Column (5) suggest that the SEC's investigation rate is 1.1 percentage points (18.0% of the mean investigation rate) higher for politically misaligned firms compared to other firms.[26] Overall, these results provide the first evidence consistent with our *partisan regulatory actions* hypothesis—the SEC is more likely to investigate firms that are politically misaligned with the SEC.

[25] While not our focus, another interesting avenue for research is how policy shifts under different political administrations affect SEC actions. Our fixed effects structure abstracts away from such variation, instead comparing ideologically misaligned and non-misaligned firms *within* the same SIC-3 industry during the same presidential administration. Appendix C confirms meaningful variation in the misalignment variable under these fixed effects.

[26] Our main results continue to hold after including SEC office closest to company headquarters × presidential administration fixed effects in addition to our existing SIC-3 industry × presidential administration and year fixed effects.

4.2. CEO ideology from voter registration records

As an alternative measure of firm ideology, instead of using CEOs' individual political contributions, we identify the political party of the CEO per voter registration records. Voter registration records are not maintained centrally, and sources of voter files are scattered across individual states and counties. We thus obtain voter registration data from a commercial data vendor that compiles voter data from all U.S. states and counties, covering the universe of voter files available in the U.S. at the time. We match CEOs in our sample to the voter registration data based on first name, middle initial, last name, age, and location of their company headquarters. Because we do not have access to CEOs' home addresses, we search for CEOs in their company headquarters location, assuming that CEOs tend to live near their company headquarters. Specifically, we progressively search for each CEO in the 5-digit, 4-digit, and then 3-digit zip code of their company's headquarters, until we find a match. Even though we do not have historical snapshots of voter registration records, we can still identify individuals who served as CEOs in the past if they have stayed within the same location as their company headquarters until the present time, or if they are presently the CEO of another S&P 1500 company. However, the quality of the match is likely to be worse the farther back we go into our sample period. Accordingly, we do not match with the voter data the CEOs who left their companies before 2012.

Subject to the above limitations, we match 347 CEOs from 317 firms with 1,741 firm-years between 2012 and 2018.[27] While our voter data-based sample is much smaller than our main sample, the proportion of Republican vs. Democratic CEO firm-years in both samples is quite similar. Specifically, 75% of the CEOs are Republican and 25% are Democratic in our voter sample, while 67% are Republican and 33% are Democratic in our contributions-based primary sample during the same period. This distribution is also consistent with a recent working paper (Fos et al., 2023b) that reports 69% Republican and 31% Democratic top executives in their sample of S&P 1500 firms between 2008 and 2020. This improves our confidence in the representativeness of our voter sample for the distribution of political ideology of CEOs more broadly.

Using firm ideology based on the CEO's party per voter records, we re-estimate Eq. (1) for SEC investigations in Table 3. We additionally control for the natural logarithm of CEO personal contributions, to control for potentially strategic CEO contributions to politicians (e.g., Fulmer et al., 2023). Columns (1) through (4) show variations in our specification. Column (1) shows univariate results, Column (2) introduces the controls, Column (3) additionally includes year and SIC-3 industry fixed effects, and Column (4) introduces

[27] Because we do not have access to historical snapshots of voter records, we drop CEOs not found in current voter records, which could mean that they are not registered, have moved, or are registered elsewhere.

SIC-3 industry × presidential administration fixed effects. Across all specifications, the coefficient on *Misalignment* is consistent with our main results in the broader sample: the SEC is more likely to open investigations against firms politically misaligned with the SEC.

4.3. Changes in misalignment and SEC investigations

While our main specification estimates panel regressions with fixed effects, we also examine a research design based on *changes* in misalignment. We create a sample of two types of "events" that can result in a change in misalignment. First, we create a sample of CEO turnovers without any change in SEC ideology and identify change in misalignment by comparing the ideologies of the outgoing and the incoming CEOs. Second, we create a sample of changes in SEC ideology using firms without any CEO turnover around the change in SEC ideology. We keep a tight event window of [−2, +2] years around each event and then stack the two event samples. Each firm in the sample experiences either a change (a decrease or an increase) or no change in misalignment. The variable Δ *Misalignment* takes three values based on the change in misalignment after each event: −1, 0, and 1, indicating (respectively) that the ideological misalignment between the firm and the SEC decreases (i.e., switches from misaligned to non-misaligned), does not change, or increases (i.e., switches from non-misaligned to misaligned). *Post* is an indicator that equals one for years after the event, and zero otherwise. *SEC Turnover* and *CEO Turnover* indicate the two event types (change in SEC ideology or CEO turnover). Appendix D reports the descriptive statistics for this sample.

We also estimate a stacked diff-in-diff design that compares the investigation rate after the change in misalignment with the investigation rate before the change (first difference) for firms with a change in misalignment, against the corresponding difference for firms without a change in misalignment (second difference). We include SIC-3 industry × presidential administration fixed effects, year fixed effects, and all control variables. The fixed effects and control variables are cohort-specific, with cohorts grouping events occurring in the same year (e.g., CEO turnovers in 2004) and separating the two types of events (CEO turnover or SEC ideology change) into distinct cohorts. This allows us to estimate the effects separately for each event type.[28]

Table 4 reports the results. Even in this change-based specification, our inferences are the same—firms that experience an increase in ideological misalignment with the SEC experience an increase in SEC investigation rate (Column (1)). This result mainly holds for changes in misalignment due to changes in the SEC's ideology (Column (2)). The corre-

[28] This is essentially a stacked DiD design with variables *Treat*, *Post*, and *Treat* × *Post*, and cohort-specific fixed effects, but instead of the conventional binary *Treat* variable, Δ *Misalignment* takes three values.

sponding coefficient for changes in misalignment due to changes in CEO ideology shows a large positive coefficient but does not load at conventional levels. This is likely a power issue, as very few firms experience a change in CEO ideology (and thus a change in misalignment) due to CEO turnover (Appendix D).

4.4. Ideological misalignment and AAER enforcement actions

We next turn our attention to the second key SEC action we examine—AAER enforcement actions. Investigations are a necessary precursor to any enforcement and are initiated by SEC staff. However, AAERs differ on at least two key dimensions. First, they are much more consequential for all parties involved, including the firm, investors, and employees (e.g., Feroz et al., 1991; Karpoff et al., 2008a,b; Choi and Gipper, 2024). Second, they are public, subjecting the SEC to more public scrutiny for any (perceived) partisan behavior. These two key differences suggest that our SEC investigations result may not necessarily extend to AAERs.[29]

We examine both the extensive margin (likelihood of receiving an AAER) and the intensive margin (monetary penalty imposed in an AAER) of the enforcement outcomes. In Table 5, Panel A, we estimate Eq. (1) for the likelihood that a firm receives an AAER from the SEC. Using both time-varying and time-invariant measures of firm ideology to calculate misalignment with the SEC, we fail to detect any differences in the probability of receiving an AAER for politically misaligned firms compared to other firms. We also fail to detect any differences in the probability of overall enforcement actions, including but not limited to AAERs (untabulated).[30]

While the probability of receiving an AAER is no different between misaligned and other firms, next, in Panel B, we examine the monetary enforcement penalties for firms that do receive an AAER. We separately examine four monetary penalty variables: civil penalty (*CivPen)*, disgorgement (*Disg*), prejudgment interest (*PreInt*), and the total of all penalty amounts, including those not included in the first three variables (*TotalPen*).[31]

Using the time-varying measure of firm ideology, disgorgement penalties appear to be

[29] The SEC Enforcement Division staff may launch an investigation of financial misconduct after obtaining promising leads and evidence through informal inquiries. When the Enforcement staff determines from the investigation that the case has merit, they can recommend the case to the Commissioners for an enforcement action, which requires a vote from the five Commissioners. Enforcement actions may take the form of Civil Action or Administrative Proceedings, which are publicly released by the SEC.

[30] This is based on the investigations data that codes whether an investigation results in any enforcement action. We have this data for investigations closed by the year 2017.

[31] A civil penalty is the fine for the misconduct, disgorgement is the remedy for gains obtained through the misconduct, and prejudgment interest is the interest on any disgorgement amounts (17 C.F.R. §201.600(a)), typically calculated from the time of the misconduct to the month prior to when disgorgement payment is due (17 C.F.R. §201.600(b)).

marginally higher for misaligned firms, though not statistically significant at conventional levels. However, using the time-invariant measure of firm ideology, we find that misaligned firms face significantly higher penalties across all four penalty variables compared to other firms. Estimates using the time-invariant firm ideology measure suggest that civil penalties, disgorgement, prejudgment interest, and total penalties for misaligned firms are, on average, 3.9%, 4.0%, 2.4%, and 4.4% higher, respectively.[32]

Overall, these results suggest that while SEC investigations appear to have a partisan bias, evidence on partisan bias in enforcement actions is more nuanced and depends on which margin one looks at—the extensive margin or the intensive margin. It appears as if the care and scrutiny that go into bringing an AAER against a firm eliminate any partisan bias that exists in investigations against ideologically misaligned firms (i.e., the extensive margin). However, if firms do receive an AAER, the partisan bias seems to survive and results in harsher penalties against firms ideologically misaligned with the SEC (i.e., the intensive margin).

4.5. Visibility of firm ideology

We also explore whether the visibility of the firm's ideology plays a role in the SEC's partisan actions. We start by identifying firms whose CEO and employee base generally support the same party. Specifically, we identify firms where the majority of the total political contributions by the CEOs of the firm during the sample period and the majority of the total political contributions by firm employees during the sample period (excluding the CEO) are made to the same political party. The idea is that assortative matching between a firm and its employees suggests that when both CEOs and employees align with the same party, the firm likely has a strong value system driving ideologically consistent hiring across all levels.[33] Such a strong and consistent political ideology increases the chances that the firm's value system, including its political leanings, is broadly known to outsiders, including prospective employees and regulators.

Table 6, Panels A.1 and A.2 show the results. We classify firms where the CEO and the employee base do and do not support the same party (*CEO-Employee Alignment* and *CEO-Employee Non-Alignment*, respectively) and modify Eq. (1) by interacting *Misalignment* with the *CEO-Employee Alignment* and *CEO-Employee Non-Alignment* indicators. We find that our main results—higher investigation rates and harsher penalties against misaligned

[32] We are unable to examine penalties in our smaller voter registration sample because it has fewer than nine penalty observations.

[33] A limitation of this measure is that we only observe the total employee contributions (excluding the CEO), but not the number of contributing employees. In that sense, we proxy for the ideology of the employee base (excluding the CEO) using the subset of the employees that make political contributions.

firms—generally hold for firms with CEO-employee party alignment but not for other firms, though the differences are not necessarily statistically significant at conventional levels.

In Panels B.1 and B.2, we employ our second measure of the visibility of a firm's ideology based on media coverage. This measure is based on two notions. First, consistently high media coverage increases the likelihood that outsiders, including SEC staff, are aware of the firm's political ideology. Second, research shows that news outlets can be partisan (e.g., Rees and Twedt, 2022), with individuals tending to consume news aligned with their political views (e.g., Democrats favoring MSNBC over Fox News, and vice versa) (Peterson, Goel and Iyengar, 2021; Tyler, Grimmer and Iyengar, 2022). To the extent that partisan media portrays misaligned firms more negatively and aligned firms more positively, staff's selective exposure to such media may shape which information sources trigger investigations. This suggests that, beyond actively targeting misaligned firms due to career concerns, another reason for partisan investigations may be staff's selective exposure to partisan media. Although we lack data on staff members' party affiliations and therefore cannot observe which media outlets they are more likely to consume, we assume that high media coverage in general increases the likelihood of staff encountering partisan media coverage of firms. We define *High Media Coverage* as an indicator variable that equals one if the number of news articles mentioning the firm is in the top tercile each year over the last five years, and *Low Media Coverage* is an indicator for the remaining firms.[34] Again, we find that our main results generally hold for firms with consistently high media coverage but not for other firms, though in a few specifications, the differences are not statistically significant at conventional levels. Finally, our inference remains the same in Panels C.1 and C.2, when we use the firm's membership in the S&P 500 as a (somewhat crude) proxy for the visibility of firm ideology, assuming that the SEC is more likely to know the political ideology of an S&P 500 firm than that of other firms.

Overall, it appears as if the visibility of the firm's ideology can play a role in the SEC's partisan actions.

4.6. Extent of partisanship of SEC Commissioners

In this section, we exploit variations in the extent of partisanship of individual Commissioners; we expect our main results on partisan SEC actions to be stronger when the Commissioners are more partisan. We assign each Commissioner to one of three levels of partisanship. We assign independent Commissioners a partisanship score of zero, affiliated Commissioners appointed by a President from a different party or when the President's party

[34] Our inferences are unchanged if we define high media coverage using an above-median threshold instead of a top-tercile threshold.

did not control the Senate (which gives advice and consent for Commissioner appointments) a score of 1, and affiliated Commissioners appointed by a President from the same party when that party controlled the Senate a score of 2. We calculate a yearly partisanship score by averaging the partisanship scores of the majority-party Commissioners. We classify years with above-median and below-median partisanship scores as *High Partisanship SEC* and *Low Partisanship SEC*, respectively. We modify Eq. (1) and interact *Misalignment* with *High Partisanship SEC* and *Low Partisanship SEC* indicators (year fixed effects absorb *High Partisanship SEC*).

Table 7 reports the results. In Panel A, we examine SEC investigations and find that, consistent with our intuition, the higher investigation rate for misaligned firms is driven by highly partisan Commissioners. In Panel B, we find a similar pattern for enforcement penalties. Panel B's results continue to hold in Panel C, where we replace SIC-3 industry × presidential administration fixed effects with SIC-3 industry fixed effects. These results help reinforce our main inference—SEC actions against misaligned firms appear partisan and seem to be driven by highly partisan Commissioners. One policy implication of this analysis is that reducing political appointments at the SEC and/or choosing more independent Commissioners might be part of the solution to address the SEC's partisan behavior. Examining other possible (unintended) effects of this proposed solution, however, is beyond the scope of this study.

4.7. Career concerns of SEC Commissioners

We next exploit the idea that partisan ideology is typically formed early in life and remains relatively stable over time (e.g., Sears, 1975; Iyengar et al., 2019), whereas career concerns are generally more pronounced earlier in life than later (e.g., Gibbons and Murphy, 1992; Chevalier and Ellison, 1999). This suggests that while both younger and older SEC Commissioners are likely set in their ways in terms of political ideology, younger SEC Commissioners face greater career concerns than older SEC Commissioners. To the extent that regulatory actions against opposing party firms inflict political damage on the opposing party, the *career concerns channel* suggests that younger Commissioners may have stronger incentives to enhance their career prospects by being harsher on opposing party firms to please their own party's politicians. Such a channel is distinct from the *psychological effect channel* that is based on a general mistrust against groups with a different ideology. As with our main hypothesis, if the SEC's career bureaucrats anticipate such Commissioners' career concerns, they may skew their investigations and enforcement actions to align with the Commissioners' preferences.

To capture career concerns, we focus on the age of the majority-party Commissioners because our focus is on partisan behavior motivated, at least in part, by career concerns (e.g., Chevalier and Ellison, 1999). We calculate the average age of the majority-party Commissioners, and define *Young SEC* (*Old SEC*) as an indicator that equals one if this measure is below (above) the sample median.[35] To estimate the effect of misalignment when the majority-party SEC Commissioners are younger vs. older, we modify Eq. (1) by interacting *Misalignment* with *Young SEC* and *Old SEC* (year fixed effects absorb *Young SEC*). Table 8, Panel A reports the results for SEC investigations. Across both measures of firm ideology, we find that partisan SEC investigations are driven by younger majority-party Commissioners. When the majority-party SEC Commissioners are older, the SEC does not investigate misaligned firms at a differential rate. We find a similar pattern when we examine monetary enforcement penalties in Panel B, for two out of four penalty amounts when using the time-varying measure of firm ideology, and for all four penalty amounts when using the time-invariant measure of firm ideology. Estimates from Columns (5) to (8) suggest that when the majority-party SEC Commissioners are younger, the penalty amounts for misaligned firms are, on average, 8.2%, 6.4%, 3.9%, and 9.3% higher for civil penalties, disgorgement, prejudgment interest, and total penalties, respectively. In contrast, when the majority-party Commissioners are older, we do not find evidence that penalties are harsher against misaligned firms compared to other firms.

Overall, these results suggest that SEC Commissioners' career incentives to gain political mileage within their own party by acting more harshly against opposing party firms explain at least part of our evidence on the partisan regulatory actions hypothesis.

4.8. Career outcomes: Partisan SEC Commissioners

Our *career concerns hypothesis* is based on the idea that SEC Commissioners may act more harshly against opposing party firms to please their own party's politicians, who can use their influence to help advance the Commissioners' careers. Consistent with that idea, we show in Section 4.7 that our main results are driven by younger Commissioners, who likely face stronger career concerns than older Commissioners. To provide further evidence in support of the career concerns channel, we now explore a more direct link between Commissioners' partisan enforcement actions during their tenure and their future career outcomes once their SEC tenure ends. If career concerns is indeed a channel explaining Commissioners' partisan enforcement, we expect those with more partisan enforcement to achieve better future career outcomes.

[35] The minimum, P10, P25, P50, P75, P90, and maximum age of the majority-party SEC Commissioners in our sample are 37, 42, 49, 56, 60, 66, and 74 years, respectively.

We collect data on the career trajectories of SEC Commissioners from LinkedIn and other online sources. We focus on Commissioners who are affiliated with the majority party during their tenure, because we cannot attribute the SEC's partisan actions to Commissioners from the minority party. We estimate the following equation on a sample of 15 SEC Commissioners during our sample period:[36]

$$New\ Roles_c = \beta\ Partisan\ Action_c + \gamma Age_c + \alpha + \varepsilon \tag{2}$$

where c denotes the SEC Commissioner. *New Roles* is the natural logarithm of one plus the number of new roles in the public or private sector the Commissioner takes on within two years of the end of their tenure as SEC Commissioner.[37] We also construct an alternative version of *New Roles* that counts only new leadership roles in the public or private sector, identifying leadership roles as those involving positions such as chairman, president, member of a board of directors, member of a board of trustees, founder, or CEO.[38]

Partisan Action for a Commissioner measures the cumulative SEC actions against misaligned firms minus the cumulative SEC actions against non-misaligned firms, scaled by the sum of the two numbers, during the Commissioner's tenure. We construct four versions of *Partisan Action* corresponding to various SEC actions: (i) *Partisan Investigations* (based on the number of SEC investigations), (ii) *Partisan AAERs* (based on the number of AAERs released), (iii) *Partisan Penalty* (based on the total monetary penalties from AAERs), and (iv) *Partisan Enforcement* (based on the number of enforcement actions of any kind, not just AAERs).[39] All our *Partisan Action* measures increase with SEC enforcement activities against politically misaligned firms relative to non-misaligned firms during the majority-

[36]We drop one Commissioner because we cannot accurately find an employment history after the end of the tenure of that Commissioner.

[37]Former public officials frequently leverage their political capital, expertise, and leadership skills to secure further public appointments or lucrative private sector roles. Using data on over 1,200 former U.S. public officials, Palmer and Schneer (2019) find that many such officials join boards of publicly traded companies after leaving office. Similarly, our data shows that former SEC Commissioners often transition to roles in both the public and private sectors, including board positions. Many SEC Commissioners originate from the private sector, where financial rewards are higher, and return there after their tenure ends. It is reasonable to assume that private and public sector firms value the high-level political relationships and visibility that ex-Commissioners bring. By engaging in partisan behavior, Commissioners can strengthen their relationships with influential politicians, enhancing their appeal as hires for both sectors.

[38]We classify around two-thirds of the new roles as leadership roles, with the median Commissioner taking on three (two) new (leadership) roles within two years of the end of their tenure. We also include "founder" in leadership roles because we think founding a firm requires a professional network and access to capital, both of which can come from the strong political relationships and visibility that partisan Commissioners are positioned to develop. Our inference is unchanged if we remove the keyword "founder" when measuring leadership roles.

[39]For example, "*Partisan Investigations*" is defined as the number of investigations during the Commissioner's tenure against misaligned firms minus those against non-misaligned firms, scaled by the sum of the two numbers. Other *Partisan Action* variables are defined analogously.

party Commissioners' tenure. To control for the fact that some Commissioners may choose not to take on new roles after a certain age, we control for the natural logarithm of their age when their tenure ends (*Age*).

Table 9 reports the results. Using the time-varying and time-invariant measures of firm ideology, the four *Partisan Action* measures, and the *New Roles* and *New Leadership Roles* outcomes, we generally find that Commissioners with a track record of more partisan actions during their tenure take on more (leadership) roles in the public or private sector after their tenure ends, though our results are most consistent when using the time-invariant measure of firm ideology.[40] In terms of economic magnitude, based on estimates for new leadership roles and using the time-invariant measure of firm ideology (i.e., Columns (13) through (16)), a one-standard deviation increase in partisan investigations, AAERs, penalties, and all types of enforcement actions during a Commissioner's tenure is associated with 20.8%, 31.8%, 44.6%, and 18.1% additional leadership roles within two years of the end of their tenure.[41]

Overall, the exploratory analysis in this section suggests a positive association between SEC Commissioners' partisan actions and better career outcomes.[42] This seems consistent with the notion that SEC Commissioners' partisan behavior is motivated, at least in part, by a desire to please their own party's politicians to achieve better career outcomes once their tenure ends.

4.9. Career outcomes: Partisan SEC attorneys

Having examined career outcomes for SEC Commissioners, we shift our attention to career outcomes for SEC staff. Recall that while Commissioners are political appointees, the vast majority of SEC staff, who initiate and pursue investigations, are not. We examine whether SEC staff respond to the Commissioners' partisan preferences to advance their own careers. Specifically, we explore whether SEC staff are rewarded for partisan enforcement. If yes, such ex post "reward for partisan enforcement" can encourage staff to engage in partisan investigations ex ante. Using payroll data for SEC attorneys between 2002 and 2017 from Kalmenovitz (2021), we create an SEC office-year level sample and estimate the following equation:

[40] We lose one Commissioner when using *Partisan Enforcement* to measure *Partisan Action*, because this measure relies on data indicating whether an investigation leads to any enforcement action, available only until 2017 (this affects Columns (4), (8), (12), and (16)).

[41] We interpret economic magnitudes by multiplying the coefficients on the four measures of *Partisan Action* with their respective standard deviations (0.097, 0.179, 0.626, and 0.143).

[42] We recognize that more (leadership) roles may not perfectly capture better career outcomes for Commissioners because we cannot observe the pecuniary or non-pecuniary utility they derive from the new roles.

$$Promotion\ Rate_{ot+1} = \beta\ Partisan\ Enforcement_{ot} + \gamma\ Total\ Enforcement_{ot} + \alpha_{op} + \alpha_t + \varepsilon \quad (3)$$

where o, p, and t denote the SEC office, the presidential administration, and the year, respectively. For each office-year, we define *Promotion Rate* as the number of attorneys promoted in the office that year, scaled by the number of attorneys in the office as of the previous year. For each office-year, we define *Partisan Enforcement* as the number of closed investigations with an enforcement action against misaligned firms minus the number of closed investigations with an enforcement action against non-misaligned firms, scaled by the sum of the two numbers in the numerator.[43] To control for total enforcement at the office and just focus on variation in partisan enforcement, we control for the office-year's *Total Enforcement*, defined as the natural logarithm of one plus the number of closed investigations that result in an enforcement action. We include office × presidential administration fixed effects—estimating a relationship between partisan enforcement and future attorney promotions within the same SEC office during the same presidential administration—and year fixed effects.

Table 10 reports the results. In Columns (1)-(4), where we progressively apply stricter fixed effects, we find that *within* the same office, during the same presidential administration, more partisan enforcement is associated with more attorney promotions. Estimates in Column (4) indicate that a one-standard deviation increase in partisan enforcement *within the same office-presidential administration* is associated with a 1.1 percentage points higher promotion rate at that office in the following year.[44] Compared to the mean promotion rate of 10.2%, this association equates to a 10.8% higher attorney promotion rate for a one-standard deviation increase in partisan enforcement. We find similar results when using the time-invariant measure of firm ideology. Finally, our inference is unchanged when we create an office-year-pay grade level sample, measure promotion rates within each attorney pay grade, and include office × presidential administration × pay grade fixed effects, allowing us to estimate a relationship between partisan enforcement and future attorney promotions within the same SEC office, during the same presidential administration, within the same pay grade. These results are reported in Columns (5) and (10).

Overall, this evidence suggests that enforcement staff are rewarded for bringing more enforcement actions against misaligned firms. This ex post reward can encourage staff to engage in partisan investigations ex ante, and can help explain why SEC staff, who are not

[43] We can link attorneys and investigations to an SEC office, but not directly link specific attorneys to an investigation.

[44] Calculated as coefficient (0.018) × standard deviation (0.613). The within office-presidential administration standard deviation for *Partisan Enforcement* (0.613) is the standard deviation of *Partisan Enforcement* after residualizing office × presidential administration fixed effects.

political appointees, respond to the Commissioners' partisan preferences.[45]

4.10. Firm behavior: Financial misreporting

Having shown that firms ideologically misaligned with the SEC are more likely to get investigated by the SEC and face harsher penalties in case of enforcement, next, we explore whether misaligned firms internalize in their misreporting decisions the SEC's partisan enforcement preferences. Becker (1968)'s economic theory of crime suggests that a prospective criminal trades off the costs against the benefits of committing a crime. In the context of financial misreporting, evidence in Kedia and Rajgopal (2011) seems consistent with Becker (1968)'s theory, and suggests that firms take into account the SEC's enforcement preferences (e.g., geographic proximity) in their misreporting decisions. If ideological misalignment increases firms' expected likelihood of being investigated and penalties in case of enforcement, it may discourage misaligned firms from misreporting, or encourage non-misaligned firms to misreport, at least at the margin. However, multiple factors suggest other possibilities. First, after initiating misreporting, the firm's (CEO's) ideology might change with CEO turnover or changes in the larger political climate. Second, SEC Commissioners' party composition might change, potentially changing the firm's misalignment with the SEC. Third, the five-year statute of limitations on most federal offenses (including financial misconduct) further raises uncertainty about how long the political (mis)alignment might go on after the misconduct. This suggests that firms may not necessarily take political misalignment into account in their misreporting decisions.

To examine the association between ideological misalignment with the SEC and the firm's misreporting behavior, our regression specification is the following:

$$Misreporting_{it+1} = \beta \ Misalignment_{it} + \gamma' X_{it} + \alpha_{jp} + \alpha_t + \varepsilon \tag{4}$$

All the terms in Eq. (4) are identical to those in Eq. (1) except for the outcome variable, $Misreporting_{t+1}$, which is an indicator that equals one if the firm initiates financial misreporting in year *t+1*. We follow prior literature and identify deliberate financial misreporting using income-decreasing restatements, i.e., we retain restatements with a negative cumulative effect on net income and drop restatements with a positive effect, zero effect, or no available magnitude of the effect on net income (e.g., Kedia and Rajgopal, 2011; Leone, Li and Liu, 2021).

[45] Note that we are not suggesting that there needs to be any explicit incentive scheme to encourage partisan enforcement. All we need is for the SEC leadership to have some partisan enforcement preferences, the staff to have some understanding of their bosses' preferences, and the staff to allocate their attention and effort to do better in the eyes of their bosses to advance their own careers.

Table 11 shows the results using both measures of firm ideology. We fail to detect any difference between misaligned and other firms in the probability of initiating financial misreporting (t-stats = −0.925 and −0.297, respectively). This suggests that when firms trade off the costs and benefits of misreporting, the SEC's partisan preferences do not play a big enough role to sway the firm's misreporting decision, on average, and that other factors likely play a more dominant role in the firm's misreporting decision (say, capital market expectations, the CEO's compensation incentives, etc.).

4.11. Ideological misalignment and the SEC's resource allocation

4.11.1. Enforcement actions following SEC investigations

Our evidence thus far suggests that while ideologically misaligned firms are no different from other firms in their likelihood of financial misreporting, the SEC is more likely to target ideologically misaligned firms. Given the SEC's limited resources (e.g., Kedia and Rajgopal, 2011), this raises concerns about the SEC's resource allocation decisions. If the SEC investigates misaligned firms at a higher rate, but such firms are no more likely to misreport, it can lead to the SEC spending excessive resources on investigations that may not meet the standard for an enforcement action. Specifically, we examine whether, conditional on an investigation, misaligned firms are less likely to receive an enforcement action. Note that we are *not* suggesting that absent the SEC's partisan behavior, investigations should result in an enforcement action. All we are saying is that the rate at which investigations do not result in an enforcement action might be *relatively higher* for SEC investigations of misaligned firms compared to those of other firms.

To examine this issue, we estimate the following specification:

$$Enforcement_k = \beta\ Misalignment_k + \gamma' X_k + \alpha_{jp} + \alpha_t + \varepsilon \tag{5}$$

where k denotes the SEC investigation. We estimate this equation on a sample of 1,598 SEC investigations with available data on whether the investigation results in an enforcement action. *Enforcement* is an indicator that equals one if the investigation results in an enforcement action.[46] All other terms are the same as those in Eq. (1), measured in the year of the opening of the SEC investigation.

Table 12 reports the results. The estimates in Columns (1) and (2) suggest that SEC

[46] To better map investigations to enforcement actions, we include all enforcement actions (not just AAERs) that could result from the investigations. We lose some observations due to missing values for the control variables, and because the enforcement outcomes for investigations are not available for investigations closed after 2017.

investigations of misaligned firms, compared to those of other firms, are 3.7 to 5.0 percentage points less likely to result in an enforcement action. When compared to the sample mean enforcement rate of 15.4% (i.e., the fraction of investigations that result in an enforcement action), this estimate equates to a 24.0% to 32.5% lower rate of enforcement for investigations against misaligned firms compared to those against non-misaligned firms.

4.11.2. SEC investigations of firm misreporting

Working with a limited budget, if the SEC directs excessive resources toward monitoring misaligned firms, it is possible that it diverts scarce resources away from monitoring other firms (i.e., non-misaligned firms), some of which may be engaging in financial misreporting. This could result in lower monitoring and, in turn, lower detection of non-misaligned firms' misreporting. We follow Kedia and Rajgopal (2011) to identify misreporting firms using income-decreasing restatements. To examine whether the SEC is more likely to miss investigating cases of misreporting by non-misaligned firms, we estimate the following specification on a sample of 939 income-decreasing restatements that end at some point during our sample period:

$$Investigated_m = \beta\ Misalignment_m + \gamma' X_m + \alpha_{jp} + \alpha_t + \varepsilon \tag{6}$$

where m denotes the restatement event. *Investigated* is an indicator that equals one if the SEC opens an investigation against the misreporting firm within three years of the end of misreporting. For example, if misreporting ends in year 2005, *Investigated* indicator equals one if the SEC opens an investigation against the firm by the end of 2008. All other terms are the same as those in Eq. (1), measured in the last year of misreporting.

Table 13 reports the results. Using both time-varying and time-invariant measures of firm ideology, we find a positive and significant coefficient on *Misalignment*. This suggests that, indeed, conditional on misreporting, the SEC is more (less) likely to open investigations against misaligned (non-misaligned) firms. The estimates in Columns (1) and (2), when compared to the sample mean, suggest that within three years of misreporting, misaligned firms are 21.4% to 28.6% more likely to get investigated compared to non-misaligned firms.

Collectively, the analysis in this section points to potential resource misallocation at the SEC. While firms ideologically misaligned and non-misaligned with the SEC are no different in their propensity to initiate financial misconduct, it seems as if the SEC directs excessive resources toward investigating misaligned firms, as evidenced by a lower rate of enforcement conditional on investigation for misaligned firms. In turn, despite working with a constrained budget, it seems that the SEC directs inadequate resources toward investigating misreporting by non-misaligned firms, as evidenced by a higher (lower) rate of investigation conditional on misreporting for misaligned (non-misaligned) firms. As noted before, this interpretation is subject to the caveat that as empiricists we cannot observe all cases of misreporting and all investigative activities.

5 Conclusion

We investigate whether partisan politics play a role in SEC enforcement actions against financial misconduct. Our evidence is nuanced. We find that the SEC is more likely to launch an investigation against a firm that is politically misaligned with the agency's ideology. However, when it comes to the highly consequential decision of issuing an AAER, its likelihood is not sensitive to political misalignment, although once a firm is named in an AAER, penalties are harsher for misaligned firms.

Our findings suggest the presence of partisan politics in SEC investigative and enforcement proceedings. However, the system seems to retain some ability to mitigate partisan influence when the stakes are particularly high, such as in the issuance of an AAER. Despite the apparent checks and balances in these high-stakes situations, partisanship in SEC investigations means that the agency's scarce resources are likely misallocated. Consistent with this, we find evidence that suggests potential misallocation of scarce enforcement resources due to partisanship: conditional on investigation, misaligned firms are less likely to receive an enforcement action, and conditional on misreporting, non-misaligned firms are less likely to be investigated. This suggests that due to partisanship, the SEC pays "too much" attention to investigating misaligned firms and, in turn, "too little" attention to investigating misreporting by non-misaligned firms.

We contribute to the understanding of the SEC's objective function by identifying a factor not studied in prior literature, i.e., partisan politics, in SEC enforcement activities. Our evidence bears relevance for the investors that the SEC is charged to protect, companies under SEC monitoring, and taxpayers who provide funding for the agency.

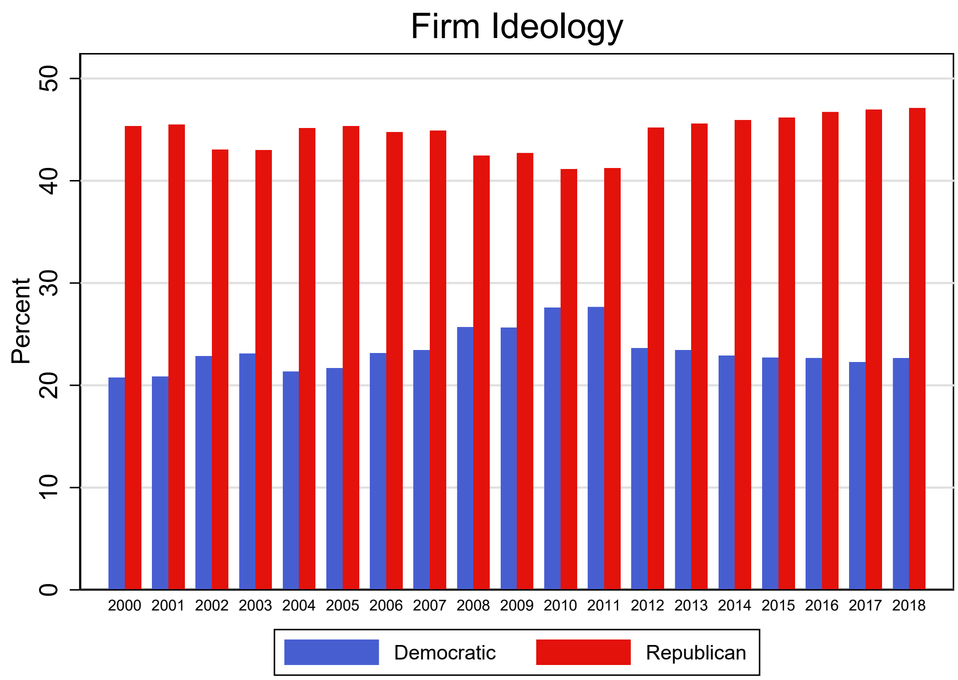
Panel A: Relevant incentives of SEC Commissioners and SEC staff

Agent	Incentives in our setting
Commissioners	**Psychological**: Out-group animosity resulting in mistrust of opposing partisan firms.
	Career Concerns: Align with the ideology of own-party politicians by inflicting harm on opposing partisan firms to advance their own careers.
Staff	**Career Concerns**: Take actions that align with the Commissioners' (partisan) preferences to advance their own careers.

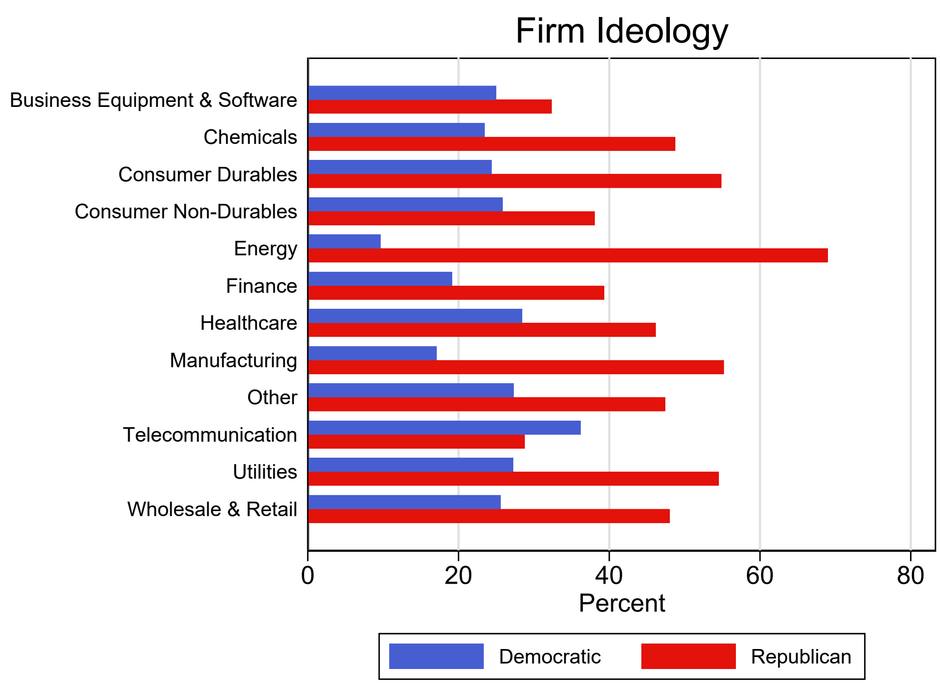
Panel B: Personnel involvement and public disclosure of investigations vs. AAERs

	SEC Investigations	AAERs
SEC personnel involvement	Initiated and pursued by SEC staff	Recommended by SEC staff, and voted on by SEC Commissioners
Public disclosure	Can remain undisclosed	Public release

Fig. 1. Incentives of SEC Commissioners vs. SEC staff, and comparison between SEC investigations and AAERs.



(a)



(b)

Fig. 2. Firm ideology. This figure plots the distribution of firm ideology over time in Panel (a) and across sectors in Panel (b).

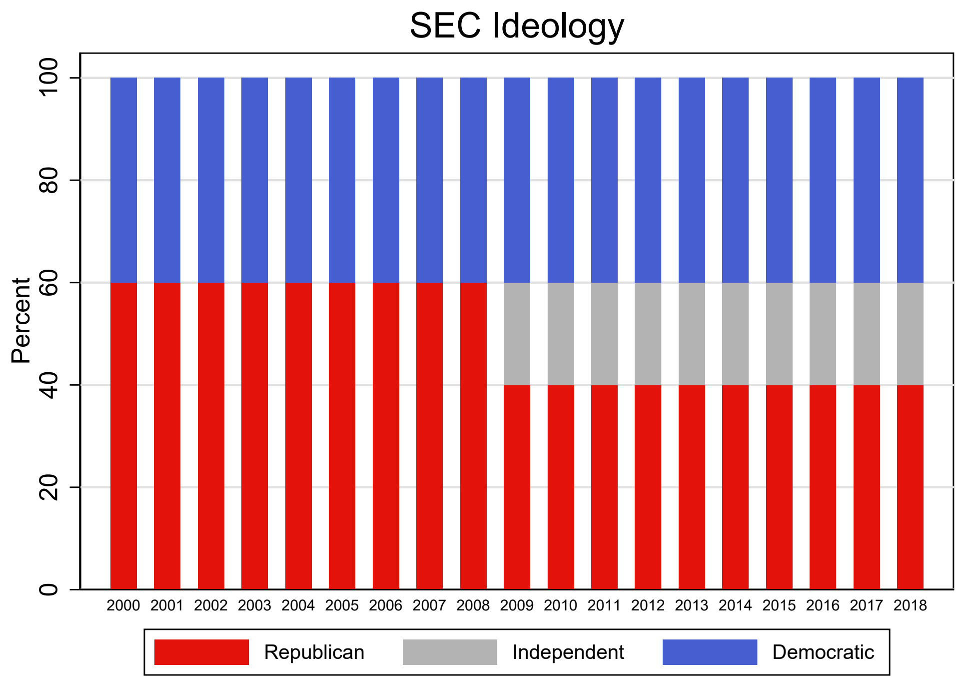
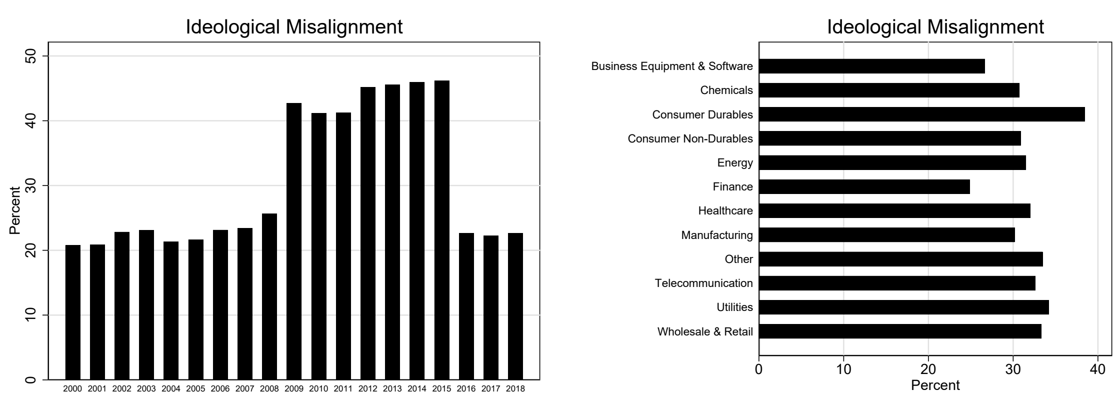
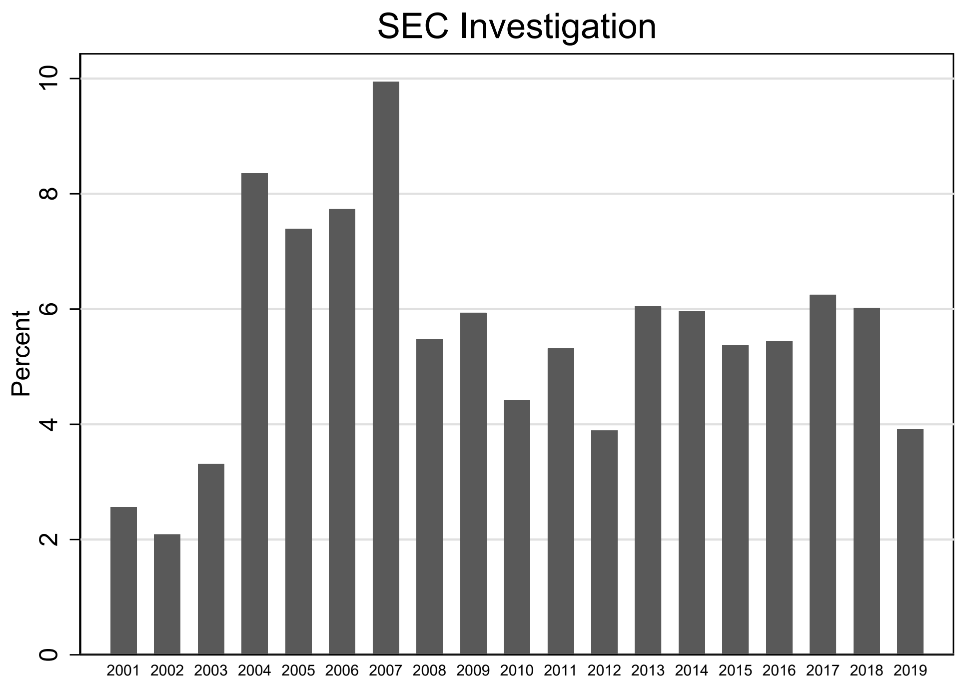


Fig. 3. SEC ideology. This figure plots the party affiliation of SEC Commissioners over time.

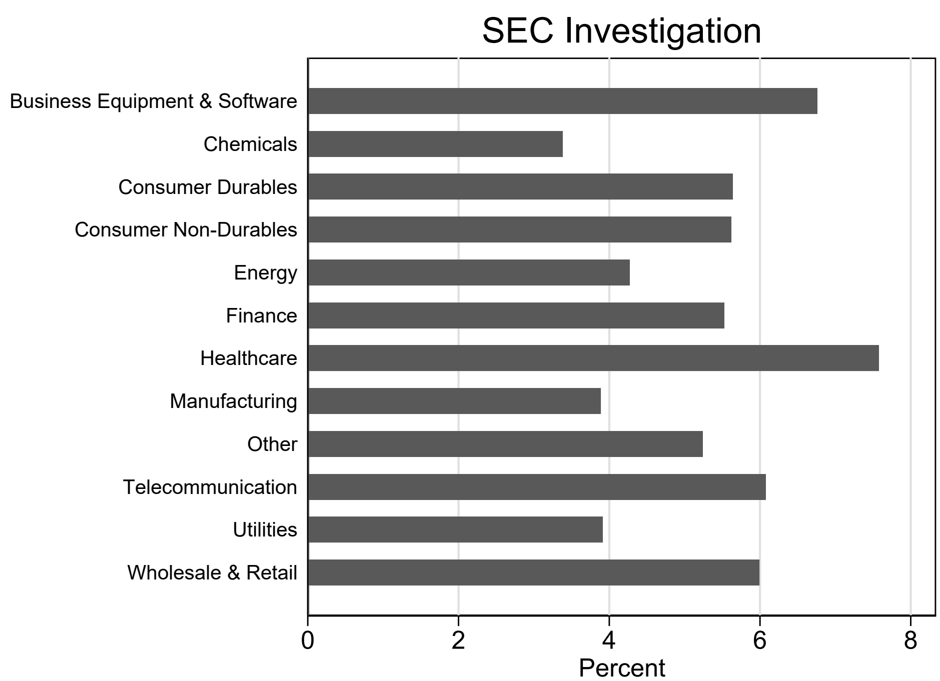


(a) (b)

Fig. 4. Ideological misalignment. This figure plots the distribution of ideological misalignment between firms and the SEC over time in Panel (a) and across sectors in Panel (b).

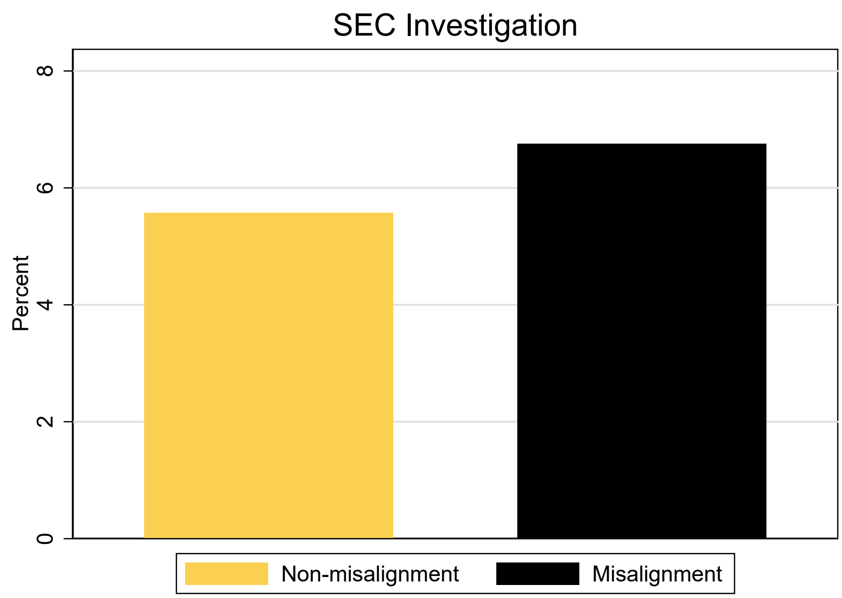


(a)

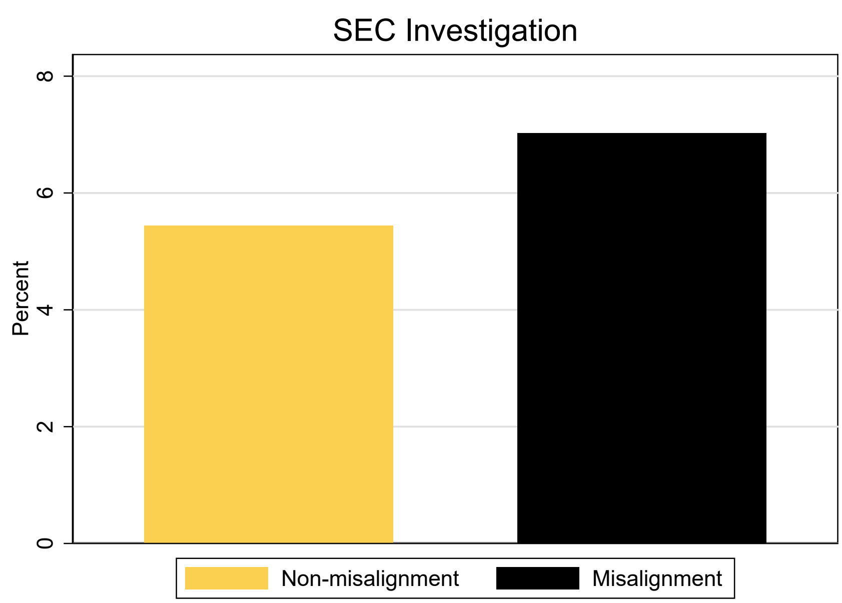


(b)

Fig. 5. SEC investigations. This figure plots the distribution of SEC investigations over time in Panel (a) and across sectors in Panel (b).

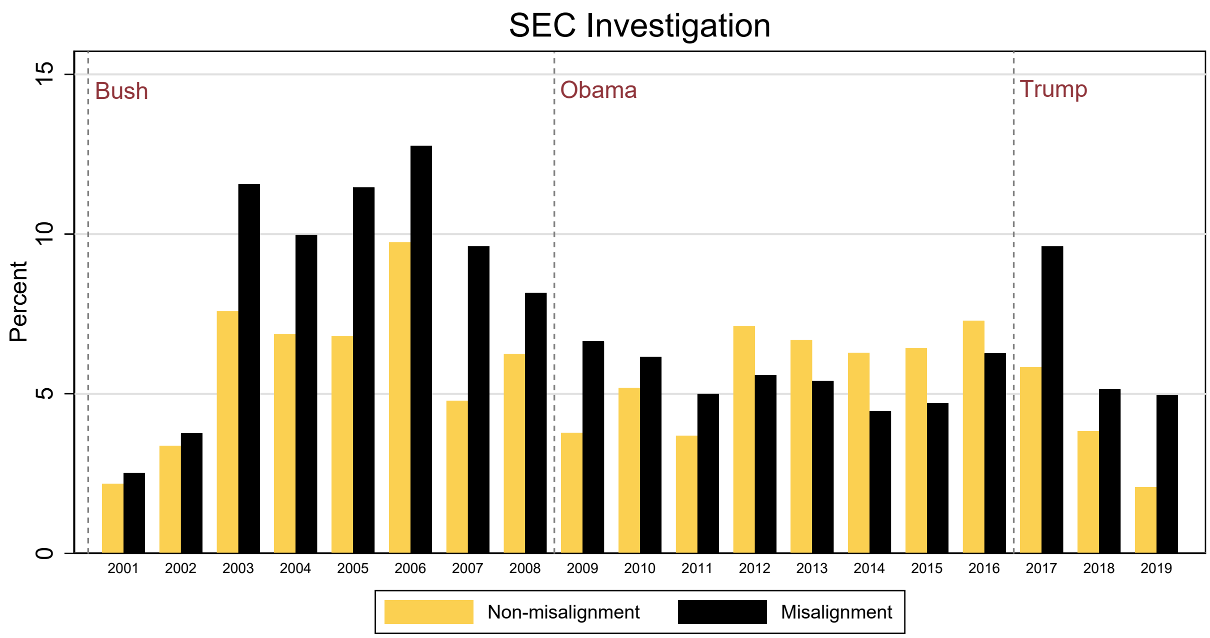


(a)

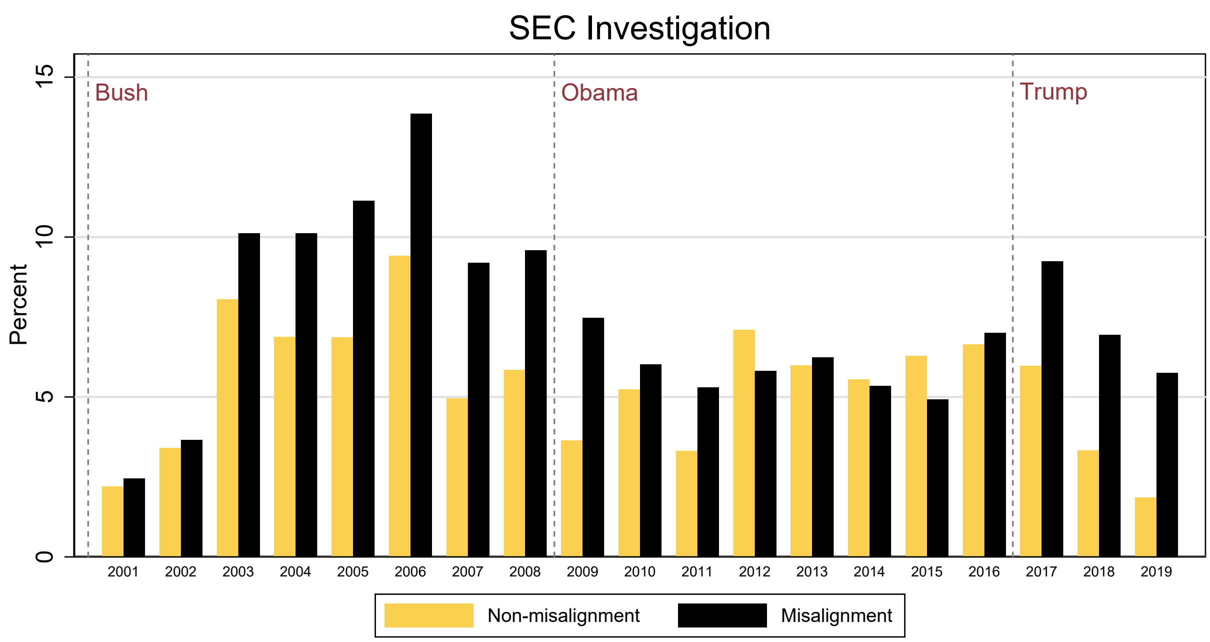


(b)

Fig. 6. Ideological misalignment and SEC investigations. This figure plots the average incidence of SEC investigations in our firm-year sample, for ideologically misaligned and non-misaligned firms. Panel (a) uses the time-varying measure of firm ideology and Panel (b) uses the time-invariant measure of firm ideology.



(a)



(b)

Fig. 7. Ideological misalignment and SEC investigations by year. This figure plots the yearly average incidence of SEC investigations in our firm-year sample, for ideologically misaligned and non-misaligned firms. Panel (a) uses the time-varying measure of firm ideology and Panel (b) uses the time-invariant measure of firm ideology.

Table 1
Descriptive statistics and correlation matrix.

Panel A: Firm-year sample

	Mean	SD	Q1	Median	Q3	N
Dependent variables						
SEC Investigation$_{t+1}$	0.059	0.236	0.000	0.000	0.000	29,490
AAER$_{t+1}$	0.010	0.099	0.000	0.000	0.000	30,961
CivPen$_{t+1}$	0.078	1.044	0.000	0.000	0.000	30,961
Disg$_{t+1}$	0.048	0.826	0.000	0.000	0.000	30,961
PreInt$_{t+1}$	0.030	0.613	0.000	0.000	0.000	30,961
TotalPen$_{t+1}$	0.094	1.175	0.000	0.000	0.000	30,961
Misreporting$_{t+1}$	0.015	0.120	0.000	0.000	0.000	29,490
Key independent variables						
Misalignment(TV)	0.284	0.451	0.000	0.000	1.000	29,490
Misalignment(TIV)	0.295	0.456	0.000	0.000	1.000	29,490
Variables used to construct Misalignment (firm-election cycle level)						
CEO Contribution to Republican Party (non-zero $)	3,588	3,969	1,000	2,500	4,500	3,755
CEO Contribution to Democratic Party (non-zero $)	3,383	4,165	1,000	2,300	3,900	2,460
Total CEO Contribution (non-zero $)	4,541	5,252	1,500	2,500	5,300	4,800
Control variables						
Size	7.665	1.829	6.379	7.576	8.866	29,359
BM	0.547	0.411	0.282	0.456	0.691	28,531
Leverage	0.544	0.226	0.381	0.549	0.708	29,283
ROA	0.037	0.093	0.011	0.040	0.079	29,340
Analyst Following	1.779	1.193	0.693	2.079	2.773	29,490
DACC	−0.017	0.610	−0.095	−0.006	0.075	29,268
Distance to SEC	11.098	2.264	10.117	11.125	12.828	29,366
SP500	0.267	0.442	0.000	0.000	1.000	29,490
PAC Contribution (non-zero '000 $)	785	1500	67	250	828	9,837
Stock Return	0.145	0.516	−0.139	0.081	0.319	28,251
Idiosyncratic Volatility	0.347	0.200	0.206	0.295	0.423	28,150
Cross-sectional variables						
CEO-Employee Alignment	0.481	0.500	0.000	0.000	1.000	29,490
High Media Coverage	0.236	0.424	0.000	0.000	0.000	20,745
S&P 500	0.267	0.442	0.000	0.000	1.000	29,490
High Partisanship SEC	0.380	0.485	0.000	0.000	1.000	29,490
Young SEC	0.586	0.493	0.000	1.000	1.000	29,490

The unit of observation is firm-year, except for CEO contributions, which are reported at the firm-election cycle level. For descriptive purposes, in Panel A, non-zero PAC contributions are reported in thousands of dollars, while non-zero CEO contributions are reported in dollars. Panel B reports the monetary enforcement penalties for non-zero penalty amounts in thousands of dollars. Panel C reports the correlation coefficients (Pearson) between key dependent and independent variables used in our analysis. *Misalignment (TV)* uses the time-varying measure of firm ideology, and *Misalignment (TIV)* uses the time-invariant measure of firm ideology. All variables are defined in Appendix A.

Table 1

Descriptive statistics and correlation matrix (Continued).

Panel B: Monetary enforcement penalties ($ thousands)

	Mean	SD	Q1	Median	Q3	N
Civil Penalty	13,673	45,647	115	478	6,060	178
Disgorgement	18,386	81,283	77	549	7,223	113
Prejudgment Interest	1,918	4,812	21	130	1,245	78
Total Penalty	26,276	80,989	225	1,587	12,139	201

Panel C: Correlation matrix

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]	[14]	[15]	[16]	[17]	[18]	[19]	[20]
[1]SEC Investigation$_{t+1}$	1.00																			
[2]AAER$_{t+1}$	0.02	1.00																		
[3]CivPen$_{t+1}$	0.02	0.74	1.00																	
[4]Disg$_{t+1}$	0.02	0.58	0.60	1.00																
[5]PreInt$_{t+1}$	0.01	0.48	0.50	0.83	1.00															
[6]TotalPen$_{t+1}$	0.02	0.79	0.93	0.76	0.63	1.00														
[7]Misreporting$_{t+1}$	0.01	−0.01	−0.00	−0.01	−0.01	−0.01	1.00													
[8]Misalignment(TV)	0.03	−0.00	0.00	0.02	0.01	0.00	−0.01	1.00												
[9]Misalignment(TIV)	0.03	0.01	0.01	0.02	0.01	0.02	−0.01	0.78	1.00											
[10]Size	0.10	0.05	0.05	0.03	0.03	0.05	−0.02	0.07	0.09	1.00										
[11]BM	−0.01	0.01	0.01	−0.00	−0.01	0.01	0.03	−0.01	0.00	0.04	1.00									
[12]Leverage	0.02	0.02	0.02	0.01	0.00	0.02	−0.01	0.02	0.03	0.55	0.07	1.00								
[13]ROA	0.01	−0.01	−0.01	−0.00	0.00	−0.01	−0.02	0.02	0.02	0.07	−0.35	−0.17	1.00							
[14]Analyst Following	0.06	0.01	0.00	0.01	0.01	0.01	−0.03	0.05	0.06	0.33	−0.19	0.03	0.15	1.00						
[15]DACC	0.01	0.00	0.00	0.00	0.01	0.01	0.00	0.00	−0.00	0.00	0.02	−0.01	−0.00	−0.00	1.00					
[16]Distance to SEC	−0.02	−0.00	−0.00	−0.01	−0.00	−0.00	0.00	−0.01	−0.01	−0.03	0.03	0.03	0.03	0.00	0.01	1.00				
[17]SP500	0.10	0.05	0.05	0.04	0.04	0.05	−0.02	0.06	0.07	0.65	−0.14	0.20	0.10	0.33	−0.00	−0.04	1.00			
[18]PAC Contribution	−0.00	−0.01	−0.00	−0.00	−0.00	−0.00	−0.01	0.04	0.05	0.05	−0.04	0.02	0.05	0.04	0.01	0.02	0.06	1.00		
[19]Stock Return	−0.01	0.01	0.01	0.01	0.00	0.01	0.01	0.04	0.04	−0.08	−0.22	−0.02	0.11	−0.03	−0.02	0.00	−0.06	0.01	1.00	
[20]Idiosyncratic Volatility	0.01	−0.00	−0.00	−0.01	−0.01	−0.01	0.05	−0.04	−0.05	−0.49	0.26	−0.19	−0.34	−0.23	−0.00	−0.01	−0.26	−0.06	0.05	1.00

Table 2
Ideological misalignment and SEC investigations.

Dep. var. =	SEC Investigation$_{t+1}$					
Firm ideology =	Time-varying			Time-invariant		
	(1)	(2)	(3)	(4)	(5)	(6)
Misalignment	0.011***	0.010***	0.010***	0.015***	0.011***	0.011***
	(3.444)	(3.190)	(3.286)	(4.513)	(3.333)	(3.255)
Size		0.027***	0.029***		0.027***	0.029***
		(9.907)	(10.371)		(9.812)	(10.266)
BM		−0.009*	−0.012**		−0.009*	−0.012**
		(−1.706)	(−2.324)		(−1.717)	(−2.340)
Leverage		−0.025**	−0.030***		−0.025**	−0.029***
		(−2.558)	(−2.975)		(−2.546)	(−2.964)
ROA		0.081***	0.074***		0.081***	0.074***
		(4.068)	(3.493)		(4.053)	(3.480)
Analyst Following		0.002	0.002		0.002	0.002
		(1.347)	(1.026)		(1.334)	(1.016)
DACC		0.003	0.002		0.003	0.002
		(0.912)	(0.840)		(0.923)	(0.853)
Distance to SEC		−0.001	−0.001		−0.001	−0.001
		(−0.827)	(−0.871)		(−0.807)	(−0.850)
SP500		0.003	0.001		0.003	0.001
		(0.428)	(0.137)		(0.458)	(0.168)
PAC Contribution		−0.315**	−0.306**		−0.323**	−0.314**
		(−2.452)	(−2.387)		(−2.494)	(−2.427)
Stock Return		−0.008*	−0.009**		−0.008*	−0.009**
		(−1.911)	(−2.192)		(−1.900)	(−2.180)
Idiosyncratic Volatility		0.171***	0.180***		0.171***	0.180***
		(8.356)	(8.774)		(8.338)	(8.744)
Mean dep. var.	0.059	0.061	0.061	0.059	0.061	0.061
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Ind × Admin FE	Yes	Yes	No	Yes	Yes	No
Ind × SEC Chair FE	No	No	Yes	No	No	Yes
Obs.	29,490	27,532	27,532	29,490	27,532	27,532
Adj. R^2	0.017	0.039	0.044	0.017	0.039	0.044

This table examines whether the SEC is more likely to investigate firms misaligned with the SEC's political ideology. The unit of observation is firm-year. *Misalignment* is an indicator for firms whose political ideology does not match that of the SEC. Firm's political ideology is Republican (Democratic) if the firm's CEO contributes more to the political campaigns of the Republican (Democratic) Party. The SEC's political ideology is Republican (Democratic) if the party affiliation of the majority of the SEC Commissioners is Republican (Democratic). Independent Commissioners are assigned the party affiliation of the appointing President. *SEC Investigation*$_{t+1}$ is an indicator that equals one if the SEC opens an investigation against the firm in year *t+1*. *t*-stats in parentheses are based on standard errors clustered by 3-digit SIC industry code. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively. All other variables are defined in Appendix A.

Table 3

CEO ideology from voter records: Ideological misalignment and SEC investigations.

Dep. var. =	SEC Investigation$_{t+1}$			
	(1)	(2)	(3)	(4)
Misalignment	0.025***	0.025***	0.021**	0.018*
	(2.759)	(2.895)	(2.240)	(1.782)
CEO Contribution		0.003**	0.004***	0.004***
		(2.283)	(3.648)	(3.588)
Mean dep. var.	0.042	0.040	0.040	0.040
Controls	No	Yes	Yes	Yes
Year FE	No	No	Yes	Yes
Ind FE	No	No	Yes	No
Ind × Admin FE	No	No	No	Yes
Obs.	1,741	1,689	1,689	1,689
Adj. R^2	0.003	0.015	0.101	0.108

This table uses the CEO's party from voter registration records and examines whether the SEC is more likely to investigate firms misaligned with the SEC's political ideology. The unit of observation is firm-year. *Misalignment* is an indicator for firms whose political ideology does not match that of the SEC. Firm's political ideology is Republican (Democratic) if the CEO's voter registration record indicates that he/she is a Republican (Democrat). The SEC's political ideology is Republican (Democratic) if the party affiliation of the majority of the SEC Commissioners is Republican (Democratic). Independent Commissioners are assigned the party affiliation of the appointing President. *SEC Investigation*$_{t+1}$ is an indicator that equals one if the SEC opens an investigation against the firm in year *t+1*. *CEO Contribution* is the natural logarithm of one plus the personal political contributions made by the CEO during the election cycle. *t*-stats in parentheses are based on standard errors clustered by 3-digit SIC industry code. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively.

Table 4
Change-based specification: Ideological misalignment and SEC investigations.

Dep. var. =	SEC Investigation$_{t+1}$	
	(1)	(2)
Δ Misalignment × Post	0.022**	
	(2.489)	
Δ Misalignment × Post × SEC Turnover		0.019**
		(2.104)
Δ Misalignment × Post × CEO Turnover		0.042
		(1.363)
Δ Misalignment × SEC Turnover		−0.023
		(−0.780)
Δ Misalignment	−0.010	0.013
	(−1.268)	(0.460)
Mean dep. var.	0.057	0.057
Mean dep. var. (SEC turnover sample)	0.049	0.049
Mean dep. var. (CEO turnover sample)	0.071	0.071
Cohort × Controls	Yes	Yes
Cohort × Year FE	Yes	Yes
Cohort × Ind × Admin FE	Yes	Yes
Obs.	11,958	11,958
Adj. R^2	0.056	0.056

This table examines whether the SEC is more likely to investigate firms misaligned with the SEC's political ideology, using a specification based on changes in misalignment. The unit of observation is firm-year. We create two samples. First, we create a sample of CEO turnovers without any change in SEC ideology and identify change in misalignment by comparing the ideologies of the outgoing and the incoming CEOs. Second, we create a sample of changes in SEC ideology using firms without any CEO turnover. For both samples, we keep an event window of [−2, +2] years around each event. We then stack the two event samples. Each firm in the sample experiences either a change (a decrease or an increase) or no change in misalignment. The variable Δ *Misalignment* takes three values based on the change in misalignment after each event: −1, 0, and 1, indicating (respectively) that the ideological misalignment between the firm and the SEC decreases (i.e., switches from misaligned to non-misaligned), does not change, or increases (i.e., switches from non-misaligned to misaligned). *Post* is an indicator that equals one for years after the SEC turnover or the CEO turnover event, and zero otherwise. *SEC Turnover* and *CEO Turnover* indicate the two event types (change in SEC ideology or CEO turnover). *SEC Investigation*$_{t+1}$ is an indicator that equals one if the SEC opens an investigation against the firm in year *t+1*. The fixed effects and control variables are cohort-specific, with cohorts grouping events occurring in the same year (e.g., CEO turnovers in 2004) and separating the two types of events (CEO turnover or SEC ideology change) into distinct cohorts. t-stats in parentheses are based on standard errors clustered by 3-digit SIC industry code within each cohort. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively.

Table 5
Ideological misalignment and SEC enforcement actions.

Panel A: Likelihood of receiving an AAER

Dep. var. =	$AAER_{t+1}$	
Firm ideology =	Time-varying	Time-invariant
	(1)	(2)
Misalignment	−0.000	0.002
	(−0.109)	(1.347)
Size	0.004***	0.004***
	(3.989)	(3.949)
BM	0.006**	0.006**
	(2.507)	(2.531)
Leverage	0.007	0.007
	(1.342)	(1.346)
ROA	0.001	0.001
	(0.140)	(0.130)
Analyst Following	−0.001	−0.001
	(−0.960)	(−0.956)
DACC	−0.000	0.000
	(−0.001)	(0.004)
Distance to SEC	0.000	0.000
	(0.648)	(0.695)
SP500	0.005*	0.005*
	(1.913)	(1.901)
PAC Contribution	−0.114*	−0.118**
	(−1.951)	(−2.007)
Stock Return	0.003**	0.003**
	(2.014)	(2.023)
Idiosyncratic Volatility	0.007	0.007
	(1.219)	(1.207)
Mean dep. var.	0.010	0.010
Year FE	Yes	Yes
Ind × Admin FE	Yes	Yes
Obs.	28,934	28,934
Adj. R^2	0.012	0.012

This table examines the relation between ideological misalignment and the likelihood of receiving an AAER and the size of the monetary enforcement penalty. The unit of observation is firm-year. *Misalignment* is an indicator for firms whose political ideology does not match that of the SEC. $AAER_{t+1}$ is an indicator that equals one if the SEC releases an AAER against the firm in year *t+1* (Panel A). $CivPen_{t+1}$, $Disg_{t+1}$, $PreInt_{t+1}$, and $TotalPen_{t+1}$ are natural logarithms of one plus dollar amounts of civil penalty, disgorgement, prejudgment interest, and total penalty, respectively, as per an AAER released in year *t+1* (Panel B). *t*-stats in parentheses are based on standard errors clustered by 3-digit SIC industry code. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively. All other variables are defined in Appendix A.

Table 5

Ideological misalignment and SEC enforcement actions (Continued).

Panel B: Monetary enforcement penalty

Firm ideology =	Time-varying				Time-invariant			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. var. =	CivPen_{t+1}	Disg_{t+1}	PreInt_{t+1}	TotalPen_{t+1}	CivPen_{t+1}	Disg_{t+1}	PreInt_{t+1}	TotalPen_{t+1}
Misalignment	0.010	0.028	0.015	0.011	0.039**	0.040***	0.024**	0.044**
	(0.511)	(1.564)	(1.277)	(0.424)	(1.978)	(2.735)	(2.385)	(2.036)
Size	0.024***	0.021**	0.011***	0.036***	0.023***	0.020**	0.011**	0.035***
	(3.004)	(2.006)	(2.611)	(3.295)	(2.929)	(1.978)	(2.570)	(3.256)
BM	0.054***	0.019	0.011	0.056**	0.054***	0.019	0.011	0.056**
	(2.684)	(1.282)	(1.297)	(2.291)	(2.708)	(1.297)	(1.313)	(2.321)
Leverage	0.111**	0.024	0.005	0.088	0.112**	0.025	0.005	0.089
	(2.426)	(0.671)	(0.195)	(1.578)	(2.434)	(0.680)	(0.206)	(1.585)
ROA	0.007	−0.004	0.035	0.008	0.006	−0.004	0.035	0.007
	(0.098)	(−0.052)	(0.811)	(0.101)	(0.088)	(−0.054)	(0.807)	(0.092)
Analyst Following	−0.018*	−0.008	−0.006	−0.020	−0.018*	−0.008	−0.006	−0.020
	(−1.693)	(−0.873)	(−0.876)	(−1.616)	(−1.689)	(−0.881)	(−0.879)	(−1.616)
DACC	−0.000	0.005	0.012**	0.011	−0.000	0.005	0.012**	0.011
	(−0.019)	(0.816)	(2.029)	(0.872)	(−0.011)	(0.835)	(2.043)	(0.882)
Distance to SEC	0.003	−0.001	0.000	0.003	0.003	−0.001	0.000	0.003
	(1.281)	(−0.450)	(0.132)	(1.005)	(1.356)	(−0.404)	(0.189)	(1.081)
SP500	0.072***	0.038***	0.032***	0.075***	0.072***	0.038***	0.032***	0.075***
	(2.889)	(2.632)	(2.904)	(2.904)	(2.890)	(2.674)	(2.945)	(2.912)
PAC Contribution	−0.756	−0.778*	−0.607*	−0.923*	−0.804	−0.812*	−0.629*	−0.977*
	(−1.520)	(−1.875)	(−1.816)	(−1.672)	(−1.589)	(−1.937)	(−1.871)	(−1.745)
Stock Return	0.027*	0.026**	0.009	0.036**	0.027*	0.026**	0.009	0.036**
	(1.714)	(2.009)	(1.071)	(2.025)	(1.725)	(2.018)	(1.082)	(2.034)
Idiosyncratic Volatility	0.030	0.007	−0.011	0.055	0.030	0.007	−0.011	0.054
	(0.551)	(0.123)	(−0.374)	(0.749)	(0.540)	(0.120)	(−0.381)	(0.739)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ind × Admin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	28,934	28,934	28,934	28,934	28,934	28,934	28,934	28,934
R^2	0.038	0.030	0.024	0.036	0.038	0.030	0.025	0.037

Table 6
Visibility of firm ideology.

Panel A.1: CEO-employee alignment, misalignment with the SEC, and SEC investigations

Dep. var. =	SEC Investigation$_{t+1}$	
Firm ideology =	Time-varying	Time-invariant
	(1)	(2)
Misalignment × CEO-Employee Alignment	0.012***	0.012***
	(2.931)	(2.750)
Misalignment × CEO-Employee Non-alignment	0.004	0.007
	(0.782)	(1.246)
P-value of coef. diff.	0.141	0.245
Controls	Yes	Yes
Year FE	Yes	Yes
Ind × Admin FE	Yes	Yes
Obs.	27,532	27,532
Adj. R^2	0.039	0.039

This table examines whether the relation between ideological misalignment and future SEC investigations and monetary enforcement penalty is stronger for firms that are more likely to have their ideology visible to outsiders. The unit of observation is firm-year. We use three measures to capture the visibility of firm ideology. *CEO-Employee Alignment (Non-alignment)* is an indicator variable that equals one if the CEO's ideology is aligned (not aligned) with the employees' ideology, and zero otherwise. Both CEO ideology and employee ideology are based on personal political contributions aggregated throughout the sample period. Employee contributions exclude CEO contributions. *High Media Coverage* is an indicator variable that equals one if the firm's media coverage is in the top tercile each year over the last five years (i.e., t, t-1, t-2, t-3, and t-4), and zero otherwise. *Low Media Coverage* is an indicator that equals one if *High Media Coverage* is zero. *S&P (Non S&P) 500* is an indicator variable that equals one if the firm is in (not in) the S&P 500 index, and zero otherwise. *Misalignment* is an indicator for firms whose political ideology does not match that of the SEC. Panel A.1, Panel B.1, and Panel C.1 examine SEC investigations. *SEC Investigation*$_{t+1}$ is an indicator that equals one if the SEC opens an investigation against the firm in year *t+1*. Panel A.2, Panel B.2, and Panel C.2 examine monetary enforcement penalty. *CivPen*$_{t+1}$, *Disg*$_{t+1}$, *PreInt*$_{t+1}$, and *TotalPen*$_{t+1}$ are natural logarithms of one plus dollar amounts of civil penalty, disgorgement, prejudgment interest, and total penalty, respectively, as per an AAER released in year *t+1*. *t*-stats in parentheses are based on standard errors clustered by 3-digit SIC industry code. p-value for test of difference in coefficients is one-tailed. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively.

Table 6

Visibility of firm ideology (Continued).

Panel A.2: CEO-employee alignment, misalignment with the SEC, and monetary enforcement penalty

Firm ideology =	Time-varying				Time-invariant			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. var. =	CivPen_{t+1}	Disg_{t+1}	PreInt_{t+1}	TotalPen_{t+1}	CivPen_{t+1}	Disg_{t+1}	PreInt_{t+1}	TotalPen_{t+1}
Misalignment × CEO-Employee Alignment	0.036	0.044*	0.028*	0.038	0.062**	0.047**	0.034**	0.064**
	(1.402)	(1.922)	(1.716)	(1.277)	(2.505)	(2.278)	(2.201)	(2.263)
Misalignment × CEO-Employee Non-alignment	−0.018	0.016	0.001	−0.016	0.022	0.044	0.020	0.039
	(−0.592)	(0.629)	(0.083)	(−0.447)	(0.554)	(1.592)	(1.012)	(0.892)
P-value of coef. diff.	0.081	0.185	0.136	0.106	0.203	0.466	0.311	0.320
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ind × Admin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	28,934	28,934	28,934	28,934	28,934	28,934	28,934	28,934
R^2	0.038	0.030	0.025	0.037	0.038	0.030	0.025	0.037

Table 6
Visibility of firm ideology (Continued).
Panel B.1: Media coverage, misalignment with the SEC, and SEC investigations

Dep. var. =	SEC Investigation$_{t+1}$	
Firm ideology =	Time-varying	Time-invariant
	(1)	(2)
Misalignment × High Media Coverage	0.017*	0.032***
	(1.940)	(3.837)
Misalignment × Low Media Coverage	0.006	0.007**
	(1.584)	(2.045)
P-value of coef. diff.	0.142	0.003
Controls	Yes	Yes
Year FE	Yes	Yes
Ind × Admin FE	Yes	Yes
Obs.	19,939	19,939
Adj. R^2	0.047	0.048

Panel B.2: Media coverage, misalignment with the SEC, and monetary enforcement penalty

Firm ideology =	Time-varying				Time-invariant			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. var. =	CivPen$_{t+1}$	Disg$_{t+1}$	PreInt$_{t+1}$	TotalPen$_{t+1}$	CivPen$_{t+1}$	Disg$_{t+1}$	PreInt$_{t+1}$	TotalPen$_{t+1}$
Misalignment × High Media Coverage	0.087	0.117**	0.080*	0.127*	0.101**	0.086*	0.046	0.134**
	(1.649)	(2.040)	(1.957)	(1.844)	(2.298)	(1.774)	(1.431)	(2.297)
Misalignment × Low Media Coverage	−0.020	−0.001	−0.001	−0.028	0.002	0.013	0.006	−0.009
	(−0.725)	(−0.074)	(−0.062)	(−0.946)	(0.071)	(0.812)	(0.597)	(−0.330)
P-value of coef. diff.	0.033	0.026	0.032	0.015	0.035	0.084	0.129	0.017
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ind × Admin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	19,939	19,939	19,939	19,939	19,939	19,939	19,939	19,939
R^2	0.051	0.038	0.033	0.048	0.051	0.038	0.032	0.048

Table 6
Visibility of firm ideology (Continued).

Panel C.1: S&P 500 membership, misalignment with the SEC, and SEC investigations

Dep. var. =	SEC Investigation$_{t+1}$	
Firm ideology =	Time-varying	Time-invariant
	(1)	(2)
Misalignment × S&P 500	0.021**	0.025***
	(2.596)	(3.460)
Misalignment × Non S&P 500	0.005	0.005
	(1.239)	(1.217)
P-value of coef. diff.	0.046	0.009
Controls	Yes	Yes
Year FE	Yes	Yes
Ind × Admin FE	Yes	Yes
Obs.	27,532	27,532
Adj. R^2	0.039	0.039

Panel C.2: S&P 500 membership, misalignment with the SEC, and monetary enforcement penalty

Firm ideology =	Time-varying				Time-invariant			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. var. =	CivPen$_{t+1}$	Disg$_{t+1}$	PreInt$_{t+1}$	TotalPen$_{t+1}$	CivPen$_{t+1}$	Disg$_{t+1}$	PreInt$_{t+1}$	TotalPen$_{t+1}$
Misalignment × S&P 500	0.031	0.055	0.027	0.031	0.059	0.077**	0.041	0.077
	(0.675)	(1.335)	(0.932)	(0.590)	(1.224)	(2.033)	(1.412)	(1.475)
Misalignment × Non S&P 500	0.001	0.016	0.009	0.001	0.030	0.023**	0.016**	0.029
	(0.058)	(1.264)	(1.071)	(0.046)	(1.648)	(2.223)	(2.525)	(1.475)
P-value of coef. diff.	0.265	0.153	0.270	0.277	0.290	0.077	0.206	0.194
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ind × Admin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	28,934	28,934	28,934	28,934	28,934	28,934	28,934	28,934
R^2	0.038	0.030	0.024	0.036	0.038	0.030	0.025	0.037

Table 7
SEC Commissioners' degree of partisanship.

Panel A: SEC investigations

Dep. var. =	SEC Investigation$_{t+1}$			
Firm ideology =	Time-varying		Time-invariant	
	(1)	(2)	(3)	(4)
Misalignment × High Partisanship SEC	0.025***	0.026***	0.028***	0.028***
	(3.761)	(3.753)	(4.453)	(4.379)
Misalignment × Low Partisanship SEC	0.000	0.002	0.001	0.003
	(0.063)	(0.495)	(0.271)	(0.674)
P-value of coef. diff.	0.001	0.003	0.000	0.000
Controls	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Ind FE	Yes	No	Yes	No
Ind × Admin FE	No	Yes	No	Yes
Obs.	27,532	27,532	27,532	27,532
Adj R^2	0.048	0.039	0.048	0.039

This table examines whether the relation between ideological misalignment and future SEC investigations and monetary enforcement penalty is stronger when the SEC Commissioners' degree of partisanship is higher. The unit of observation is firm-year. *High (Low) Partisanship SEC* is an indicator variable that equals one for years with above- (below-) median partisanship scores, and zero otherwise. We assign independent Commissioners a partisanship score of zero, affiliated Commissioners appointed by a President from a different party or when the President's party did not control the Senate a score of 1, and affiliated Commissioners appointed by a President from the same party when that party controlled the Senate a score of 2. We then calculate a yearly partisanship score using the average score of the majority-party Commissioners and classify years with above- (below-) median partisanship scores as *High (Low) Partisanship SEC*. *Misalignment* is an indicator for firms whose political ideology does not match that of the SEC. Panel A examines SEC investigations. *SEC Investigation*$_{t+1}$ is an indicator that equals one if the SEC opens an investigation against the firm in year *t+1*. Panel B examines monetary enforcement penalty. *CivPen*$_{t+1}$, *Disg*$_{t+1}$, *PreInt*$_{t+1}$, and *TotalPen*$_{t+1}$ are natural logarithms of one plus dollar amounts of civil penalty, disgorgement, prejudgment interest, and total penalty, respectively, as per an AAER released in year *t+1*. Panel C replicates Panel B after replacing SIC-3 industry × presidential administration fixed effects with just SIC-3 industry fixed effects. t-stats in parentheses are based on standard errors clustered by 3-digit SIC industry code. p-value for test of difference in coefficients is one-tailed. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively.

Table 7

SEC Commissioners' degree of partisanship (Continued).

Panel B: Monetary enforcement penalty

Firm ideology =	Time-varying				Time-invariant			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. var. =	CivPen_{t+1}	Disg_{t+1}	PreInt_{t+1}	TotalPen_{t+1}	CivPen_{t+1}	Disg_{t+1}	PreInt_{t+1}	TotalPen_{t+1}
Misalignment × High Partisanship SEC	0.073	0.074	0.035	0.075	0.088**	0.087**	0.049**	0.101**
	(1.494)	(1.522)	(1.133)	(1.214)	(2.360)	(2.276)	(2.047)	(2.129)
Misalignment × Low Partisanship SEC	−0.023	0.004	0.004	−0.024	0.013	0.015	0.011	0.014
	(−0.979)	(0.209)	(0.292)	(−0.927)	(0.559)	(0.853)	(0.840)	(0.536)
P-value of coef. diff.	0.052	0.104	0.203	0.084	0.048	0.060	0.101	0.064
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ind × Admin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	28,934	28,934	28,934	28,934	28,934	28,934	28,934	28,934
R^2	0.038	0.030	0.024	0.037	0.038	0.030	0.025	0.037

Panel C: Monetary enforcement penalty (with SIC-3 industry fixed effects)

Firm ideology =	Time-varying				Time-invariant			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. var. =	CivPen_{t+1}	Disg_{t+1}	PreInt_{t+1}	TotalPen_{t+1}	CivPen_{t+1}	Disg_{t+1}	PreInt_{t+1}	TotalPen_{t+1}
Misalignment × High Partisanship SEC	0.063	0.071	0.036	0.064	0.085**	0.089**	0.050**	0.097**
	(1.302)	(1.511)	(1.197)	(1.061)	(2.311)	(2.362)	(2.114)	(2.097)
Misalignment × Low Partisanship SEC	−0.029	0.006	0.006	−0.027	0.002	0.017	0.012	0.006
	(−1.342)	(0.399)	(0.459)	(−1.119)	(0.099)	(1.043)	(0.988)	(0.234)
P-value of coef. diff.	0.054	0.118	0.205	0.096	0.032	0.060	0.106	0.052
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ind FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	28,934	28,934	28,934	28,934	28,934	28,934	28,934	28,934
R^2	0.020	0.015	0.012	0.020	0.021	0.016	0.012	0.020

Table 8
Career concerns of SEC Commissioners.

Panel A: SEC investigations

Dep. var. =	SEC Investigation$_{t+1}$	
Firm ideology =	Time-varying	Time-invariant
	(1)	(2)
Misalignment × Young SEC	0.016***	0.014***
	(3.983)	(2.942)
Misalignment × Old SEC	0.002	0.007
	(0.467)	(1.126)
P-value of coef. diff.	0.021	0.178
Controls	Yes	Yes
Year FE	Yes	Yes
Ind × Admin FE	Yes	Yes
Obs.	27,532	27,532
Adj R^2	0.039	0.039

This table explores the career concerns channel of our partisan regulatory actions hypothesis. The unit of observation is firm-year. *Young (Old) SEC* is an indicator that equals one if the average age of the majority-party SEC Commissioners is below (above) the sample median, and zero otherwise. *Misalignment* is an indicator for firms whose political ideology does not match that of the SEC. Panel A examines SEC investigations. *SEC Investigation*$_{t+1}$ is an indicator that equals one if the SEC opens an investigation against the firm in year *t+1*. Panel B examines monetary enforcement penalty. *CivPen*$_{t+1}$, *Disg*$_{t+1}$, *PreInt*$_{t+1}$, and *TotalPen*$_{t+1}$ are natural logarithms of one plus dollar amounts of civil penalty, disgorgement, prejudgment interest, and total penalty, respectively, as per an AAER released in year *t+1*. *t*-stats in parentheses are based on standard errors clustered by 3-digit SIC industry code. p-value for test of difference in coefficients is one-tailed. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively.

Table 8
Career concerns of SEC Commissioners (Continued).

Panel B: Monetary enforcement penalty

Firm ideology =	Time-varying				Time-invariant			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. var. =	$CivPen_{t+1}$	$Disg_{t+1}$	$PreInt_{t+1}$	$TotalPen_{t+1}$	$CivPen_{t+1}$	$Disg_{t+1}$	$PreInt_{t+1}$	$TotalPen_{t+1}$
Misalignment × Young SEC	0.038	0.054**	0.032*	0.051	0.082***	0.064***	0.039***	0.093***
	(1.366)	(2.265)	(1.865)	(1.545)	(2.603)	(3.325)	(2.914)	(2.886)
Misalignment × Old SEC	−0.023	−0.004	−0.007	−0.039	−0.014	0.009	0.006	−0.016
	(−1.217)	(−0.210)	(−0.479)	(−1.590)	(−0.823)	(0.474)	(0.349)	(−0.726)
P-value of coef. diff.	0.012	0.020	0.052	0.004	0.003	0.016	0.065	0.002
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ind × Admin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	28,934	28,934	28,934	28,934	28,934	28,934	28,934	28,934
R^2	0.038	0.030	0.025	0.037	0.038	0.030	0.025	0.037

Table 9

Career outcomes: Partisan SEC Commissioners.

Dep. var. =	New Roles								New Leadership Roles							
Firm ideology =	Time-varying				Time-invariant				Time-varying				Time-invariant			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Partisan Investigations	2.825*				2.139***				3.431***				2.149***			
	(2.143)				(4.279)				(3.127)				(4.001)			
Partisan AAERs		0.263				1.282				0.673				1.779*		
		(0.225)				(1.596)				(0.552)				(2.032)		
Partisan Penalty			0.093				0.655***				0.207				0.712***	
			(0.384)				(3.111)				(0.797)				(4.121)	
Partisan Enforcement				1.155				1.261*				0.626				1.268*
				(1.021)				(2.135)				(0.477)				(1.802)
Age	−1.504	−1.487	−1.460	−1.737	−2.001*	−1.841	−1.552**	−2.158	−1.165	−1.339	−1.229	−1.155	−1.630*	−1.659	−1.196**	−1.797
	(−1.345)	(−1.298)	(−1.569)	(−1.748)	(−2.037)	(−1.554)	(−2.324)	(−1.703)	(−1.285)	(−1.247)	(−1.310)	(−1.126)	(−2.092)	(−1.579)	(−2.203)	(−1.581)
Obs.	15	15	15	14	15	15	15	14	15	15	15	14	15	15	15	14
R^2	0.324	0.134	0.138	0.193	0.439	0.200	0.437	0.273	0.393	0.107	0.119	0.092	0.423	0.225	0.480	0.226

This table examines the association between SEC Commissioners' partisan actions and their career outcomes. The unit of observation is SEC Commissioner. *New Roles* is the natural logarithm of one plus the number of new roles in the public or private sector the Commissioner takes on within two years of the end of the Commissioner's tenure. *New Leadership Roles* is the same as *New Roles* except that it only counts new leadership roles in the public or private sector, where we identify leadership roles as those involving positions such as chairman, president, member of a board of directors, member of a board of trustees, founder, or CEO. *Partisan Action* for a Commissioner measures the cumulative SEC actions against misaligned firms minus the cumulative SEC actions against non-misaligned firms, scaled by the sum of the two numbers, during the Commissioner's tenure. *Partisan Action* has four versions: (i) *Partisan Investigations* (based on the number of SEC investigations), (ii) *Partisan AAERs* (based on the number of AAERs released), (iii) *Partisan Penalty* (based on the total monetary enforcement penalties from AAERs), and (iv) *Partisan Enforcement* (based on the number of closed investigations with an enforcement action). *Age* is the natural logarithm of the Commissioner's age when their tenure ends. t-stats in parentheses are based on heteroscedasticity robust standard errors. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively.

Table 10

Career outcomes: Partisan SEC attorneys.

Dep. var. =	Promotion Rate_{t+1}									
Firm ideology =	Time-varying					Time-invariant				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Partisan Enforcement	0.018**	0.021**	0.022***	0.018**	0.021**	0.019**	0.019**	0.017**	0.019***	0.027***
	(2.144)	(2.690)	(2.822)	(2.439)	(2.550)	(2.643)	(2.591)	(2.617)	(2.890)	(3.576)
Total Enforcement	0.005	0.007	0.007	0.016	−0.003	0.006	0.009	0.010	0.018*	−0.002
	(0.595)	(0.895)	(0.710)	(1.600)	(−0.266)	(0.812)	(1.173)	(1.060)	(1.956)	(−0.148)
Mean dep. var.	0.102	0.102	0.102	0.102	0.222	0.102	0.102	0.102	0.102	0.222
Year FE	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
SEC Office FE	No	No	Yes	No	No	No	No	Yes	No	No
SEC Office × Admin FE	No	No	No	Yes	No	No	No	No	Yes	No
SEC Office × Admin × Pay Grade FE	No	No	No	No	Yes	No	No	No	No	Yes
Obs.	91	91	91	91	606	91	91	91	91	606
Adj. R^2	0.054	0.223	0.400	0.418	0.688	0.063	0.214	0.366	0.422	0.689

This table examines the association between SEC attorneys' partisan actions and their career outcomes. The unit of observation is SEC office-year for Columns (1)-(4) and (6)-(9), and SEC office-year-pay grade for Columns (5) and (10). For the SEC office-year sample, *Promotion* $\textit{Rate}_{t+1}$ is the number of attorneys promoted in the office in year *t+1*, scaled by the number of attorneys in the office in year *t*. For the SEC office-year-pay grade sample, *Promotion* $\textit{Rate}_{t+1}$ is the number of attorneys within a given pay grade in the office that get promoted in year *t+1*, scaled by the number of attorneys in the office within the same pay grade in year *t*. For both samples, *Partisan Enforcement* is the number of closed investigations with an enforcement action against misaligned firms in year *t* minus the number of closed investigations with an enforcement action against non-misaligned firms in year *t*, scaled by the sum of the two numbers in the numerator. *Total Enforcement* is the natural logarithm of one plus the number of closed investigations that result in an enforcement action in year *t*. *t*-stats in parentheses are based on standard errors clustered by SEC office × presidential administration. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively.

Table 11
Firm behavior – Misreporting.

Dep. var. =	Misreporting$_{t+1}$	
Firm ideology =	Time-varying	Time-invariant
	(1)	(2)
Misalignment	−0.001	−0.000
	(−0.925)	(−0.297)
Size	0.001	0.001
	(1.159)	(1.158)
BM	0.007**	0.007**
	(2.177)	(2.185)
Leverage	−0.001	−0.001
	(−0.214)	(−0.214)
ROA	−0.000	−0.000
	(−0.021)	(−0.023)
Analyst Following	−0.001	−0.001
	(−1.407)	(−1.404)
DACC	0.000	0.000
	(0.371)	(0.369)
Distance to SEC	0.000	0.000
	(0.595)	(0.609)
SP500	−0.005**	−0.005**
	(−2.303)	(−2.334)
PAC Contribution	−0.058	−0.059
	(−1.343)	(−1.360)
Stock Return	0.004	0.004
	(1.442)	(1.441)
Idiosyncratic Volatility	0.001	0.001
	(0.118)	(0.117)
Mean dep. var.	0.015	0.015
Year FE	Yes	Yes
Ind × Admin FE	Yes	Yes
Obs.	27,532	27,532
Adj. R^2	0.010	0.010

This table examines whether firms ideologically misaligned with the SEC are any different in their likelihood of initiating financial misreporting. The unit of observation is firm-year. *Misalignment* is an indicator for firms whose political ideology does not match that of the SEC. *Misreporting* equals one in the year the firm initiates financial misreporting, as identified through a subsequent income-decreasing restatement. t-stats in parentheses are based on standard errors clustered by 3-digit SIC industry code. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively. All other variables are defined in Appendix A.

Table 12
Enforcement actions following SEC investigations.

Dep. var. =	Enforcement	
Firm ideology =	Time-varying	Time-invariant
	(1)	(2)
Misalignment	−0.037*	−0.050***
	(−1.657)	(−2.782)
Size	0.024***	0.024***
	(3.597)	(3.694)
BM	0.018	0.019
	(0.701)	(0.735)
Leverage	0.067	0.067
	(1.547)	(1.577)
ROA	0.029	0.031
	(0.326)	(0.345)
Analyst Following	−0.001	−0.001
	(−0.118)	(−0.081)
DACC	−0.015	−0.015
	(−0.928)	(−0.956)
Distance to SEC	0.014***	0.013***
	(3.180)	(3.112)
SP500	−0.084***	−0.082***
	(−2.916)	(−2.894)
PAC Contribution	0.680	0.736
	(0.665)	(0.726)
Stock Return	−0.018	−0.019
	(−0.951)	(−0.980)
Idiosyncratic Volatility	0.046	0.044
	(0.647)	(0.623)
Mean dep. var.	0.154	0.154
Year FE	Yes	Yes
Ind × Admin FE	Yes	Yes
Obs.	1,598	1,598
Adj. R^2	0.126	0.127

This table examines whether SEC investigations against misaligned firms are less likely to result in an enforcement action. The unit of observation is SEC investigation. *Misalignment* is an indicator for firms whose political ideology does not match that of the SEC. *Enforcement* equals one if the SEC investigation results in an enforcement action. t-stats in parentheses are based on standard errors clustered by 3-digit SIC industry code. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively. All other variables are defined in Appendix A.

Table 13
SEC investigations of firm misreporting.

Dep. var. =	Investigated	
Firm ideology =	Time-varying	Time-invariant
	(1)	(2)
Misalignment	0.088*	0.118***
	(1.868)	(2.649)
Size	0.091***	0.091***
	(3.856)	(3.918)
BM	−0.079	−0.077
	(−1.191)	(−1.181)
Leverage	−0.322	−0.327
	(−1.574)	(−1.614)
ROA	0.054	0.055
	(0.280)	(0.287)
Analyst Following	−0.003	−0.003
	(−0.138)	(−0.163)
DACC	0.034	0.030
	(0.937)	(0.798)
Distance to SEC	−0.004	−0.003
	(−0.362)	(−0.330)
SP500	−0.098	−0.095
	(−1.320)	(−1.278)
PAC Contribution	−0.737	−0.784
	(−0.650)	(−0.686)
Stock Return	0.020	0.019
	(0.569)	(0.554)
Idiosyncratic Volatility	0.396***	0.386***
	(2.744)	(2.665)
Mean dep. var.	0.412	0.412
Year FE	Yes	Yes
Ind × Admin FE	Yes	Yes
Obs.	939	939
Adj. R^2	0.133	0.138

This table examines whether the SEC is more likely to open investigations against misaligned firms who misreport vs. non-misaligned firms who misreport. The unit of observation is income-decreasing restatement. *Misalignment* is an indicator for firms whose political ideology does not match that of the SEC. *Investigated* equals one if the SEC opens an investigation against the misreporting firm within three years of the end of misreporting. t-stats in parentheses are based on standard errors clustered by 3-digit SIC industry code. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively. All other variables are defined in Appendix A.

Appendix A Variable Definitions

Variable	Description
Misalignment	An indicator variable that equals one if the firm's political ideology is different from the SEC's ideology, and zero otherwise.
SEC Investigation	An indicator variable that equals one if the SEC opens an investigation against the firm, and zero otherwise.
AAER	An indicator variable that equals one if the SEC issues an AAER against the firm, and zero otherwise.
CivPen	The natural logarithm of one plus the dollar amount of civil penalty imposed in an AAER.
Disg	The natural logarithm of one plus the dollar amount of disgorgement imposed in an AAER.
PreInt	The natural logarithm of one plus the dollar amount of prejudgment interest imposed in an AAER.
TotalPen	The natural logarithm of one plus the dollar amount of total penalty imposed in an AAER.
Misreporting	An indicator variable that equals one if the firm initiates financial misreporting, as identified through a subsequent income-decreasing restatement, and zero otherwise.
Size	The natural logarithm of total assets.
BM	Book value of equity scaled by market value of equity.
Leverage	Total liabilities scaled by total assets.
ROA	Net income scaled by total assets.
Analyst Following	The natural logarithm of one plus the number of analysts following the firm (I/B/E/S).
DACC	Performance matched discretionary accruals (Kothari et al., 2005).
Distance to SEC	The natural logarithm of one plus the distance (m) between the firm headquarter zip code and the nearest SEC regional office zip code.
SP500	An indicator variable that equals one if the firm is part of the S&P 500 index, and zero otherwise.
PAC Contribution	Total firm political contributions made through political action committees (PACs) in the last five years, scaled by total assets. Multiplied by 100 when used in regressions, to ease the interpretation of coefficient estimates.
Stock Return	Firm's buy-and-hold stock returns during the year.
Idiosyncratic Volatility	Firm's annualized idiosyncratic volatility, calculated as idiosyncratic volatility multiplied by the square root of the number of trading days in the estimation window. Idiosyncratic volatility is the standard deviation of the residuals from a market model of the firm's daily returns estimated over the year.
CEO-Employee Alignment	An indicator variable that equals one if the CEO's ideology is aligned with the employees' ideology, and zero otherwise. Both CEO ideology and employee ideology are based on personal political contributions aggregated throughout the sample period. Employee contributions exclude CEO contributions. CEO-Employee Non-alignment is an indicator that equals one if CEO-Employee Alignment is zero.

Appendix A Variable Definitions (Continued)

Variable	Description
High Media Coverage	An indicator variable that equals one if the firm's media coverage is in the top tercile each year over the last five years (i.e., t, t-1, t-2, t-3, and t-4), and zero otherwise. Media coverage is measured by the number of all news articles mentioning the firm. Low Media Coverage is an indicator that equals one if High Media Coverage is zero.
S&P 500	An indicator variable that equals one if the firm is part of the S&P 500 index, and zero otherwise. Non S&P 500 is an indicator that equals one if S&P 500 is zero.
High Partisanship SEC	An indicator variable that equals one for years with above-median Commissioner partisanship scores, and zero otherwise. Low Partisanship SEC is an indicator that equals one if High Partisanship SEC is zero. We assign independent Commissioners a partisanship score of zero, affiliated Commissioners appointed by a President from a different party or when the President's party did not control the Senate a score of 1, and affiliated Commissioners appointed by a President from the same party when that party controlled the Senate a score of 2. We then calculate a yearly partisanship score using the average score of the majority-party Commissioners and classify years with above- (below-) median partisanship scores as High (Low) Partisanship SEC.
Young SEC	An indicator variable that equals one if the average age of the majority-party SEC Commissioners is below the sample median, and zero otherwise. Old SEC is an indicator that equals one if Young SEC is zero.

Appendix B

CEO individual contributions vs. Firm PAC contributions.

Panel A: How often do CEO (or firm PAC) contributions favor one party?

Gap in contributions to one party vs. the other party	%CEOs based on individual contributions	%Firms based on PAC contributions
= 100%	70.52%	9.16%
> 90%	70.85%	10.86%
> 80%	72.46%	15.50%
> 75%	73.50%	17.87%
> 66.66%	75.73%	24.33%
> 50%	79.94%	35.93%

Panel B: Is the party in power associated with the party a CEO (or firm PAC) contributes more heavily to?

	(1)	(2)
	I(CEO contributes mainly to Rep)	I(Firm PAC contributes mainly to Rep)
Republican Administration	0.001	0.053***
	(0.066)	(4.230)
Mean dep. var.	0.651	0.730
Obs.	4,084	4,025
R^2	0.000	0.004

This table contrasts patterns in CEO individual contributions vs. firm PAC contributions. The unit of observation is firm-election cycle. Panel A reports how often the gap in contributions to one party vs. the other party (scaled by the sum of contributions to both parties) is more than X%, where X takes values of 100, 90, 80, 75, 66.66, and 50. *%CEOs* is calculated as the fraction of firm-election cycles when the absolute gap in CEO contributions to one party vs. the other party is more than *X%*, using election cycles with non-zero CEO contributions. *%Firms* is calculated as the fraction of firm-election cycles when the absolute gap in firm PAC contributions to one party vs. the other party is more than *X%*, using election cycles with non-zero firm PAC contributions. Panel B examines whether the party in power has an association with the party a CEO (or firm PAC) contributes more heavily to. *Republican Administration* is an indicator for election cycles under Republican presidencies. *I(CEO contributes mainly to Rep)* is an indicator for CEOs who personally contribute more to the Republican Party than to the Democratic Party. *I(Firm PAC contributes mainly to Rep)* is an indicator for firms who contribute more to the Republican Party than to the Democratic Party through PACs. t-stats in parentheses are based on standard errors clustered by firm. ***, **, and * indicate statistical significance (two-sided) at the 0.01, 0.05, and 0.10 levels, respectively.

Appendix C

Fraction of ideologically misaligned firms within SIC-3 industries during a presidential administration.

	%Misalignment		
Sectors	Bush	Obama	Trump
Consumer Non-Durables	29.75%	34.22%	27.59%
Consumer Durables	26.64%	58.72%	17.94%
Manufacturing	14.43%	50.56%	16.17%
Energy	8.14%	68.03%	7.81%
Chemicals	19.47%	42.72%	28.92%
Business Equipment & Software	24.62%	32.67%	27.90%
Telecommunication	28.31%	22.98%	22.11%
Utilities	22.29%	47.97%	34.73%
Wholesale & Retail	24.97%	41.96%	22.92%
Healthcare	20.22%	41.92%	25.69%
Finance	23.45%	40.73%	23.77%
Other	27.09%	37.19%	25.36%

This table examines the variation in *Misalignment* variable within SIC-3 industries during a presidential administration. It calculates the fraction of misaligned firms within each SIC-3 industry during a presidential administration, and reports the averages across SIC-3 industry-presidential administration combinations within each Fama-French 12 sector during each presidential administration. To ease the interpretation of this table, we drop SIC-3 industries with fewer than five firms.

Appendix D

Descriptive statistics on the change in misalignment sample used in Table 4.

Panel A: Descriptive statistics on the SEC and CEO turnover sample

	Mean	SD	Q1	Median	Q3	N
SEC turnover sample						
SEC Investigation$_{t+1}$	0.049	0.215	0.000	0.000	0.000	7,369
Δ Misalignment	0.010	0.762	−1.000	0.000	1.000	7,369
Post	0.662	0.473	0.000	1.000	1.000	7,369
CEO turnover sample						
SEC Investigation$_{t+1}$	0.071	0.256	0.000	0.000	0.000	4,589
Δ Misalignment	0.019	0.338	0.000	0.000	0.000	4,589
Post	0.596	0.491	0.000	1.000	1.000	4,589

Panel B: Number of observations for different values of Δ Misalignment

	Δ Misalignment = −1	Δ Misalignment = 0	Δ Misalignment = 1
SEC turnover sample	2,103	3,091	2,175
CEO turnover sample	220	4,064	305

This table reports the descriptive statistics on the change in misalignment sample used in Table 4. The unit of observation is firm-year. Panel A reports the descriptive statistics on the SEC turnover sample and the CEO turnover sample used in Table 4. *SEC Investigation*$_{t+1}$ is an indicator that equals one if the SEC opens an investigation against the firm in year *t+1*. *SEC Turnover* and *CEO Turnover* indicate the two event types (change in SEC ideology or CEO turnover). The variable Δ *Misalignment* takes three values based on the change in misalignment after each event: −1, 0, and 1, indicating (respectively) that the ideological misalignment between the firm and the SEC decreases (i.e., switches from misaligned to non-misaligned), does not change, or increases (i.e., switches from non-misaligned to misaligned). *Post* is an indicator that equals one for years after the SEC turnover or the CEO turnover event, and zero otherwise. Panel B reports the number of observations within each bucket of Δ *Misalignment* values.

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