Spillover Effects of Financial Reporting Fraud on Peers: An SEC Enforcement Perspective

Abstract: This paper explores spillover effects of financial reporting fraud across firms connected through industry and ownership ties. Leveraging the Securities and Exchange Commission's (SEC's) Accounting and Auditing Enforcement Releases (AAERs) as indicators of financial reporting fraud, we test whether public disclosures about financial reporting fraud have deterrent or contagion effects on peers' financial reporting quality. Following the onset of a triggering announcement and subsequent AAER publication, we find that only ownership-connected peers exhibit an improvement in financial reporting quality. By contrast, our results give no support for industry-connected peers adjusting their financial reporting quality at both trigger event or AAER publication. When examining the violation period, marking the preceding period of SEC's official enforcement, our falsification test verifies that adjustments in financial reporting quality are driven by public enforcement activities. Our findings extend the growing literature on peer effects, regulatory enforcement, and common ownership dynamics.

1. INTRODUCTION

Financial reporting fraud represents a significant concern in contemporary corporate governance. It has profound impacts on firms, investors, the wider economy, and society at large. Despite numerous efforts to curb such activities, financial reporting fraud remains an ongoing challenge, calling for an understanding of its systemic influence beyond the immediate firm. In recent decades, a concentration of public firm ownership among large institutional investors like BlackRock, Vanguard, and State Street, each holding 5 percent to 7 percent in nearly every S&P 500 firm, has been observed (Schmalz 2018). This has led to common institutional ownership, where investors hold significant stakes in multiple same-industry firms (Peng, Yin, and Zhang 2023). The occurrence of common institutional ownership has grown from under 10 percent in 1980 to around 60 percent in 2014. When these institutional investors own significant shares across competing firms, their economic interests shift from maximizing the value of individual firms to maximizing their total portfolio value, which might lead to reduced competitiveness and strategic benefits (He and Huang 2017). This shift challenges the traditional economic principle that firms aim to maximize their value and questions Adam Smith's idea that shareholders' self-interest naturally leads to the maximization of social welfare (Schmalz 2018). It also raises an interesting phenomenon of peer effects: actions or events in

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one firm, such as financial reporting fraud, can significantly impact the performance and behavior of peer firms. In recent years, common ownership has increasingly become the focus of both regulatory examination and academic research (Raman, Ye, and Yu 2023). These common owners often possess more industry expertise, stronger incentives, and a greater ability to monitor and influence corporate decisions, thereby intensifying the potential impacts of these peer effects. A study by Peng, Yin, and Zhang (2023) supports this assertion by showing that the presence and intensity of common ownership increase accounting comparability between industry-connected peers. Importantly, this influence is more pronounced under conditions of higher operational uncertainty, which could include financial reporting fraud. This peer effect, driven by ownership ties, thus becomes a critical factor in understanding the broader impact of individual firm actions on industry dynamics. Generally, prior research has shown that peer events are diverse and complex, and spillover effects may vary greatly depending on the event and peer identification. Therefore, understanding the diversity and complexity of peer events and spillover effects is critical for accurately assessing their impact on different entities and networks.

In response to recent financial reporting fraud cases, the SEC has ramped up regulatory and enforcement efforts to prevent future fraudulent behavior and establish a robust deterrent mechanism. This emphasis on deterrence is reflective of the desire to maximize the utility of the SEC's resources. Facing challenges highlighted by Thompson, Urcan, and Yoon (2023) regarding resource constraints, the SEC has proactively sought an increased budget for the upcoming fiscal year. This aims to address new and emerging challenges, including crypto assets and cybersecurity, as detailed in the FY-2024 Congressional Budget Justification (SEC 2023). In addition, ongoing concerns persist as pointed out by Kedia and Rajgopal (2011) about a possible geographical bias in the SEC's investigations, perhaps due to resource limits. This, combined with oversight in detecting high-profile frauds, underscores the urgency for refined

enforcement approaches. The SEC's intensified focus on deterrence mirrors its overarching objective to optimize the impact of its available resources. Against this background, we aim to study the spillover effects of financial reporting fraud on firms connected through industry or ownership ties.

We extend Ramalingegowda, Utke, and Yu (2021) by considering the most unethical indicator of financial reporting practices, the SEC's AAERs. AAERs are public documents regarding civil lawsuits provided by the SEC, detailing disciplinary actions taken against individuals and companies for securities law violations. By publicizing these releases, the SEC aspires to convey the repercussions of financial misconduct, intending to deter misbehavior in financial reporting. However, the tangible impact of AAERs as a deterrent remains a subject of academic discussion. A pivotal question our paper addresses is whether these releases genuinely influence the behaviors and practices across firms connected through industry and ownership ties. Thus, by utilizing AAERs as a measure of financial reporting fraud, we investigate their impact on peer firms.

In the accounting sphere, research on AAERs has seen considerable growth, producing a diverse range of contexts and perspectives. Early research mainly focused on the causes and effects of enforcement actions on firms (Dechow, Sloan, and Sweeney 1996; Bannister and Wiest 2001). More recent works have shed light on a variety of related topics, such as the impact of professional experience with accounting-related adverse events on subsequent financial reporting policies (Kubick and Li 2023) and the use of customer data in detecting supplier revenue fraud (Li, Li, and Zhang 2023). Other studies have highlighted the crucial role of external monitoring and litigation risk in shaping firms' financial reporting behavior (Blackburne and Quinn 2023) along with the transformative effect of AAERs on corporate governance (Cao et al. 2015). In contrast, our study seeks to discern if a deterrent effect from SEC enforcement can improve financial reporting quality among peer firms.

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We tested for potential spillovers of SEC enforcement actions on peer firms' financial reporting quality covering the years between 2008 and 2021. For this period, we define two important events: the trigger event initiating a Matter Under Inquiry (MUI) and the public release date of the enforcement decision. By examining these specific points, we aim to understand changes in the reporting behaviors of peer firms throughout the enforcement process. We identified peer firms in two distinctive ways: First, we looked at industry connections, where peers are defined as firms within the same industry (using 4-digit SIC codes). Second, we determined ownership-connected peers by identifying firms with a similar ownership structure, particularly those with a common blockholder and operating in broader industries defined by 2-digit SIC codes. Our empirical model focuses on two pivotal measures: performance-adjusted discretionary accruals and a binary variable determining if a firm meets or slightly exceeds the analyst annual EPS forecast. Using data from 2008 to 2021 and after implementing specific exclusions and criteria, our final sample encompasses 13,394 to 30,956 firm-years, covering 1,874 to 4,411 distinct firms.

Our results provide evidence for a spillover effect from fraudulent to nonfraudulent firms, but these spillovers depend on the specification of peers. For industry-connected peers, our results demonstrate insignificant effects for both measures of financial reporting quality at both the trigger event and the AAER publication. For ownership-connected peers, we find an improvement in financial reporting quality after the trigger event and the AAER release. Our findings show that the behavior of non-fraudulent firms, in terms of their financial reporting quality, is affected by the fraudulent activities of their peers. This influence, however, varies depending on the peer relationship (industry vs. ownership). To enhance our comprehension of potential peer effects on financial reporting quality, we conducted a falsification test concentrating on the initial stage preceding official SEC interventions. Specifically, we examined the onset of the violation period when the fraudulent activities remain concealed.

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Our data suggests no significant variations in financial reporting quality metrics for both industry-connected and ownership-connected peers.

We contribute to the literature by, to our knowledge, being the first to study the implications of financial reporting fraud and spillover effects, discerning between both industry-connected and ownership-connected peers throughout distinct points of the SEC enforcement process. Given the mounting attention on enforcement approaches (SEC 2018, Mowchan and Zhang 2023), spillover ramifications (Christensen, Olson, and Omer 2015; Donelson, Flam, and Yust 2022; Park 2023), and common ownership dynamics (Peng, Yin, and Zhang 2023; Raman, Ye, and Yu 2023), our research provides insights, broadening multiple facets of understanding on how best to tackle SEC resource constraints and, in the long run, ensure effective deterrence.

Previous research has primarily focused on restatements, which cover a range of financial reporting issues from minor errors to intentional manipulations (Karpoff et al. 2017). While restatements offer a broad understanding of financial reporting challenges, they often include unintentional inaccuracies (Hennes, Leone, and Miller 2008; Plumlee and Yohn 2010). In contrast, AAERs specifically address significant violations of securities regulations. Pointing to the differential severity between restatements and AAERs, Palmrose, Richardson, and Scholz (2004) demonstrate that the market reaction to restatements associated with fraud — those tied to an AAER or explicitly disclosing fraud/irregularity — experiences a significant decline of 20 percent, contrasting sharply with the minus 6 percent reaction for non-fraud cases. This underscores the varying gravity between unintentional inaccuracies found in restatements and the substantial violations of securities regulations pointed out by AAERs. Thus, while restatements allow to observe a broader spectrum of financial reporting quality issues, ranging from simple errors to intentional misrepresentations, researching AAERs gives a nuanced view of significant cases of financial misrepresentation, providing deeper insights into the nature, causes, and consequences of severe accounting and auditing malpractices. Our

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research is expected to provide insights into the presence of contagion or deterrence effects in the context of financial reporting fraud among peer firms. The question of whether SEC disclosures about financial reporting fraud spill over between firms connected through industry and ownership ties is likely to interest proponents of the social network theory in accounting research.

2. INSTITUTIONAL SETTING, RELATED RESEARCH, AND HYPOTHESIS DEVELOPMENT

2.1 AAER – SEC Enforcement Division

Accounting and Auditing Enforcement Releases are public documentation concerning civil lawsuits provided by the SEC related to disciplinary actions against individuals and companies for violations of securities laws. These actions can range from civil monetary penalties, suspensions, bars, or revocations of registered securities or individuals, serving as valuable data sources for researchers examining financial regulation and compliance. Prior research on AAERs within the accounting sphere has increased over the past years. As a result, research on AAERs has become increasingly diverse and covers a wide range of settings and perspectives. Early research has primarily investigated the causes and consequences of firms subject to enforcement actions (Dechow, Sloan, and Sweeney 1996; Bannister and Wiest 2001). From a broader political perspective, Correia (2014) studies whether political connections affect the costs incurred by firms and executives from SEC enforcement actions, while Silvers (2016) takes a financial perspective by looking at the valuation impact for nontarget foreign firms.

More recently, studies in this area provide insights into the relationship between professional experience with accounting-related adverse events and subsequent financial reporting policies (Kubick and Li 2023), the use of customer information to detect supplier revenue fraud (Li, Li, and Zhang 2023), the determinants and consequences of quantitative critical accounting

estimates (CAE) for accounting estimation uncertainty disclosures (Glendening, Mauldin, and Shaw 2019), the link between cash-flow properties and accruals (Frankel and Sun 2018), the potential repercussions for auditors issuing going concern reports (Eutsler, Nickell, and Robb 2016), and the role of auditors in detecting and reporting financial reporting fraud cases (Caster, Elder, and Janvrin 2008). From a broader regulatory perspective, Blackburne and Quinn (2023) highlight the importance of external monitoring and the potential deterrent effect of litigation risk on firms' financial reporting behavior, while Kedia and Rajgopal (2011) study regulatory authority preferences affecting corporate misconduct in the pre-SOX period. In contrast, the purpose of our study is to investigate whether there is an indirect deterrence effect from SEC enforcement that deters low-quality financial reporting among nonfraudulent peer firms.

2.2 Peer Behavior

According to the social network theory, relationships, influences, and interactions within a network can significantly affect behaviors and outcomes. If one firm engages in financial reporting fraud, this behavior may disseminate through its connections, a phenomenon called contagion. The underlying rationale is that firms in close proximity within a network may share similar practices and behaviors (Tucker 2019). Conversely, such disclosures could act as a deterrent, whereby the negative consequences experienced by a fraudulent firm dissuade its peers from engaging in similar behavior. Both effects contagion and deterrent are of considerable interest to accounting researchers as they delve into how fraudulent activities propagate or are mitigated within intricate business networks.

Social Network Theory

Prior research in various disciplines has repeatedly studied how peer behavior influences decision-making (Granovetter 1973; Banerjee 1992; Bikhchandani, Hirshleifer, and Welch 1992; McPherson, Smith-Lovin, and Cook 2001; Cialdini and Goldstein 2004). Social network theory suggests that individuals' behavior is influenced by the social network including friends,

colleagues, and others in the network. According to this theory, the behavior of an individual can be predicted by the behavior of those in the social network. Studying social network theory in the accounting discipline is a relatively recent development. Power and Laughlin (1996) are among the first to explicitly apply social network theory to study how the use of accounting numbers in corporate decision-making and their manipulation is influenced by social networks. Ever since social network theory has been used to study a wide range of topics within the accounting sphere such as financial reporting, auditing, and tax compliance (e.g., Brown and Drake 2014; Chahine et al. 2021; Bai et al. 2022; Reck, Slemrod, and Vattø 2022; Ho, Lu, and Wu 2023). Overall, research in this area shows that decisions are not made in isolation but are embedded in social networks that influence attitudes, beliefs, and most importantly actions. Similarly, peer theory, a related area of research within social network theory, highlights the role of peers and peer groups in shaping behavior and decision-making. Peer theory stems from social comparison theory, which was first proposed in social psychology by Festinger (1954). It describes people's innate drive to evaluate themselves by using social comparison to achieve this goal. Social comparison theory and peer effects have been widely studied in the accounting domain (Berger, Libby, and Webb 2018; Griffith, Kadous, and Proell 2020; Bellora-Bienengräber, Radtke, and Widener 2022; Park 2023). Examining social relationships among individuals and the flow of information and behavior within networks, social network theory and peer theory provide valuable insights into the mechanisms underlying social influence and decision-making.

Observing others engage in unethical behavior can change the perceived cost of engaging in similar behavior. This, in turn, leads to an increase or decrease in the likelihood of engaging in similar behavior. Theoretical considerations suggest that undesirable behavior within a social network or peer group may have an impact on the behavior of individuals within that group,

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which highlights the importance of understanding social influence and designing interventions aimed at promoting positive behavior change within peer groups.

In light of these considerations, as the SEC (2020) noted, "Holding individuals accountable is among the most effective methods of achieving deterrence." This statement underscores the necessity of designing interventions aimed at promoting positive behavior change within peer groups. There is a comprehensive literature on peer effects or spillover effects, which goes beyond financial and accounting-related effects (Aobdia 2015; Engelberg, Ozoguz, and Wang 2018; Bauckloh et al. 2021; Ashraf 2022). The deterrent effect aims to avoid undesirable developments existing in peer companies in their own company. While the contagion effect has been more extensively studied through various research questions and studies (e.g., Beatty, Liao, and Yu 2013; Chiu, Teoh, and Tian 2013; Leary and Roberts 2014; Kedia, Koh, and Rajgopal 2015; Omer, Shelley, and Tice 2020), the likely dominant deterrent effects have not yet been comprehensively studied, particularly in the context of corporate scandals and publicized problems.

> **Hypothesis 1**: *Public enforcement activities lead to an improvement in financial reporting quality among industry-connected peers.*

Networks have been extensively studied in a variety of contexts, including those formed by board interlocks, analysts, auditors, industry peers, supply chains, strategic alliances, and investors (Bianchi et al. 2023). The level of analysis has also transitioned from focusing solely on corporate networks to investigating individual ties. Within this extensive network spectrum, institutional investors, especially those with substantial holdings across multiple firms, often serve as conduits for the transfer of best practices strategic insights, and important trends, including those relating to financial reporting and audit quality (Gompers and Metrick 2001; Hochberg, Ljungqvist, and Lu 2007).

In the context of financial reporting fraud, the revelation of such unethical conduct could considerably shape peer behavior, especially those firms that share institutional investors. As interpreted through the perspective of social network theory, it can be posited that information exchange facilitated by shared institutional ownership may instigate shifts in financial reporting practices, thereby encouraging higher financial reporting quality. Firms may instigate these changes in an attempt to circumvent the damaging ramifications experienced by their peers, contributing to broader efforts to enhance corporate transparency and accountability.

Hypothesis 2: *Public enforcement activities lead to an improvement in financial reporting quality among ownership-connected peers.*

The discourse around common ownership, however, remains layered and complex, particularly in its relation to oversight practices and the prevention of financial fraud. Some scholars and regulatory bodies contend that institutional owners can be overly deferential to corporate managers and thus underinvest in the monitoring of the firms they own (SEC 2018; Bebchuk and Hirst 2019). This perceived shortfall in governance could create more opportunities for earnings manipulation, increasing the risk of financial fraud. On the contrary, other studies suggest that common ownership correlates with increased, not reduced, monitoring (He, Huang, and Zhao 2019; Ramalingegowda, Utke, and Yu 2021; Raman, Ye, and Yu 2023). This view argues that common owners, acting as sophisticated investors, could demand higher levels of financial transparency and reporting integrity to better safeguard their investments. Further, it has been suggested that common owners are willing to shoulder the marginal cost of acquiring industry-specific knowledge to enhance governance within their portfolio companies (He, Huang, and Zhao 2019). This proactive monitoring can diminish the propensity for earnings management and, thereby, improve financial reporting quality. Despite the divergence in these views, there is a consensus on the pivotal role common ownership plays in shaping firm behavior. Given this backdrop, our study probes deeper into the implications of common

ownership on financial reporting behavior, particularly in relation to the occurrence and revelation of financial fraud.[1]

3. SAMPLE SELECTION AND RESEARCH DESIGN

3.1 Financial Statement Fraud

Understanding the timeline of SEC enforcement actions is vital to our research design. Figure 1 illustrates the sequence of events in an SEC enforcement action. In line with Karpoff, Lee, and Martin (2008), we use the word action to signify the entire chain of public releases that relate to a specific company that might have been involved in fraudulent activities. The process begins during the violation period, a phase when the fraudulent activities remain undisclosed to the public. Generally, a specific announcement pertaining to the firm captures the SEC's attention, leading them to begin further investigations. These trigger events are usually initiated by the firm itself, signaling potential issues through whistleblowers' tips, restatements, or 8K filings (Correia 2014; Zheng 2021). This phase is followed by an investigation phase, where SEC staff collects evidence to determine whether to recommend enforcement. The regulatory period marks the conclusion of the enforcement action.
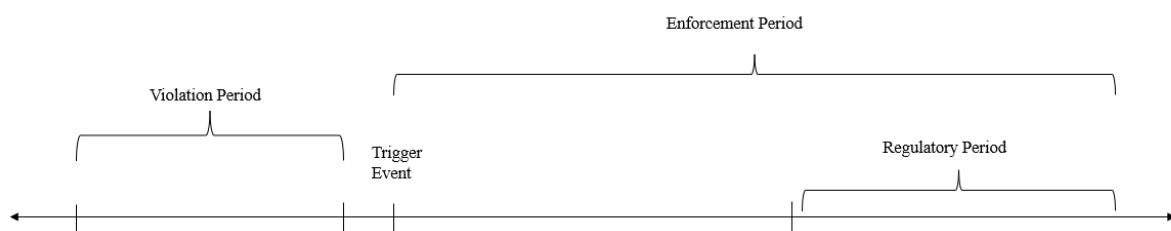

Figure 1 SEC Enforcement Action Timeline

The key moments in our study are the trigger event and the release date, the point when the enforcement decision becomes public knowledge. By focusing on these two critical points in

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[1] See Appendix B for a detailed description of previous studies.

time, we aim to capture the unique contagion effects on peer firms and unravel the dynamics of changes in their financial reporting behavior during these enforcement stages.

As AAERs could be related to various financial reporting issues, including insider trading, that are unlikely to deter peer firms, we focus on financial statement fraud. Consistent with Amiram et al. (2018), we classify AAERs as related to financial reporting fraud if they include violations of Sections 17(a) of the 1933 Securities Act or 10(b) of the 1934 Securities Exchange Act.

3.2 Identification of Peers

We use two different strategies to identify peer firms. Consistent with prior literature on regulatory spillover effects (Kang 2008; Beatty, Liao, and Yu 2013; Kubick et al. 2016; Brown, Tian, and Tucker 2018), we consider firms within the same industry as the fraudulent firm as industry-connected peers. Industry-connected peers experience similar challenges and opportunities indicating that AAERs reveal relevant information on potential risks for them and likely cause improvements in financial reporting quality. *Industry_Trigger* (*Industry_Release*) is a binary variable equal to one if a firm within the same industry year (using 4-digit SIC codes) has a trigger event (an AAER) in t-1, and zero otherwise.

As an alternative, we treat firms sharing the same ownership structure as a fraudulent firm as ownership-connected peers. Common ownership could serve as an information channel enabling firms to access additional information on AAERs that can help to improve the financial reporting quality. Based on prior literature (Ramalingegowda, Utke, and Yu, 2021), we define ownership-connected peers as firms having at least one common blockholder and operating within the same 2-digit SIC code industry. Specifically, *Industry_Trigger* (*Industry_Release*) is a binary variable equal to one if a firm with the same blockholder within the same industry year (using 2-digit SIC codes) has a trigger event (an AAER) in t-1, and zero otherwise.

3.3 Empirical Model

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To analyze the relationship between financial reporting fraud and financial reporting quality among peers, we estimate the following model:

$$FRQ_t = \beta_0 + \beta_1 PEER\ EFFECT_{t-1} + CONTROLS_t + \varepsilon_t \tag{1}$$

Consistent with Ramalingegowda, Utke, and Yu (2021), we focus on two measures to gauge financial reporting quality (*FRQ*). The first measure is the firm's performance-adjusted discretionary accruals (*DACC*) based on Kothari, Leone, and Wasley (2005). The second measure is a binary variable reflecting whether a firm meets or beats by up to one cent the consensus analyst's annual EPS forecast immediately before the earnings announcement (*BEAT*). *PEER EFFECT* refers to *Industry_Trigger, Industry_Release, Owner_Trigger,* or *Owner_Release*. The key coefficient of interest, β_1, captures the effect of a peer event on the firm's financial reporting quality. A negative β_1 would indicate that firms increase their financial reporting quality following public disclosures of a peer's financial reporting fraud (deterrent effect). A positive β_1 would indicate that firms decrease their financial reporting quality following such disclosures (contagious effect).

Our model includes various control variables based on prior literature. First, we control for firm characteristics that are likely to impact earnings management, including firm size (*LogTA*), profitability (*ROA*), market valuation (*MB*), growth (*SALEGR*), financial pressure (*DEBT*), and ownership concentration (*BLOCK*). Second, we account for potential mean reversion of financial reporting quality by including the one-year lags of the respective dependent variable (*Lag_FRQ*). Third, we include firm fixed effects to control for (observable or unobservable) time-invariant firm characteristics that may affect our estimates. Finally, we use year-fixed effects to isolate the impact of time trends on financial reporting quality.

Because our sample includes heterogeneous companies, which differ greatly in size, we calculate robust standard errors in our models to avoid heteroskedasticity. Appendix A contains definitions and database identifiers of all variables.

3.4 Sample Selection

Our dataset stems from three sources. We utilize Python to extract data on AAERs between 2010 and 2020. AAERs published after 1999 are available on the SEC website, however, the SEC started to use a uniform format for all AAERs in 2010 allowing us to utilize Python for data retrieval.[2] In total, we identified 362 AAERs, scrutinizing each for details such as the nature of violations, involved firms, release year, trigger events, and violation periods, among other factors. After eliminating 226 AAERs unrelated to our definition of financial statement fraud and 41 AAERs addressed to respondents with incomplete database identifiers, our final sample comprised 95 AAERs, pertaining to 80 unique firm years.

In addition, we retrieve ownership and financial data from Datastream and Refinitiv for all listed U.S. firms between 2008 and 2021. Our sample period starts before 2010 as some of the AAERs refer to trigger events that occurred in 2008 or 2009. We begin with 71,053 firm-years among 7,929 firms available in Datastream. As our research design requires information on the firm's ownership structure that is available in Refinitiv, we exclude 86 firm years among 17 firms that cannot be matched to this database. Consistent with prior literature on financial reporting quality (e.g., Ramalingegowda, Utke, and Yu 2021), we also exclude 17,128 firm-

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[2] In contrast to manual approaches to retrieve SEC data, utilizing Python for data retrieval has several advantages. First, it enhances accuracy by reducing subjectivity and discrepancies that can arise from manual data extraction. Second, it significantly increases efficiency, allowing us to sift through a large amount of data quickly, an asset when dealing with voluminous documents such as AAERs. This approach provides scalability, meaning we could readily expand our analysis to include more documents if needed. By employing Python for data extraction and analysis, we were able to swiftly gain a comprehensive overview of all AAER cases available on the SEC website. This allowed us to systematically categorize these documents. Consequently, this method facilitated a more thorough, reliable, and efficient analysis, contributing to the robustness of our research findings. Generally, the likelihood of Type I errors, false positives where misconduct is incorrectly identified, is reduced in the AAER sample (Rajgopal, Srinivasan, and Zheng 2021). This is attributed to the SEC's high accuracy in detecting actual instances of misconduct when they arise.

years among 1,949 firms operating in the financial or utility industry. Finally, we require firms to have nonmissing control variables, resulting in a sample of 39,353 firm-years among 5,255 firms.[3] Our final set of firms depends on the measure of financial reporting quality and ranges from 13,394 to 30,956 firm-years among 1,874 to 4,411 firms. Table A.1 describes our sample selection process.

4. EMPIRICAL RESULTS

4.1 Descriptive Statistics

Table A.2 outlines the descriptive statistics for the variables employed in our regression analysis. Panel A indicates that 6.5 percent (6.2 percent) of the firm-years in our sample are identified as industry-connected peers affected by a trigger event (AAER release). Based on industry affiliation and common ownership, 0.8 percent (1.6 percent) are characterized as ownership-connected peer firms affected by a trigger event (AAER release). By construction, *DACC* is zero, but as a result of our sample selection criteria, the average of *DACC* in our sample is -0.005. *BEAT* has an average value of 0.098 indicating that 9.8 percent of the firm-years in our sample meet or beat the analyst forecast by less than 1 percent. This value aligns with similar research conducted on U.S. firms, as demonstrated by Ramalingegowda, Utke, and Yu (2021). Panel B provides descriptive evidence on the impact of AAERs on peer firms. For industry-connected peers, we find a decrease in *DACC* by 0.023 ($p < 0.01$) after the trigger event and a decrease by 0.009 ($p = 0.037$) after the AAER release. For ownership-connected peers, we find a slightly higher decrease in *DACC* by 0.043 ($p < 0.01$) after the trigger event and a Decrease in *BEAT* by 0.047 ($p = 0.011$) after an AAER release. Interestingly, we find *DACC* to increase by 0.023 ($p < 0.01$) after an AAER release. This is somewhat consistent with Brown, Tian, and Tucker (2018), who find strong spillover effects of comment letters on

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[3] Within this subsample, 32 firm-years have an AAER release and 44 firm-years have a trigger event that is associated with an AAER.

modifications of the risk factor disclosure in the event year, but similar levels in the years prior and after the event.

Panel C reports Pearson and Spearman correlations between the variables used in our regression analyses. We find significant and negative correlations between *Owner_Trigger* and *DACC* and between *Industry_Release* and *DACC* as well as significant and positive correlations between *Industry_Trigger* and *BEAT*, while the other peer event variables are not significantly correlated to financial reporting quality. The correlations between control variables are low indicating that multicollinearity is not an issue in our models.

4.2 Regression Results

Table A.3 reports our main results on the effect of AAERs on financial reporting quality among peers. Panel A summarizes the effect of a trigger event and/or AAER release on industry-connected peers. We find insignificant coefficients on *Industry_Trigger* and *Industry_Release* in each specification suggesting that industry peers do not adjust their financial reporting quality after a trigger event or the release of an AAER. By contrast, Panel B documents significant effects of an AAER event on ownership-connected peers. Specifically, we find that the announcement of a trigger event causes firms with common ownership to decrease *DACC* by 0.015 to 0.016 (p = 0.087 and p = 0.068, respectively) and *BEAT* by 0.037 to 0.040 (p = 0.056 and p = 0.040, respectively). Economically, the trigger event causes firms with common ownership to decrease discretionary accruals by about 10 percent of one standard deviation and reduces the likelihood of meeting or just beating the consensus analyst forecast by about 4 percent.[4] The release of an AAER reduces *BEAT* by 0.029 to 0.031 (p = 0.047 and p = 0.036, respectively), but increases *DACC* by 0.010 to 0.011 (p = 0.013 and p = 0.008, respectively). Both effects are economically significant and translate to an increase in *DACC* by about 7

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[4] We calculate the economic effect on *DACC* by dividing the coefficient on the peer event by the standard deviation of *DACC* (i.e., 0.148).

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percent and a 3 percent lower probability of meeting or just beating the consensus analyst forecast.

While the increase in *DACC* may seem inconsistent, we also note in Table A.2 Panel B that ownership-connected peers have a relatively low value of *DACC* in the year of an AAER release which is most likely due to the improvements after the announcement of a trigger event. Further reductions could therefore indicate the usage of income-decreasing earnings management in that group. Our untabulated results indicate that *Owner_Release* is associated with reductions in both income-increasing ($DACC > 0$) and income-decreasing earnings management ($DACC < 0$), whereby the reductions in income-decreasing earnings management cause us to find a positive effect of *Owner_Release* on *DACC*. Consistent with this argument, we also find *Owner_Release* to reduce the absolute value of *DACC*. Taken together, the empirical results from Table A.3 suggest that AAERs have a deterrent effect on ownership-connected peers. This finding is consistent with the prediction that common owners serve as a channel for information exchange and improve financial reporting through their monitoring activities (Rajgopal and Venkatachalam 1997; Ayers, Ramalingegowda, and Yeung 2011; Ramalingegowda and Yu 2012; Dou et al. 2018).

4.3 Falsification Test

To provide additional evidence that our results are driven by spillover effects and not by other factors (e.g., unknown past events), we run a falsification test on equation (1) using pseudo-event years. Specifically, our analysis is geared towards understanding if there are observable changes in the financial reporting quality of peer firms at the onset of the violation period. At this point, the fraudulent activities within the AAER firm remain undisclosed. If AAERs trigger adjustments in financial reporting quality, we would expect an insignificant coefficient on the pseudo-event years. The results are presented in Table A.4. We find that neither industry-connected nor ownership-connected peers show changes in *DACC* or *BEAT* after the start of

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the violation period. Overall, the effect of AAERs appears in the year of the trigger event and the AAER release, while it is absent in previous periods, alleviating concerns about an association between unknown past events and the occurrence of AAERs.

5. DISCUSSION AND CONCLUSION

As we navigate the complex terrain of modern corporate governance, the prevalence of financial reporting fraud, coupled with intensified efforts from regulatory bodies like the SEC, assumes central significance (e.g., Mowchan and Zhang 2023; Thompson, Urcan, and Yoon 2023). Particularly for firms under common institutional ownership, these circumstances catalyze a shift towards deterrence in financial practices, influencing the behavior of peer firms and transforming the dynamics within the industry. However, a compelling narrative yet to be fully explored is the spillover effect of these heightened regulatory measures. The extent to which these actions impact firms connected through industry and ownership ties, therefore, remains an open question.

Our findings underscore a spillover effect on non-fraudulent firms' financial reporting quality due to their peers' fraudulent activities. The magnitude and direction of this effect, however, depends on the peer relationship, whether industry-connected or ownership-connected. Following the trigger event and the AAER release, our results suggest ownership-connected peers enhancing their financial reporting quality. Complementary analyses focusing on periods preceding official SEC interventions reveal no significant changes in financial reporting quality for either peer group. These findings affirm a deterrent effect of public enforcement actions on financial reporting quality.

The value-added of our research approach is given by multiple features, offering a significant contribution to the broader understanding of financial reporting, regulation, and corporate governance. Our results generally suggest that regulatory bodies may prioritize areas based on the nuances of peer relationships, recognizing that firms may react differently depending on

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their industry or ownership affiliations. Our findings further point to areas for future research. The underlying reasons for varied reactions among different peer groups present a fertile ground for academic exploration.

Prior research on the causes, consequences, and characteristics of fraud has so far facilitated significant advances in the accounting profession's comprehension of financial reporting, regulation, and corporate governance (Karpoff et al. 2017). With standard setters like the SEC already initiating approaches to enhance the quality of corporate governance (Bhagat and Bolton 2019), our research is expected to yield essential insights for these efforts.

Our research further gains relevance and urgency when considering the SEC's resource constraints. Previous literature acknowledges these constraints faced by the SEC, underlining the challenges posed to the commission's effectiveness (Thompson, Urcan, and Yoon 2023). Similarly, studies such as Kedia and Rajgopal (2011) indicate that the SEC's investigative activities are more likely to focus on defendants who are geographically proximate, hinting at the potential limitations posed by resource constraints. The SEC has been criticized for failing to detect several high-profile frauds, suggesting that there is a need for better information dissemination regarding SEC enforcement activities and that resource limitations may impact the overall effectiveness of the SEC's enforcement program.

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Appendix A: AAER Retrieval

Financial Reporting Quality

DACC	Discretionary accruals calculated as the residual from the performance-adjusted modified Jones model based on Kothari et al. (2005) estimated for each industry year (using 3-digit SIC codes) requiring at least 10 observations per industry year: $AC_t = \beta_0 \, 1/AVGAT_t + \beta_1 \Delta CASHREV_t + \beta_2 PPE_t + \beta_3 ROA_{t-1} + \beta_4 ROA_t + \varepsilon_t,$ where AC_t is total accruals defined as net income from continuing operations (WC18150) minus operating cash flow (WC04860) scaled by average total assets (WC02999) $AVGAT_t$ is average total assets (WC02999) based on assets at the beginning and end of year t $\Delta CASHREV_t$ is the change in revenue (WC01001) minus the change in accounts receivable (WC02051) scaled by average total assets (WC02999) PPE_t is net property, plant, and equipment (WC02501) scaled by average total assets (WC02999) ROA_t is income before extraordinary items (WC01551) scaled by total assets (WC02999) at the end of year t
BEAT	A binary variable equal to one if a firm meets or beats by up to one cent the consensus analyst annual EPS forecast existing in Refinitiv immediately before the earnings announcement, and zero otherwise

Peer Events

Industry_Trigger	A binary variable equal to one if a firm within the same industry year (using 4-digit SIC codes) has a trigger event in t-1, and zero otherwise
Industry_Release	A binary variable equal to one if a firm within the same industry year (using 4-digit SIC codes) has an AAER release in t-1, and zero otherwise
Industry_Violation	A binary variable equal to one if a firm within the same industry year (using 4-digit SIC codes) started to conduct financial reporting fraud, and zero otherwise
Owner_Trigger	A binary variable equal to one if a firm with the same blockholder within the same industry year (using 2-digit SIC codes) has a trigger event, and zero otherwise
Owner_Release	A binary variable equal to one if a firm with the same blockholder within the same industry year (using 2-digit SIC codes) has an AAER release, and zero otherwise
Owner_Violation	A binary variable equal to one if a firm with the same blockholder within the same industry year (using 2-digit SIC codes) started to conduct financial reporting fraud, and zero otherwise

Financial Variables

LogTA	The natural logarithm of total assets (WC02999)
ROA	Income before extraordinary items (WC01551) scaled by total assets (WC02999)

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MB	Market value of equity (WC18100) divided by total common equity (WC03501)
SALEGR	Sales growth (WC01001) from year t-1 to year t
DEBT	Long-term debt (WC03251) divided by total assets (WC02999)
BLOCK	A binary variable equal to one if a firm is blockheld (i.e., one investor holds at least 5 percent), and zero otherwise.

Table A.1: Sample Selection

Panel A: AAER Sample

	number of AAERs	firm-years
all AAERs published between 2010 and 2020	362	
- AAERs not related to sections 10(b) and 17(a) violations	226	
AAERs related to financial reporting fraud	136	
- respondents with missing database identifier	41	
Final sample of AAERs	95	80

Panel B: Financial data

	number of firms	firm-years
all listed U.S. firms between 2008 and 2021	7,929	71,053
- firms that cannot be matched to the Refinitiv database	17	86
- Firms operating in the financial industry (SIC codes 6000-6999) or utility industry (SIC codes 4900-4999)	1,949	17,128
- Firms with missing control variables	708	14,486
Covered Firms before financial reporting quality measure	5,255	39,353
- Missing financial reporting quality measure	844-3,381	8,397-25,959
Final set of firms	1,874/4,411	13,394/30,956

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Table A.2: Descriptive Statistics

	mean	sd	p25	p75
DACC	-0.005	0.148	-0.054	0.037
BEAT	0.098	0.298	0.000	0.000
Industry_Trigger	0.065	0.247	0.000	0.000
Industry_Release	0.062	0.242	0.000	0.000
Owner_Trigger	0.008	0.087	0.000	0.000
Owner_Release	0.016	0.126	0.000	0.000
LogTA	13.518	2.235	11.983	15.019
ROA	-0.055	0.324	-0.062	0.073
MB	5.159	9.507	1.492	4.842
SALEGR	0.238	1.033	-0.039	0.218
DEBT	0.173	0.183	0.000	0.292
BLOCK	0.406	0.491	0.000	1.000
Lag_DACC	-0.006	0.158	-0.054	0.037
Lag_BEAT	0.103	0.305	0.000	0.000

Panel B: Financial Reporting Quality in Peer Firms

	Violation	Trigger Event			AAER Release		
	t=0	t=0	t=1	difference	t=0	t=1	difference
Industry-connected Peers							
DACC	-0.023	0.016	-0.007	-0.023***	0.005	-0.004	-0.009**
BEAT	0.108	0.102	0.098	-0.004	0.095	0.086	-0.009
Ownership-connected Peers							
DACC	-0.022	-0.001	-0.044	-0.043***	-0.038	-0.015	0.023***
BEAT	0.178	0.138	0.095	-0.043	0.138	0.091	-0.047**

Panel C: Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(1) DACC	1.000	**-0.026**	-0.014	-0.010	0.004	-0.001	**-0.128**	**-0.130**	**-0.104**	**0.028**	0.002	**-0.051**	**0.213**	-0.008
(2) BEAT	-0.018	1.000	-0.014	**0.021**	0.004	0.008	**0.070**	**0.071**	**0.028**	-0.011	0.001	0.013	**-0.026**	**0.057**
(3) Industry_Trigger	-0.003	0.003	1.000	0.018	**0.022**	0.004	**-0.026**	**-0.019**	**0.021**	0.002	-0.016	0.011	0.005	**0.024**
(4) Industry_Release	-0.006	-0.009	**0.060**	1.000	-0.002	**0.041**	**-0.019**	**-0.064**	**0.027**	0.018	-0.013	0.010	**-0.020**	**0.029**
(5) Owner_Trigger	**-0.040**	-0.009	**0.157**	**-0.042**	1.000	0.005	-0.008	0.005	0.000	-0.007	-0.013	0.018	-0.005	0.012
(6) Owner_Release	-0.011	-0.010	**-0.031**	**0.110**	**-0.033**	1.000	**0.022**	0.008	**0.037**	0.003	0.015	**0.041**	**-0.027**	0.008
(7) LogTA	**-0.139**	**0.118**	**-0.038**	-0.017	-0.005	**0.074**	1.000	**0.398**	**0.153**	**0.044**	**0.430**	**0.060**	**-0.116**	**0.056**
(8) ROA	**-0.212**	**0.068**	**-0.064**	**-0.100**	0.019	0.068	0.464	1.000	**0.105**	**0.161**	**-0.021**	**0.098**	**-0.154**	**0.062**
(9) MB	-0.005	0.003	**0.025**	**0.030**	0.001	**0.044**	0.022	-0.087	1.000	**0.229**	**0.281**	**0.064**	**-0.100**	**0.035**
(10) SALEGR	**0.038**	-0.013	**0.039**	**0.053**	-0.016	**-0.024**	-0.079	-0.060	0.039	1.000	-0.002	**0.044**	**-0.029**	-0.012
(11) DEBT	-0.003	0.009	**-0.034**	-0.009	-0.018	**0.029**	0.363	0.064	0.277	-0.039	1.000	0.018	0.016	0.007
(12) BLOCK	**-0.077**	**0.029**	-0.011	**0.039**	**0.062**	**0.099**	0.071	0.177	0.051	0.001	**0.039**	1.000	**-0.039**	0.014
(13) Lag_DACC	**0.118**	**-0.025**	**0.041**	0.014	0.004	**-0.042**	**-0.112**	**-0.166**	-0.010	0.016	0.009	**-0.055**	1.000	**-0.021**
(14) Lag_BEAT	-0.015	**0.122**	-0.000	-0.008	0.018	**0.029**	0.115	0.070	0.005	**-0.028**	0.021	0.031	-0.015	1.000

Table A.3: Regression Results

Panel A: Industry-connected Peers						
	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	DACC	BEAT	DACC	BEAT	DACC	BEAT
Industry_Trigger	-0.006	-0.001			-0.005	0.000
	(-1.386)	(-0.046)			(-1.311)	(0.012)
Industry_Release			0.004	0.006	0.004	0.006
			(1.192)	(0.655)	(1.075)	(0.655)
LogTA	-0.017***	0.015**	-0.017***	0.014**	-0.017***	0.014**
	(-5.663)	(2.113)	(-5.692)	(2.095)	(-5.685)	(2.095)
ROA	0.014	-0.008	0.014	-0.007	0.014	-0.007
	(1.274)	(-0.417)	(1.278)	(-0.395)	(1.276)	(-0.395)
MB	-0.000	0.000	-0.000	0.000	-0.000	0.000
	(-0.664)	(0.252)	(-0.664)	(0.260)	(-0.657)	(0.260)
SALEGR	0.003	0.003	0.003	0.003	0.003	0.003
	(1.516)	(1.205)	(1.518)	(1.213)	(1.522)	(1.212)
DEBT	0.031***	-0.030	0.031***	-0.030	0.031***	-0.030
	(2.707)	(-0.948)	(2.696)	(-0.955)	(2.692)	(-0.955)
BLOCK	0.005	-0.018	0.004	-0.018	0.004	-0.018
	(0.861)	(-1.506)	(0.832)	(-1.517)	(0.842)	(-1.515)
Lag_FRQ	-0.080***	-0.071***	-0.081***	-0.071***	-0.080***	-0.071***
	(-6.744)	(-6.273)	(-6.811)	(-6.275)	(-6.755)	(-6.275)
Constant	0.207***	-0.056	0.207***	-0.055	0.208***	-0.055
	(5.331)	(-0.604)	(5.348)	(-0.587)	(5.354)	(-0.587)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	30,956	13,394	30,956	13,394	30,956	13,394
Adj. R-squared	0.016	0.007	0.016	0.007	0.016	0.007

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Panel B: Ownership-connected Peers

VARIABLES	(1) DACC	(2) BEAT	(3) DACC	(4) BEAT	(5) DACC	(6) BEAT
Owner_Trigger	-0.016*	-0.037*			-0.015*	-0.040**
	(-1.826)	(-1.914)			(-1.710)	(-2.052)
Owner_Release			0.011***	-0.029**	0.010**	-0.031**
			(2.661)	(-1.986)	(2.498)	(-2.094)
LogTA	-0.017***	0.015**	-0.017***	0.015**	-0.017***	0.015**
	(-5.650)	(2.160)	(-5.689)	(2.134)	(-5.671)	(2.186)
ROA	0.014	-0.007	0.014	-0.007	0.014	-0.007
	(1.275)	(-0.407)	(1.274)	(-0.394)	(1.274)	(-0.383)
MB	-0.000	0.000	-0.000	0.000	-0.000	0.000
	(-0.668)	(0.263)	(-0.678)	(0.253)	(-0.673)	(0.266)
SALEGR	0.003	0.003	0.003	0.003	0.003	0.003
	(1.508)	(1.185)	(1.516)	(1.185)	(1.512)	(1.163)
DEBT	0.031***	-0.031	0.031***	-0.029	0.031***	-0.030
	(2.690)	(-0.988)	(2.701)	(-0.915)	(2.679)	(-0.957)
BLOCK	0.005	-0.017	0.004	-0.018	0.005	-0.017
	(0.891)	(-1.458)	(0.817)	(-1.513)	(0.856)	(-1.459)
Lag_FRQ	-0.080***	-0.071***	-0.080***	-0.071***	-0.080***	-0.071***
	(-6.781)	(-6.260)	(-6.780)	(-6.244)	(-6.764)	(-6.229)
Constant	0.206***	-0.059	0.208***	-0.058	0.207***	-0.062
	(5.309)	(-0.641)	(5.346)	(-0.629)	(5.332)	(-0.671)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	30,956	13,394	30,956	13,394	30,956	13,394
Adj. R-squared	0.016	0.007	0.016	0.008	0.017	0.008

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Table A.4: Falsification Test

VARIABLES	(1) DACC	(2) BEAT	(3) DACC	(4) BEAT
Industry_Violation	0.000	0.003		
	(0.080)	(0.238)		
Owner_Violation			-0.005	-0.009
			(-0.791)	(-0.318)
LogTA	-0.017***	0.015**	-0.017***	0.015**
	(-5.652)	(2.116)	(-5.664)	(2.115)
ROA	0.014	-0.008	0.014	-0.007
	(1.275)	(-0.416)	(1.276)	(-0.413)
MB	-0.000	0.000	-0.000	0.000
	(-0.672)	(0.252)	(-0.674)	(0.246)
SALEGR	0.003	0.003	0.003	0.003
	(1.511)	(1.203)	(1.511)	(1.203)
DEBT	0.031***	-0.030	0.031***	-0.029
	(2.715)	(-0.945)	(2.716)	(-0.941)
BLOCK	0.005	-0.018	0.005	-0.018
	(0.854)	(-1.509)	(0.858)	(-1.504)
Lag_FRQ	-0.080***	-0.071***	-0.080***	-0.071***
	(-6.781)	(-6.273)	(-6.800)	(-6.265)
Constant	0.206***	-0.057	0.206***	-0.056
	(5.290)	(-0.614)	(5.319)	(-0.608)
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	30,956	13,394	30,956	13,394
Adj. R-squared	0.016	0.007	0.016	0.007

Table A.5: Real Earnings Management

VARIABLES	(1) ABNDISX	(2) ABNPROD	(3) ABNCFO	(4) ABNDISX	(5) ABNPROD	(6) ABNCFO
Industry_Trigger	-0.891***	0.008**	-0.220***			
	(-10.346)	(2.495)	(-7.882)			
Industry_Release	-0.003	0.001	0.037			
	(-0.039)	(0.274)	(1.522)			
Owner_Trigger				0.939***	-0.005	-0.439***
				(11.363)	(-0.852)	(-6.624)
Owner_Release				0.005	0.002	-0.049*
				(0.105)	(0.395)	(-1.893)
LogTA	0.091	0.018***	-0.019	0.087	0.018***	-0.018
	(1.624)	(7.042)	(-1.052)	(1.558)	(7.043)	(-0.950)
ROA	0.183	-0.061***	-0.192***	0.187	-0.061***	-0.191***
	(1.072)	(-7.194)	(-3.567)	(1.098)	(-7.191)	(-3.561)
MB	0.010**	-0.000	-0.002	0.010**	-0.000	-0.002
	(2.309)	(-1.453)	(-1.308)	(2.247)	(-1.445)	(-1.333)
SALEGR	-0.045	-0.007***	-0.060***	-0.047	-0.007***	-0.061***
	(-0.790)	(-4.337)	(-3.427)	(-0.810)	(-4.325)	(-3.470)
DEBT	-0.452*	0.008	0.062	-0.435*	0.008	0.058
	(-1.946)	(0.822)	(0.807)	(-1.865)	(0.807)	(0.759)
BLOCK	-0.097	-0.004	-0.038	-0.116	-0.004	-0.032
	(-0.690)	(-0.958)	(-0.878)	(-0.817)	(-0.928)	(-0.743)
Lag_REM	-0.119***	0.248***	-0.098***	-0.118***	0.248***	-0.099***
	(-10.762)	(17.658)	(-8.538)	(-10.816)	(17.649)	(-8.667)
Constant	-0.873	-0.235***	0.199	-0.911	-0.234***	0.160
	(-1.201)	(-7.108)	(0.831)	(-1.252)	(-7.083)	(0.665)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	30,921	29,613	31,660	30,921	29,613	31,660
Adj. R-squared	0.074	0.089	0.052	0.072	0.088	0.051

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Appendix B: Literature Review

Spillover Effect of Regulatory Releases

Author (Year)	Peer definition	Topic	Summary
Kang (2008)	Firms with director interlocks to fraudulent firms	The spillover of reputational penalties in the context of financial reporting fraud through director interlocks	The paper finds a significant spillover of reputational penalties from firms accused of financial reporting fraud to firms connected by director interlocks. This spillover was found in 45 out of 244 associated firms, which equates to 18.4 percent of the total. Firms associated with the accused firms were more likely to experience significant reputational penalties if the interlocking directors held audit or governance chair positions. The likelihood of reputational penalties decreased if the associated firm had effective corporate governance structures.
Beatty, Liao, and Yu (2013)	Firms with the same 3-digit SIC code	Impact of high-profile accounting frauds on peer firms' investments	Peer firms increase their investments during fraud periods of industry leaders, particularly when fraudulent earnings are overstated and in industries with high investor sentiment, low cost of capital, and high private benefits of control. The findings are not driven by fraud cases with a higher ex-ante likelihood of detection.
Nicholls (2016)	Firms operating in the same industry of the same size	Impact of SEC investigations on a company's cost of equity capital	Study provides evidence of changes in the cost of equity capital for firms targeted by an SEC AAER on the date the investigation is first made public
Kubick, Lynch, Mayberry, and Omer (2016)	Firms within an industry with at least two tax-related comment letters	Deterrent effect of comment letters on tax avoidance	Firms operating in industries subject to tax-related scrutiny decrease their tax aggressiveness following the resolution of tax-related comment letters
Brown, Tian, and Tucker (2018)	Firms with the same 3-digit SIC code as the firm receiving a comment letter or firms within the same 3-digit industry as a comment-letter firm that additionally has at least 20 percent of the market share of sales (Leader), has the closest total assets within a 10 percent range (Rival), or share the same auditor.	Deterrent effect of comment letters on risk factor disclosure	Firms modify and increase the length of their risk disclosures if the SEC has commented on the risk disclosure of an industry leader, a close rival, or numerous industry peers. Furthermore, commenting on the industry leader's disclosure induces peers to disclose more firm-specific information.

Darrough, Huang, and Zhao (2020)	Peer identification through the country of origin and the method of listing	The impact of fraud allegations on stock price spillover effects, its relation to the method of listing or country of origin, and its changes with shifts in investor sentiment.	The negative spillover effect channeled through the firm's country of origin becomes stronger when investor sentiment about Chinese companies becomes pessimistic. Both country and listing methods are applicable to CRMs, with the negative spillover effects through the country of origin playing a more prominent role than those through the method of listing.
Cho, Kim, and Kim (2020)	Industry classification using the two-digit Standard Industry Classification code	Spillover effect of regulatory inspection on accounting quality	Peer companies reduce discretionary accruals in the next period, and the reduction is greater when the disciplinary action on the industry leader is more severe and the errors in the leader's financial statements are more material
Bills, Cating, Lin, and Seidel (2021)	Firms that share the same audit office and firms that share the same auditor and operate within the same industry	Contagious effect of comment letters on goodwill impairment	Goodwill impairments are more likely among firms with a greater risk of impairment when audited by audit offices with other firms that have received goodwill-related comment letters. These firms are also more likely to make textual changes to their goodwill-related footnote disclosures. Additionally, spillover occurs through an audit firm not just within a local audit office, but also within clients in the same industry.
Holzman, Miller, and Williams (2021)	Firms in the same city	Societal ramifications of corporate accounting fraud, specifically whether the revelation of accounting misconduct in a community leads to an increase in financially motivated crimes in that community.	After the revelation of accounting misconduct, there is an increase in financially motivated neighborhood crime. More visible accounting frauds are associated with a future increase in financially motivated neighborhood crime. The results suggest that the revelation of corporate accounting misconduct does not influence enforcement, such as changes in the police force and criminal sentencing.
Mason and Williams (2022)	Propensity score matching that matches fraud firms with non-fraud firms that have a similar propensity to commit fraud, helping isolate IRS monitoring effects.	The impact of IRS monitoring on managerial decisions to engage in fraudulent financial reporting.	IRS monitoring appears to reduce the likelihood of accounting fraud. Increased IRS audit probability is associated with a significant decrease in the likelihood that a firm engages in financial accounting fraud. Overall, the study finds that higher IRS audit probability deters managers from committing accounting fraud.
Condie, Convery, and Zehms (2023)	Matching CFOs based on firm performance, type of delisting (e.g., bankruptcy or merger), and industry.	Labor market consequences for CFOs employed by fraud firms.	Non-implicated CFOs from fraud firms experience higher turnover and fluctuating success in obtaining comparable employment following turnover
Kubick and Li (2023)	Firms in the same industry	The effect of managers' adverse professional experience on their preferences for conservative financial reporting.	Managers with histories of accounting-related adverse events adopt accounting policies that aim to minimize future negative outcomes. Firms led by senior executives with such experiences demonstrate a tendency towards conservative financial reporting. An association between adverse experience and decreased future stock-return volatility suggests that this conservatism in financial reporting is beneficial to shareholders.