CEO Personal Political Contributions and Regulatory Enforcement against the CEO

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Abstract

We propose that CEOs make political contributions with their own money to reduce the likelihood that they are personally subject to SEC enforcement. Unlike firm contributions, which are constant over time, CEO contributions spike during misconduct periods. Moreover, the increased contributions are directed toward individual candidates, especially those who have SEC oversight through committee assignments. We find that CEO contributions are uniquely associated with differential enforcement against the CEO, while firm contributions are uniquely associated with differential enforcement against the firm. Collectively, our analyses show that CEO contributions are economically important and have several properties that distinguish them from firm contributions. In addition, our results suggest that CEO contributions may be indicative of personal regulatory capture, a possibility not considered in the literature. Our results have considerable regulatory implications for the monitoring and disclosure of executive engagement in the U.S. political system.

Keywords: political contributions, campaign finance, SEC enforcement, financial misconduct, chief executive officer, political action committee.

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"Politicians have always needed money, and wealthy patrons have always found ways to provide it in exchange for special consideration of their needs."
—Editorial Board, The New York Times[1]

1. Introduction

The potential for corporate campaign contributions to skew outcomes toward special interests has attracted considerable policy interest in the U.S. (e.g., Duchin and Sosyura, 2012; Babenko, Fedaseyeu, and Zhang, 2020). Empirical studies that examine the consequences of corporate political connections generally support the notion that firms gain regulatory advantages through their involvement in the political process (e.g., Johnson and Mitton, 2003; Correia, 2014; Mehta, Srinivasan, and Zhao, 2020; Naughton, Rogo, and Zheng, 2023). The notion that corporations benefit financially through political influence has led to numerous calls for enhanced transparency on their lobbying activities (e.g., Bebchuk, Jackson, Nelson, and Tallarita, 2020), both to ensure that shareholders are protected and to uphold the integrity of the U.S. political system. In contrast, the intentions behind individual donations by executives are less clear (Akey, 2015), with much of the evidence suggesting that such donations are ideologically motivated (Cohen, Hazan, Tallarita, and Weiss, 2019) and made without regard to personal gain (Ansolabehere, Figueiredo, and Snyder, 2003). Our study reassesses the motivations driving CEO personal political contributions. Rather than being ideological and therefore benign, we hypothesize that some of these contributions are made for personal gain and therefore represent an issue for the U.S. political and enforcement systems.

We focus our empirical analyses on Securities and Exchange Commission (SEC) enforcement actions, as enforcement releases against the firm can specifically name executives and we document that there are substantial additional costs to executives who are so named. Our

[1] "More Money, More Problems for Democracy," https://www.nytimes.com/2020/02/01/opinion/sunday/trump-tape-fundraiser.html

analyses adopt a rational expectations framework, where CEOs make individual political contributions with the expectation that doing so will personally benefit them from a regulatory standpoint. As a result, our analyses are not causal in nature; instead, they are intended to provide insights into the current state of the U.S. enforcement system. There are two notable implications of our framework. First, CEOs make personal contributions based on the belief that doing so will reduce their own legal jeopardy. Second, conditional on an enforcement action, CEO contributions are associated with lower personal legal jeopardy. Our empirical analyses explore these two equilibrium outcomes.

We find evidence supporting the first element of our framework (i.e., CEOs make contributions with the belief that doing so will reduce enforcement against them) by examining time-series and cross-sectional patterns in CEOs' contributions. From a time-series perspective, we find that CEO contributions are higher during periods where the firm was later found to have committed accounting misconduct, consistent with the notion that CEOs increase their contributions when they are more likely to be subject to SEC enforcement. We identify misconduct years by hand coding information provided in subsequently issued Accounting and Auditing Enforcement Releases (AAERs). Our analyses show that CEO personal contributions almost double in amount during misconduct years relative to other years. This effect is independent of firm political contributions, which we include as a control in all our specifications. In addition, the magnitude of the effect remains economically and statistically significant even after controlling for firm and CEO characteristics and after adding a variety of fixed effects, including industry, CEO, and firm fixed effects.

We employ a dynamic difference-in-differences specification (Bertrand and Mullainathan, 2003) to focus on the year-by-year changes in both CEO and firm contributions. These analyses reveal that the time series pattern surrounding misconduct periods in CEO contributions is completely different from the pattern in firm contributions. While CEO contributions specifically spike during the first year of the misconduct period and do not increase in subsequent periods, firm contributions are effectively constant over the entire sample period. These findings indicate that firm contributions are effectively a fixed attribute of the firm, as they do not vary in response to regulatory events. In contrast, CEO contributions vary in direct response to regulatory events. These findings suggest that CEO contributions appear to be transactional (i.e., made in response to specific events or intended for a specific purpose), and that firm contributions appear to be relational (i.e., generally constant over time). While the latter result has been assumed or noted in prior studies of firm contributions (e.g., Stephan, Walther, and Wellman, 2021; Correia, 2014), the pattern in CEO contributions represents a new finding. Moreover, the distinct pattern indicates that the association between contributions and regulatory outcomes is different for CEO versus firm contributions.

From a cross-sectional perspective, we show that the increased CEO contributions during misconduct years target individual candidates rather than Political Action Committees (PACs) or political parties. Among candidates, we find that the increased contributions during misconduct years are disproportionately made to congressional candidates, where the incremental value of a CEO's contribution is arguable greater as those candidates have lower aggregate funds and face more frequent elections. We also find that the increased contributions are directed towards candidates that are members of committees with direct oversight of the SEC (e.g., Appropriations, Ways and Means, and Financial Services). These contribution patterns are consistent with the

notion that increased contributions during misconduct periods are made with the intention to acquire political influence, as the contributions target those individuals who likely place the greatest weight on the contributions and who are best positioned to influence the regulatory process. Collectively, both our time-series and cross-sectional analyses support the notion that CEOs make personal contributions based on the belief that doing so will reduce their own legal jeopardy.

We provide evidence for the second element of our framework (i.e., whether CEO contributions affect enforcement outcomes) through tests that analyze the association between political contributions and different aspects of the enforcement process. In the first analysis, we show that firm contributions alone are associated with reduced enforcement against the firm, and that CEO contributions alone are associated with reduced enforcement against the CEO. Among the sample of restating firms subject to a formal SEC investigation, we find that there is a negative association between the issuance of an AAER and firm contributions, but no such association with CEO contributions. These findings suggest that firm contributions reduce enforcement against the firm, as documented in Correia (2014), but that CEO contributions do not. We also find in the sample of AAER firms that there is a negative association between CEO contributions and whether the CEO was personally named in the release, but no such association with firm contributions. These findings suggest that CEO contributions reduce enforcement against the CEO, but that firm contributions do not. Collectively, these findings indicate that there are substantial differences in how enforcement is influenced by CEO versus firm contributions, and in particular, that CEO contributions appear to be uniquely directed toward reducing the CEO's personal regulatory costs.

Next, we document that CEO contributions reduce the severity of the enforcement against the CEO. For public sanctions assessed by the SEC, we find a negative and highly significant association between CEO contributions and CEO disgorgement, CEO civil penalties, and whether

the CEO is barred from being an officer at a public company. In contrast, we find no such associations for firm contributions. These findings further support our conclusion that CEO contributions are uniquely associated with reduced personal enforcement against the CEO. In addition, for sanctions assessed against the CEO through private litigation, we find no association between CEO contributions and whether the CEO was named in the litigation, and no association between CEO contributions and the penalty assessed against the CEO. This finding suggests that, from a private litigation standpoint, there is no detectable difference between the nature of the fraud at firms where the CEO was named and firms where the CEO was not named. Collectively, these results support the notion that CEOs' personal contributions temper SEC enforcement, consistent with our framework.

Our findings contribute to the literature in several ways. Our main contribution is to further the understanding of how CEOs respond to capital market regulatory pressures by showing that their engagement in the political process changes when there is an increased risk of personal prosecution, and that increased CEO contributions are associated with decreased regulatory outcomes. These findings contribute to the literature on financial reporting violations (e.g., Beasley, 1996; Dechow, Sloan, and Sweeney, 1996) by analyzing CEOs' behavior during fraud periods (e.g., Call, Kedia, and Rajgopal, 2016). Importantly, we show that CEO contributions are not associated with enforcement against the firm, only enforcement against the CEO. In addition, we find no association between either firm or CEO contributions and the initiation of an SEC investigation. We only document associations between firm and CEO contributions and enforcement outcomes at the end of the enforcement process when senior SEC officials are involved. These findings extend prior work that documents a link between political connections

and regulatory scrutiny (e.g., Correia, 2014; Heese, Khan, and Ramanna, 2017; Johnston and Petacchi, 2017; Kedia and Rajgopal, 2011; Naughton, Rogo, Sunder, and Zhang, 2018).

Second, because we separate individual from corporate actions in our empirical tests, we provide novel evidence indicating that CEO contributions are distinct from firm contributions. A small number of studies combine firm and executive contributions together as a single proxy for political engagement. For example, Hutton, Jiang, and Kumar (2015) show that corporate litigation is associated with the overall relative contribution to the Republican Party by the firm and its executives. Fulmer, Knill and Yu (2023) document a negative association between civil penalties and the sum of firm and executive contributions in a sample of executives subject to civil actions. The approach in these and other similar studies is conceptually distinct from ours as it implies that firm and executive contributions operate jointly, whereas we hypothesize and find that they are distinct.

Our data show that only 34% of CEO contributions are directed towards PACs, compared with 100% for firm contributions due to the legal prohibitions against candidate and party recipients. In addition, while firm contributions are relatively constant over time, there is meaningful time-series variation in CEO contributions. Over the 2003 through 2016 period, CEO contributions increased far more rapidly than firm contributions, with a particularly strong increase following the passage of Sarbanes-Oxley Act of 2002 (SOX). This evidence suggests that CEO contributions are of increasing importance over time. Moreover, at the firm-level, we document that CEO contributions vary in response to the underlying risk of enforcement. This finding indicates that CEO political contributions appear to be transactional rather than relational, as is assumed in much of the literature that examines the role of firm contributions in capital market outcomes. Even though this is a new finding in the literature, we suggest that it is reasonable for

CEO political connections to be transactional in nature because a CEO has a limited time frame in which political connections are potentially beneficial. In contrast, a firm has an indefinite life, and therefore it is motivated to develop a long-term relationship.

Lastly, our study is also related to the literature on the determinants of CEO political contributions. Fremeth, Richter, and Schaufele (2013) document a significant increase in personal political contributions by CEOs at the time they assume the executive role. Fremeth et al. (2013) suggest that their empirical finding is likely attributable to several factors, such as an increase in personal wealth. We add to the list of possible explanations suggested by Fremeth et al. (2013) by showing that personal enforcement concerns is another factor that influences CEO political contributions. More recently, Cohen, Hazan, Tallarita, and Weiss (2019) document that CEOs tend to favor republican candidates, with 58% of CEOs contributing primarily to republican candidates compared with only 18% contributing primarily to democratic candidates. We add to their study by showing that the political candidates that CEO's target with their personal contributions reflect their political status and the CEO's concern about future enforcement.

2. Background

2.1 Contributions to political campaigns

Contribution limits on political donations in the United States vary depending on whether the donation is made by an individual or a corporation. There are three possible recipients of individual donations: a political candidate, a PAC, or a political party. For the 2021–2022 election cycle, the limit was $2,900 per election to a candidate, $5,000 per year to a specific PAC, and $35,500 per year to a political party. Individuals can contribute the maximum amount to multiple

candidates, PACs, and political parties. For example, an individual could contribute $2,900 each to several candidates, plus $5,000 each to several PACs, plus $35,500 each to several parties.

In contrast, corporations are prohibited from donating directly to a candidate or political party. Instead, corporations can engage in the political process only through PACs. There are two types of PACs: connected PACs and nonconnected PACs. Connected PACs are established by corporations, labor unions, or other organizations, and they can accept donations only from individuals associated with the sponsoring organization, such as employees or members. A corporation cannot contribute directly to its own connected PAC. Nonconnected PACs, on the other hand, are independent and can accept donations from anyone, including corporations, up to a limit of $5,000 per year. Like individuals, a corporation may contribute to multiple nonconnected PACs.

In addition, the Supreme Court's 2010 decision in *Citizens United v. FEC* allows both corporations and individuals to engage in the political process through independent expenditures. This type of expenditure, which is made through a so-called Super PAC, is not subject to any dollar limitation. However, a Super PAC must be completely independent of the candidates it supports to avoid the dollar limitations that apply to PACs.

2.2 Literature review

A number of studies have found that political connections increase access to capital (e.g., Leuz and Oberholzer-Gee, 2006) and improve firm financial performance, for example through more favorable outcomes on government procurement contracts (e.g., Goldman, Rocholl, and So, 2013; Tahoun, 2014) or tax policy (e.g., Brown, Drake, and Wellman, 2014). More recently, studies have examined whether SEC enforcement is affected by corporate involvement in the U.S. political process. Using a variety of approaches to measure political connections, some of these

studies support a negative association between political connections and enforcement, and some support a positive association.

On the negative side, Correia (2014) finds that politically connected firms (measured using corporate campaign contributions) are less likely to be subject to SEC enforcement actions and face lower penalties if they are prosecuted by the SEC. Yu and Yu (2011) find that fraudulent firms spend more on lobbying than nonfraudulent firms, and that, on average, firms that lobby have a significantly lower likelihood of fraud detection. Mehta et al. (2020) find that SEC enforcement appears to be reduced during election years in districts led by SEC-relevant politicians. On the positive side, deHaan, Kedia, Koh, and Rajgopal (2015) find that the ability of trial lawyers at the SEC's enforcement division to move their employment to a defense litigation firm (i.e., the "revolving door") has implications for SEC activities that are consistent with increased oversight in some locations and reduced oversight in others (i.e., in Washington, DC, and when defense firms employ more former SEC lawyers). Heese et al. (2017) find that corporate political contributions positively predict SEC comment letter reviews and substantive characteristics of such reviews, including the number of issues evaluated and the seniority of SEC staff involved. Both sets of studies focus on firm connections and regulatory outcomes for the firm.

Another branch of the literature, primarily in political science, has examined the determinants of personal political contributions by executives. These studies assume that individual contributions are ideologically motivated. For example, Ansolabehere, Figueiredo, and Snyder (2003) conclude that people give to politics because of the consumption value associated with politics and not because they receive direct private benefits. In addition, Bonica (2016) finds that executives are more ideological, more willing to support non-incumbents, and less likely to target powerful legislators when compared to corporate PACs. Other studies have found that CEOs

are more likely to contribute to Republican than Democratic candidates (Cohen et al., 2019), that employee contributions tend to mirror those of the CEO (Babenko et al., 2020), and that an executive's contributions generally increase after they are appointed CEO (Fremeth et al., 2013).

Our study suggests that CEO personal political contributions may not be entirely ideological. More narrowly, we suggest that CEO contributions may be made in exchange for personal regulatory benefits. Our approach relies on two sets of related studies. The first set includes studies that have established that politicians act to maximize their probability of reelection (Peltzman, 1976; Stigler, 1971) and that campaign funding is a crucial element of winning elections (Stratmann, 1995). We rely on these studies to justify our assumption that politicians crave contributions, particularly from prominent donors such as CEOs. The second set includes studies that have identified mechanisms through which elected politicians influence bureaucratic activities (in this case, SEC enforcement): budget setting, the threat of personnel turnover, and congressional oversight (e.g., Weingast, 1984). We rely on these studies to establish the possibility that politicians can influence regulatory outcomes on behalf of connected CEOs.

3. Data

3.1 Sample construction

We begin our sample construction using the full sample of CEOs on ExecuComp for the period from January 1993 to December 2016. Our sample begins in 1993, the earliest year for which complete data is available on ExecuComp, and ends in 2016, the most recent year for which misreporting data is available. We explain the source of the misreporting data in Section 3.1.2 below. This process yields a sample of 8,090 firm-CEOs across 3,804 unique firms. Of this initial sample, we find that there are 199 firms without the necessary fundamental information on

Compustat, resulting in a final sample of 7,400 CEOs from 3,605 firms, which we combine with data on political contributions and misreporting, as described below.

3.1.1 Political contribution data

We obtain information on CEO personal political contributions from the Federal Election Commission (FEC).[2] The FEC collects and makes public all nontrivial contributions (those greater than or equal to $200) made by individuals and political committees of all kinds. Each contribution record includes the name of the recipient; the name of the donor; and the donor's home address (city and zip code), employer, and occupation. We match the information on individuals' full names, employers, and occupations from the FEC database with corresponding data from ExecuComp to identify which CEOs made political contributions. There were a number of complications in this matching process. For example, the names of the CEOs appearing in ExecuComp and FEC records may differ in: (1) whether a middle name is included and, if so, whether it appears in full or only as an initial; (2) whether the first name appears in shortened form or as a nickname in the FEC dataset (e.g., Jim instead of James); and (3) whether the first name and middle name are switched in order. Additionally, the information on employer and occupation may be missing or incomplete for some contributions where a single donor has made multiple donations.

We address the complications in the matching process by using a lengthy multistage approach, similar to Cohen et al. (2019). First, we treat an individual with missing employer information in the FEC database as the same as an individual with an identifiable employer when we find a record with the same first and last names, no inconsistency in the middle name, and the

2 The FEC is an independent regulatory agency that was created by the 1974 Amendments to the Federal Election Campaign Act (FECA Amendments of 1974, Pub. L. No. 93-443, 88 Stat. 1263 (1974)). The task of the agency is to administer and enforce the intricate body of law governing federal campaign finance.

same home address. Second, we match a CEO from the ExecuComp data with an FEC record if the two share the same first and last names, have no inconsistency in the middle name, and have the same employer name. Third, if the employer information is missing for an individual in all FEC records, we consider the individual to be a particular CEO only if we find a record with the same first, last, and middle names, and the individual's home address is within 50 miles of the relevant company's headquarters.

We successfully identify 5,421 CEOs (70.8%) who made a political contribution while they were CEO. This relatively high rate of contributions is comparable to other studies. For example, in their study of 1,556 CEOs over an 18-year sample period, Fremeth et al. (2013) find that 80.9% of CEOs made political contributions. Not surprisingly, the contribution rate in our study far exceeds the 10% of the general population who typically contribute (Ansolabehere et al., 2003). We also follow Fremeth et al. (2013) and include all CEO contributions: those made directly to candidates and parties as well as those made to PACs. Lastly, we collect information on firms' political contributions following Correia (2014). Specifically, we match the names, as given in the FEC database, of organizations that made donations with company names in the ExecuComp data.

Panel A of Table 1 summarizes our sample selection procedure, and Panel B shows the sample distribution by year. The sample is about 25% lower in 1993 than in subsequent years, and it increases modestly from 1994 (1,330 firms and 850 donating CEOs) to 2016 (1,705 firms and 1,142 donating CEOs). Firm contributions through a connected PAC are relatively constant over the sample period, with 425 observations in 1994 compared with 468 observations in 2016. As expected, the percentage of CEOs who make political contributions is far higher than the number of firms that make political contributions.

3.1.2 SEC enforcement

The SEC publishes the details of financial reporting related to enforcement actions in AAERs. Dechow, Ge, Larson, and Sloan (2011) kindly provided us with the most recent version of their AAER dataset, which was updated in 2020. This dataset includes enforcement actions released through 2018 and fraudulent activities committed during 2016 and earlier fiscal years. We hand-collect details related to the violation period and the penalty assessed by the SEC by reviewing the SEC enforcement actions from the SEC's AAER website.[3] Illustrations of the hand collected data are provided in Appendix B. We require that the violation periods be identifiable from the AAERs to ensure that we can later identify variation based on activities outside, versus during, the period when fraud was occurring. Each prosecuted firm may receive multiple AAERs from the SEC, so we use the first AAER release year as the enforcement year for each prosecuted firm. The final enforcement sample consists of 204 AAER firms from 1993 to 2016. Next, using ExecuComp, we identify the CEO during the misconduct periods for each of the 204 AAER firms. This yields a pool of 224 CEOs, as some firms changed CEO during the violation period. Next, we manually review all AAERs associated with the 204 firms to verify whether the CEOs of the misconduct firms were personally prosecuted by the SEC.

3.2 Descriptive statistics

Table 2 reports summary statistics. The firm-level control variables in Panel A indicate that our sample firms are large (with average assets of $2.0 billion) and profitable (with an average ROA of 4% and Tobin's Q of 1.95). The contribution data in Panel B indicate that CEO contributions are economically important and increasing over time. All contribution amounts presented in the paper are adjusted for inflation based on the 2016 Consumer Price Index collected

[3] https://www.sec.gov/divisions/enforce/friactions.shtml

from the U.S. Bureau of Labor Statistics (www.bls.gov/cpi). Approximately 60.0% (i.e., 23,231/38,740) of firm-year observations have a CEO contribution, which is slightly below the proportion of contributing CEOs (70.8%) because CEOs who contribute don't necessarily do so every year. Conditional on contributing, the average contribution is $9,751, which indicates that the typical CEO is contributing to more than one candidate. On average, the CEO contribution is primarily directed toward individual candidates, and among candidates there is a bias toward Senate candidates and candidates who are assigned to the most prestigious committees (i.e., *Candidate CMT A*). Over the sample period (1993–2016), CEOs made political contributions totaling $226.5 million, and firm PACs made political contributions totaling $1.02 billion. These data indicate that CEO personal contributions are economically important, even when compared with the PAC contributions that are the focus of most studies. In addition, the economic magnitude of CEO contributions has increased dramatically over time when compared to firm contributions.

Figure 1 compares the growth in political contributions from CEOs and PACs during our sample period. The chart shows that there was a substantial increase in CEO contributions at the time SOX took effect, with CEO contributions in the 2004 election cycle almost triple those of 2000. In addition, it suggests that there is substantially more growth in CEO contributions than in PAC contributions, with the former increasing about 4x faster than the latter. Figure 2 shows a breakdown of the average CEO contribution across the principal recipients, highlighting that about half of all CEO contributions are to members of the House or Senate.

Table 2, Panel C, provides descriptive statistics for the subset of firms that restated their financial results, and Table 2, Panel D provides descriptive statistics for the subsample of firms that received an AAER. Within this group, 19% of CEOs were personally named by the SEC in the AAER. The average CEO age, tenure, and wealth in the AAER sample are similar to those in

the full sample of firms. Panel E provides descriptive information for the enforcement outcomes against the CEO. Overall, about 40% of CEOs face private litigation when the firm receives an AAER, which is higher than the number of CEOs that are personally named in the AAER.

4. Empirical design and results

4.1 CEO political contributions during misconduct years

Our first empirical test examines whether CEO contributions increase during misconduct periods. In our rational expectations equilibrium framework, the need for political ties varies with the likelihood that the donor will be a target of an enforcement action, which implies a positive association between the perceived threat of enforcement and contributions. Our empirical specification takes advantage of the fact that the CEO's expectation about the likelihood of enforcement can be reasonably assumed to be higher during those periods when financial reporting choices are more aggressive than in other periods. Empirically, we leverage this insight by examining whether CEOs' personal political contributions increase during periods when financial reporting misconduct was established ex-post, using the following specification:

$$Log(CEO\ Contribution)_{i,t} = \alpha_1 Misconduct_{i,t} + \gamma_1 Log(Firm\ Contribution)_{i,t} + \boldsymbol{\gamma} Controls_{i,t} + Fixed\ Effects\ +\ \varepsilon_{i,t} \quad (1)$$

where *Log(CEO Contribution)*$_{i,t}$ is the natural log of the total dollar amount of political contributions made by the CEO of firm *i* in year *t*. Our independent variable of interest is *Misconduct*$_{i,t}$, an indicator variable equal to one if there is an AAER that notes that firm *i* engaged in misconduct in year *t*, and zero otherwise. A positive value for the coefficient of interest, α_1, indicates that the CEO made higher political contributions during the misconduct years relative to other years.

We include *Log(Firm Contribution)*, defined as the natural logarithm of the calendar year dollar amount of firm political contributions, to mitigate the concern that our results are attributable to the firm's rather than the CEO's political activities. $Controls_{i,t}$ is a vector of observable and time-varying control variables shown by prior literature to be associated with CEO political contributions (Babenko et al., 2020). These control variables include total assets (*Firm Size*), Tobin's Q (*TobinQ*), Return on Assets (*ROA*), capital expenditures (*CAPEX*), and Research and Development Expenses scaled by Total Assets (*R&D*). We control for CEO characteristics by including CEO age (*CEO Age*), CEO tenure (*CEO Tenure*), CEO gender (*CEO Gender*), CEO compensation (*CEO Compensation*), and CEO pay sensitivity (*CEO Delta* and *CEO Vega*). We also use a combination of firm, industry, CEO, and year fixed effects across different specifications. All variables are defined in Appendix A.

The results in Table 3 show a statistically strong positive association between *CEO Contribution* and *Misconduct*, which indicates that CEO political contributions are higher during misconduct periods. The univariate regression (without controls or fixed effects) specification in column (1) of Table 3 shows that the coefficient α_1 on *Misconduct* is 0.792 (t-statistic of 3.01). Since *Misconduct* is a binary variable, this coefficient indicates that the personal contributions of CEOs during misconduct years are 79.2% higher than contributions during non-misconduct years. The statistical and economic significance of this result remains in column (2), which adds year fixed effects, and in column (3), which adds the full set of control variables. The coefficient α_1 on *Misconduct* in column (2) is 0.928 (t-statistic of 3.55), indicating that CEOs' personal contributions are 92.8% higher in misconduct years, and in column (3) is 0.467 (t-statistic of 2.14), indicating that CEOs' personal contributions are 46.7% higher in misconduct years.

As expected, *Firm Contributions* loads consistently positive and highly significant. In general, the coefficients on the remaining control variables are consistent with expectations. With the exception of *Firm Size*, which loads consistently positive and significant, and *R&D*, which loads negatively and is significant in three specifications, the remaining firm-level variables do not appear to be consistently associated with CEO personal contributions. In contrast, the CEO-level variables are generally significant except, of course, when CEO fixed effects are used. Overall, the control variables suggest that attributes of the CEO are strongly associated with CEO personal contributions.

In each of columns (1) through (3), the sample includes all CEO-year observations. Therefore, they include CEOs whose firms did not commit accounting fraud during our sample period. The coefficients in columns (4) through (6), which use industry, CEO, and firm fixed effects, respectively, generate slightly different interpretations. In each of these specifications, the coefficient α_1 remains statistically significant, with economic magnitudes ranging from 42.3% to 80.7%. In column (4), the baseline group now excludes CEOs in industries that did not have any firms that committed accounting fraud, as the values for those CEOs are subsumed by the fixed effects. In column (5), the use of CEO fixed effects means that the baseline group includes only the non-misconduct years of a CEO who was also the CEO during the misconduct years.

The firm fixed effects specification in column (6) compares the CEO contributions at a particular firm across misconduct and non-misconduct periods, which we believe captures the most useful comparison as it accounts for any firm-specific time-invariant factors (e.g., an industry focused on government contracts), which could influence the level of political participation and political orientation. This specification is also the most suitable because *Misconduct*, the independent variable of interest, is measured at the firm level. Moreover, our data are measured at

the firm-year level, and our analyses are focused on the effect of CEO political contributions only while that individual is serving as CEO. In this specification, CEOs' personal contributions are higher by 80.7% in misconduct years compared to their contributions in non-misconduct years and to the contributions of other CEOs in the same years. The adjusted R-Squared in column (6) is 46.2%, indicating that the full set of control variables, along with firm and year fixed effects, can explain a substantial amount of the variation in CEO political contributions.

Overall, the results in Table 3 indicate that CEO contributions are higher during misconduct periods, and that this empirical finding holds even after controlling for firm political contributions and adding an extensive set of other control variables and fixed effects structures. The positive association between CEO contributions and misconduct is consistent with our rational expectations framework, as it indicates that CEOs are more politically engaged when they are more likely to need political favors.

4.2 CEOs' political contributions around the misconduct years

We provide additional insights into the dynamic nature of CEO political contributions by extending the analysis in Table 3 to show that the increased contributions during misconduct years we document is not due to an increasing trend over time, but rather due to a distinct increase in contributions during the first misconduct year. The timeline we analyze is presented in Figure 3. The misconduct period, which is identified ex-post by the AAER, is shaded in gray. The pre-misconduct years are to the left of the shaded area, and are denoted by $t - j$, where t represents the year in which the misconduct begins and j takes values equal to or greater than one. We operationalize the timeline presented in Figure 3 using the following specification:

$$Log(\,CEO\ Contribution)_{i,t} = \boldsymbol{\beta} \sum_{j=1}^{2} Pre\_Misconduct_{\,i,t-j} + \alpha_1 FirstMisconduct\ Year_t + \alpha_2 \sum_{j=1}^{T-t} Other\ Misconduct\ Years_{i,t+j} + \gamma_1 Log(Firm\ Contribution)_{i,t} + \boldsymbol{\gamma} Controls_{i,t} + Year\ F.E. + Firm\ F.E. + \varepsilon_{i,t} \quad (2)$$

where the indicator variable $Pre\_Misconduct_{i,t-j}$ equals one for observations in the j years before (after) the first misconduct year t, and zero otherwise. We include two years before the misconduct period (i.e., j takes the value of two) in our tabulated results. The indicator variable *First Misconduct Year*$_t$ equals one for observations in the first misconduct year t, and zero otherwise. Lastly, the indicator variable *Other Misconduct Years*$_{i,t+j}$ equals one for firm i in misconduct years from $t+1$ to T, and zero otherwise. $Controls_{i,t}$ is the vector of control variables included in equation (1). We also include firm fixed effects and year fixed effects.

Table 4 shows the regression results estimated using equation (2). The first specification in column (1) mirrors column (6) of Table 3, with the exception that the misconduct variable is broken into two components: the first misconduct year (*First Misconduct Year*) and the other remaining misconduct years (*Other Misconduct Years*). In column (2), we include two variables to separately capture each of the two years before the misconduct period. In both column (1) and (2), the coefficient on each misconduct variable is positive and statistically significant, indicating that the CEO contributions increase immediately with the misconduct (i.e., in the first year), and remain elevated throughout the misconduct period. In contrast, the coefficients on $Pre\_Misconduct_{t-2}$ and $Pre\_Misconduct_{t-1}$ are not statistically significant, suggesting that there is no detectable difference between contributions in the pre-misconduct years and the average contribution over the entire sample period. The coefficient on *First Misconduct Year*$_t$ in column (2) reflects a 75.9% increase in CEOs' political contributions in the first year in which misconduct occurs. During other misconduct years, the average increase in CEO contributions is 86.2%. Because these specifications use firm fixed effects, the comparison captures the difference in CEO contributions across periods, even if there are different CEOs. Overall, the overlap between

increases in CEOs' contributions and misconduct years presented in Table 4 supports the notion that CEOs increase their donations to political campaigns during financial misreporting years.

We supplement these findings by examining whether there is a similar pattern for firm contributions. In other words, we use equation (2) but replace the dependent replacing *Log (CEO Contribution)* with *Log (Firm Contribution)*. The results in columns (3) and (4) indicate that there is no increase in firm contributions during misconduct years. Rather, firm contributions appear to be effectively constant over time. None of the coefficients on either the misconduct or pre-misconduct variables are close to conventional levels of statistical significance. While the lack of variation in firm contributions is consistent with the existing literature, it highlights an important distinction between firm and CEO contributions. More specifically, the pattern in CEO contributions we document is consistent with a transactional approach to political engagement, which is different from the relational approach typically associated with firm contributions. In general, a transactional approach involves a short-term relationship and focuses on issues individually, whereas a relational approach is developed based on long-term objectives (e.g., Arifin et al., 2020). Conceptually, it is reasonable for CEO political connections to be transactional in nature because a CEO has a limited time frame in which political connections are potentially beneficial. In contrast, a firm has an indefinite life, and therefore it is motivated to develop a long-term relationship. Our finding of no detectable difference between firm contributions during the misconduct years and those during the pre- or post-misconduct years is indicative of a relational approach to firm contributions.

4.3 Recipients of CEO Political Contributions

We examine attributes of CEO contributions across three dimensions to provide further support for our hypothesis that these contributions are made, in part, to obtain regulatory

concessions. First, we separate contributions into three possible recipients: candidate, PAC, and party. Candidate contributions are those directed to a specific candidate (e.g., Lindsey Graham, the senator from South Carolina), PAC contributions are those directed to a PAC (e.g., Security Is Strength PAC, a conservative PAC in South Carolina that supported Lindsey Graham's 2020 reelection campaign), and party contributions are those directed to a specific party (e.g., Republican Party). We predict that the increase in CEO contributions during misconduct periods will be directed towards elected officials who are best positioned to influence regulatory outcomes, which the literature on political contributions has posited are candidate contributions.

Table 5, Panel A, presents the results of three separate regressions that utilize our main specification in Table 3, column (6), but replace the dependent variable of total CEO contributions with variables that measure the candidate, PAC, and party components of these contributions, respectively. As predicted, our results are driven by candidate contributions. The coefficient in column (1) is 0.782 with a t-statistic of 3.62, whereas the coefficients in both columns (2) and (3) are insignificant and close to zero. Collectively, these results indicate that CEOs focus their personal contributions on individual candidates, consistent with our rational expectations equilibrium.

Second, we further separate candidate contributions into three types: House, Senate, and president. Elections for members of the House of Representatives occur every two years, for the Senate every six years, and for the president every four years. To the extent that CEOs are using personal contributions to gain political access, we expect them to focus their contributions on members of the House and Senate, with a slight bias toward House candidates. House candidates face far more frequent elections, and the races for House seats generally have lower aggregate funds than those for either the Senate or the president, so the incremental value of a CEO's

contribution is greater. The breakdown of CEOs' personal contributions across candidate, PAC, and party is discussed in Section 3. The regression results in Table 5, Panel B, show that contributions to House members are the most statistically important, with contributions to senators only marginally insignificant and contributions to presidential elections insignificant. These findings further support the conclusion we can draw from Table 5, Panel B: that CEOs are focusing their contributions on the types of recipients predicted by our framework.

Third, we separate candidate contributions into three levels based on the prestige of the committees on which the recipient is a member. We use the categorizations of each committee developed in accordance with the examination by the Congressional Research Services (CRS) of congressional rules for committee membership. In simple terms, CRS assigns each committee to one of three groups, with the top group consisting of the most influential assignments. These groups are created to ensure that senior members are included on those committees, and to ensure that no single member of Congress sits on multiple high-prestige committees. The categorization of committees is shown in Appendix C. For our purposes, the main group of interest is candidates on the "A" committees, which include Appropriations, Ways and Means, and Financial Services (i.e., the committees with direct oversight of the SEC). The breakdown of CEOs' personal contributions across committees is provided in Table 2, Panel B. The regression results in Table 5, Panel C, show that contributions to members of "A" committees increase during misconduct periods, but contributions to recipients on other committees are unchanged. These findings suggest that CEOs are focusing their contributions on the types of recipients predicted by our framework.

Collectively, the results in Table 5 are consistent with CEOs making opportunistic contributions. During misconduct periods, we find a statistically significant increase of approximately 78.2% in CEO contributions to candidates, but no change whatsoever in

contributions to either PACs or presidential candidates. Furthermore, we find that the increase in candidate contributions is disproportionately directed to House candidates and candidates who are members of committees with oversight of the SEC. These contribution patterns suggest that the prevailing view that CEO contributions are ideological is incomplete.

4.4 SEC enforcement and the distinction between CEO and firm contributions

There are two notable implications of our framework. First, CEOs make personal contributions in the belief that doing so will reduce their own legal jeopardy. Second, conditional on an enforcement action, CEO contributions are associated with lower personal legal jeopardy. In this subsection, we analyze the second implication by comparing the differential association of either firm or CEO political contributions with different regulatory outcomes starting with the initiation of an SEC investigation. These analyses are designed to document not only that political contributions are associated with differential regulatory outcomes, but also that the type of contribution (i.e., firm versus CEO) is associated with the type of target of the SEC enforcement action. At a high level, we expect regulatory benefits to accrue only at the senior level of the SEC, and we predict that the regulatory benefits of firm political contributions accrue primarily to the firm whereas CEO political contributions accrue primarily to the CEO.

We conduct three sets of sequential analyses, beginning with an examination of whether either firm or CEO political contributions are associated with differences in the likelihood that the firm is subject to a formal SEC investigation. As outlined in more detail below, we do not expect an association between either firm or CEO contributions and SEC investigations, as those investigations are typically initiated by lower-level SEC staff who are unlikely to be subject to regulatory capture (e.g., Heese et al., 2017). Next, we examine whether either firm or CEO political contributions are associated with differences in the likelihood that the firm is subject to an AAER.

As outlined in more detail below, we expect a negative association between firm political contributions and the likelihood of an AAER, as that effect is documented in Correia (2014). There is no prediction about the association between CEO political contributions and the likelihood of an AAER. Lastly, we examine whether either firm or CEO political contributions are associated with differences in the likelihood that the CEO is named in the AAER. As outlined in more detail below, we expect a negative association between CEO political contributions and the likelihood that the CEO is named in the AAER. We have no prediction as to the association between firm political contributions and the likelihood that the CEO is named in the AAER.

First, we investigate whether either firm or CEO political contributions are associated with differences in the likelihood that the firm is subject to a formal SEC investigation, using the following specification:

$$\begin{aligned} Pr(SEC\_INVSTG)_{i,j} = {} & \beta_0 + \beta_1 Log(CEO\ Contribution)_{i,t-T} \\ & + \beta_2 Log(Firm\ Contribution)_{j,t-T} + \boldsymbol{\theta} Controls_{i,j} \\ & + Year\ F.E. + Industry\ F.E. + \varepsilon_{i,j} \quad (3) \end{aligned}$$

where *SEC_INVSTG* is an indicator variable that equals one if there is an SEC investigation against the restating firm *i* within five years of when the AAER is filed, and zero otherwise. We calculate *Log(CEO Contribution)*$_{i,t-T}$ [*Log(Firm Contribution)*$_{i,t-T}$] in two ways: as the average annual CEO [firm] contribution during the misconduct years and as the aggregate CEO [firm] contribution during the misconduct years. *Controls*$_{i,t}$ is a vector of observable and time-varying control variables shown by prior literature to be associated with enforcement outcomes (deHann et al., 2015; Correia, 2014). These control variables include the level of discretionary accruals (*DACC*), total assets (*Firm Size*), *Leverage, Book-to-Market, Firm Age*, and stock volatility (*Volatility*). To control for firm visibility, we follow Kedia and Rajgopal (2011) and include a Fortune 500 company indicator (*Fortune 500*), the firm's level of *Analyst Following*, and a measure of the

distance between the firm's headquarters and the closest SEC office (*Distance to SEC*). We control for the severity of the misconduct using either *Net Income Effect*, which captures the overall effect of the restatement on the firm's reported net income, or *Firm Total Penalty*, which captures the penalty assessed by the SEC. We control for CEO characteristics by including CEO age (*CEO Age*), CEO tenure (*CEO Tenure*), CEO gender (*CEO Gender*), CEO compensation (*CEO Compensation*), and CEO pay sensitivity (*CEO Delta* and *CEO Vega*). We use industry fixed effects because firm fixed effects result in a specification that is not implementable.

In general, SEC investigations are opened by low-level SEC staff, and only once a Wells Notice is issued do SEC commissioners become aware of the potential for an enforcement action. To the extent that firm or CEO contributions generate political favors, we posit that political influence will be at the commissioner level and not at the level of the SEC employee responsible for initiating an investigation. In other words, we expect that the effects of political influence will occur at the enforcement stage (i.e., when the SEC commissioners are involved) as opposed to the early investigative period (i.e., when only lower-level SEC staff are involved). As a result, we do not anticipate an association between the initiation of an SEC investigation and either CEO or firm contributions. Therefore, we do not expect either β_1 or β_2 to be statistically significant. The results in Table 6, columns (1) and (2), which use average and total contributions, respectively, confirm this expectation. All four coefficients are insignificant.

Second, we investigate whether either firm or CEO political contributions are associated with differences in the likelihood that the firm is subject to an AAER, using the following specification:

$$\begin{aligned} Pr(AAER\_FIRM)_{i,j} = {} & \beta_0 + \beta_1 Log(CEO\ Contribution)_{i,t-T} \\ & + \beta_2 Log(Firm\ Contribution)_{j,t-T} + \boldsymbol{\theta} Controls_{i,j} \\ & + Year\ F.E. + Industry\ F.E. + \varepsilon_{i,j} \quad (4) \end{aligned}$$

where *AAER_FIRM* is an indicator variable that equals one if the restating firm is subject to an AAER, and zero otherwise. All other variables are as defined in equation (3). Prior studies have established that firms with higher political contributions benefit from fewer AAERs (e.g., Correia, 2014). Therefore, we expect that the coefficient β_2 will be negative and significant. There is no prediction about the association between CEO political contributions and the likelihood of an AAER. If one assumes that CEO contributions are an extension of the firm, then the coefficient β_1 would also be negative. The results in Table 6 columns (3) and (4) confirm the negative association between firm contributions and the firm receiving an AAER, but they show no association between CEO contributions and the firm receiving an AAER. The coefficients for firm contributions are both highly significant (t-statistic of 3.09 for average firm contributions and t-statistic of 3.04 for total firm contributions). In sharp contrast, the coefficients for CEO contributions are essentially zero. These results indicate that the association between political contributions and the receipt of an AAER is different for firm versus CEO contributions, and more importantly, that CEO contributions have no effect on whether the firm will be subject to an AAER.

Third, we investigate whether either firm or CEO political contributions are associated with differences in the likelihood that the CEO is named in an AAER, using the following specification:

$$\begin{aligned} Pr(AAER\_CEO)_{i,j} = {} & \beta_0 + \beta_1 Log(CEO\ Contribution)_{i,t-T} \\ & + \beta_2 Log(Firm\ Contribution)_{j,t-T} + \boldsymbol{\theta} Controls_{i,j} \\ & + Year\ F.E. + Industry\ F.E. + \varepsilon_{i,j} \end{aligned} \quad (5)$$

where *AAER_CEO* is an indicator variable that equals one if the CEO of a firm that received an AAER is personally named. All other variables are as defined in equation (3). We expect a negative association between CEO political contributions and the likelihood that the CEO is named in the AAER, as our framework is based on the idea that CEOs engage with the political process to mitigate personal sanctions. As previously noted, prior studies have shown that enforcement

actions against the CEO by the SEC have a negative effect on CEOs (e.g., Beneish, Marshall, and Yang, 2017; Karpoff et al., 2008), and therefore it is reasonable to assume that CEOs would want to avoid personal prosecution. In contrast, there is no prediction about the association between firm political contributions and the likelihood that the CEO is named in the AAER.

The results in columns (5) and (6) show a negative and highly significant association between CEO contributions and whether the CEO is named in the AAER. It is notable that there is no statistically significant association between firm contributions and whether the CEO is named in the AAER. The coefficient on average firm contribution is positive, but insignificant in column (6). Overall, when the results in columns (5) and (6) (i.e., the effects of CEO and firm contributions on CEO sanctions) are compared with the results in columns (3) and (4) (i.e., the effects of CEO and firm contributions on firm sanctions), it is clear that CEO contributions are not simply extensions of firm contributions. Rather, it appears that firm contributions are helpful in reducing firm sanctions, whereas CEO contributions are helpful in reducing CEO sanctions.

4.5 Economic consequences to CEO of being named in an AAER

Our next set of analyses examine the consequences to CEOs of both public and private sanctions. Public sanctions are assessed by the SEC, and include penalties such as disgorgement (i.e., the return of profits earned by the CEO through the fraud), civil penalties (i.e., additional amounts charged above disgorgement), and career penalties, such as being barred from being an officer of a publicly traded company. Private sanctions are through shareholder actions, and typically involve a single aggregate penalty. Both sets of analyses use the same empirical specification:

$$\Pr(CEO\ Outcomes)_{i,j} = \beta_0 + \beta_1 Log(CEO\ Contribution)_{i,t-T} + \beta_2 Log(Firm\ Contribution)_{j,t-T} + \boldsymbol{\theta} Controls_{i,j} + Year\ F.E. + IND\ F.E. + \varepsilon_{i,j} \quad (6)$$

where *CEO Outcomes* is one of the following: *Log(CEO Disgorgement)*, *Log(CEO Civil Penalty)*, or *Barred from being Officers*. *Log(CEO Disgorgement)* and *Log(CEO Civil Penalty)* are the natural logarithm of the dollar amount of CEO disgorgement or civil penalties disclosed in the AAER. *Barred from being Officers* is an ordered variable that equals 4 if the CEO is barred from being an officer permanently, 3 if the CEO is barred from being an officer for 10 years, 2 if the CEO is barred from being an officer for 5 years, 1 if the CEO is barred from being an officer for less than 5 years, and zero if the CEO is not barred from being an officer. Due to the nature of the dependent variables, we employ industry and year fixed effects instead of firm and year, as the use of firm fixed effects is not implementable. All other variables are as defined in equation (3).

The public enforcement outcomes are provided in Table 7, and the private enforcement outcomes in Table 8. There is a negative and highly significant association between CEO contributions and CEO disgorgement, CEO civil penalty, and whether the CEO is barred from being an officer at a public company. In contrast, the coefficients on firm contribution are insignificant for all but CEO disgorgement. The results in Table 8 are in sharp contrast to those in Table 7. Across each specification, there is no association between CEO contributions and private litigation outcomes (i.e., whether the CEO was named in the litigation and the CEO penalty). Collectively, the results in Tables 7 and 8 suggest that CEOs use personal contributions to reduce the personal penalty associated with SEC enforcement actions, but that their contributions have no effect on private litigation outcomes. This latter finding contrasts with the conclusion in Fulmer, Knill and Yu (2023) that political engagement lowers the cost of private litigation outcomes. However, their sample is only comprised of executives subject to litigation, and their empirical specification uses the total of firm and CEO contributions. As a result, their empirical results are not designed to separately identify the effect of individual executive contributions. From our

perspective, the combination of our results in Table 7 and Table 8 is reassuring, because it is unclear to us whether engagement in the political process should affect private regulatory outcomes as we do not believe that private sector litigation firms would seek lower penalties from entities that are politically active. In addition, these results also reinforce the notion that CEO contributions are not associated with instances where the firm misconduct was less severe. Rather, the results in Table 8 suggest that the nature of the misconduct is similar across observations with and without CEO contributions.

4.6 Additional analyses

We conduct two sets of tests to provide some additional context and support for our findings. First, we examine whether CEO contributions are tied to overall trends in misconduct or other events at the industry level by specifying a variation on equation (1) that replaces the variable *Misconduct* (which takes the value of one for year *t* when misconduct occurred at the firm in year *t*) with several alternatives derived from the misconduct of industry peers (i.e., firms with the same industry classification). The results in Table 9 show that there is no relation between CEO personal contributions and the various measures of peer firm misconduct. These analyses provide additional assurance that the changes we document in CEO personal contributions are driven by misconduct at the firm rather than misconduct or other events at the industry level.

Next, we provide a difference-in-differences specification that exploits the change in the expectation of CEO culpability that arose around the adoption of the Sarbanes-Oxley Act of 2002 (SOX). At the time SOX was adopted, there were several high-profile accounting restatements that resulted in stiff penalties for named executives. In addition, Section 906 of the Sarbanes-Oxley Act of 2002 (SOX) newly required that CEOs certify financial information and periodic reports filed with the SEC. Our empirical tests rely on the notion that the heightened overall enforcement

environment coupled with the new provisions of SOX increased the likelihood that a CEO believed he would be personally prosecuted by the SEC. We estimate equation (1) separately for the pre- and post-SOX periods, and then examine whether there is a stronger association (i.e., do CEOs increase their contributions more during misconduct periods) in the post-SOX period relative to the pre-SOX period. We accomplish this by using a bootstrap technique that identifies how often the coefficient of interest is greater in the post-SOX period than in the pre-SOX period.[4] This procedure is appropriate in our setting because there are very few CEOs who are in a misconduct period both before and after SOX, which suggests that the distributions in the pre- and post-SOX periods are likely to be dissimilar. Our analyses in Table 10 show that there was a differential increase in CEO contributions during misconduct periods when we compare the pre- and post-SOX periods. This finding is consistent with our framework, as CEO contributions increased in response to the increased potential benefit of mitigating personal enforcement.

5. Conclusion

We provide a novel examination of the private regulatory benefits associated with individual political contributions. We show that CEO personal contributions exhibit numerous differences with firm contributions, the focus of much of the literature on regulatory capture. We find that time-series and cross-sectional patterns in CEO contributions are distinct from firm

[4] We use the *bdiff* command in Stata, which employs Fisher's Permutation test (sampling without replacement) of differences in the coefficient estimates between two groups and determines the level of significance through simulations. Under this approach, observations are pooled from the two groups whose coefficient estimates are to be compared. Using n1 and n2 to denote the number of observations available from each group, each simulation randomly selects n1 and n2 observations from the pooled distribution of n1 + n2 observations and assigns them to group 1 and group 2, respectively. Coefficient estimates are then determined for each group using these randomly selected observations. The empirical p-value is the percentage of simulations where the difference between coefficient estimates in the randomly constructed samples exceeds the actual observed difference in coefficient estimates. The advantage of this procedure is that it does not rely on statistical assumptions, such as independence across error terms. See http://fmwww.bc.edu/RePEc/bocode/b/bdiff.sthlp for more information.

contributions. In addition, those patterns are hard to reconcile with ideological explanations, as contributions spike in response to regulatory events and the increased contributions are made to specific candidates whose characteristics are indicative of influence acquisition. We also find that CEO political contributions substantially reduce the probability that the CEO will be personally prosecuted and incur the associated penalties, including fines and disgorgement. Collectively, our results suggest that CEO individual contributions should be viewed as a potential driver of regulatory capture, a finding that has substantial practical implications.

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Appendix A: Variable Definitions

CEO Personal Political Contribution Variable Definitions

Log (CEO Contribution)	The natural logarithm of the calendar year dollar amount of personal CEO political contributions (source: FEC).
Log (Candidate Contribution)	The natural logarithm of the calendar year dollar amount of personal CEO political contributions to political candidates (source: FEC).
Log (PAC Contribution)	The natural logarithm of the calendar year dollar amount of personal CEO political contributions to corporate political action committees (source: FEC).
Log (Party Contribution)	The natural logarithm of the calendar year dollar amount of personal CEO political contributions to political party committees (source: FEC).
Log (Candidate House)	The natural logarithm of the calendar year dollar amount of personal CEO political contributions to House candidates (source: FEC).
Log (Candidate Senate)	The natural logarithm of the calendar year dollar amount of personal CEO political contributions to Senate candidates (source: FEC).
Log (Candidate President)	The natural logarithm of the calendar year dollar amount of personal CEO political contributions to presidential candidates (source: FEC).
Log (Candidate CMT A)	The natural logarithm of the calendar year dollar amount of personal CEO political contributions to incumbent candidates sitting on committee A (source: FEC).
Log (Candidate CMT B)	The natural logarithm of the calendar year dollar amount of personal CEO political contributions to incumbent candidates sitting on committee B (source: FEC).
Log (Candidate CMT C)	The natural logarithm of the calendar year dollar amount of personal CEO political contributions to incumbent candidates sitting on committee C (source: FEC).
Log (Candidate Nonincumbent)	The natural logarithm of the calendar year dollar amount of personal CEO political contributions to non-incumbent candidates (source: FEC).
Log (Average Contribution)	The natural logarithm of the average of the calendar year dollar amount of personal CEO political contributions during either misconduct years or restated years (source: FEC, AAERs).
Log (Total Contribution)	The natural logarithm of the total of the calendar year dollar amount of personal CEO political contributions during either misconduct years or restated years (source: FEC, AAERs).

Other CEO Variable Definitions

AAER_CEO	An indicator variable that equals one if the CEO of an AAER firm is personally prosecuted by the SEC within three years after the enforcement file year, and zero otherwise (source: AAERs).
Barred from Being Officers	An ordered variable that equals 4 if the CEO is barred from being an officer permanently, 3 if the CEO is barred from being an officer for 10 years, 2 if the CEO is barred from being an officer for 5 years, 1 if the CEO is barred from being an officer for less than 5 years, and zero if the CEO is not barred from being an officer (source: AAERs).
CEO Age	The natural logarithm of CEO age (source: ExecuComp).
CEO Compensation	The natural logarithm of CEO annual total compensation (source: ExecuComp).
CEO Delta	The natural logarithm of the change in the value of the CEO's total equity holdings (in thousands of dollars) in response to a 1% change in stock price (source: ExecuComp).
CEO Gender	An indicator variable equal to one for male CEOs and zero for female CEOs.
CEO Tenure	The natural logarithm of CEO tenure (source: ExecuComp).
CEO Vega	The natural logarithm of the change in value of the CEO's total equity holdings

	(in thousands of dollars) in response to a 1% change in stock volatility (source: ExecuComp).
Log (CEO Civil Penalty)	The natural logarithm of the dollar value of the CEO's civil penalties disclosed in the AAERs (source: AAERs).
Log (CEO Disgorgement)	The natural logarithm of the dollar value of the CEO's disgorgement disclosed in the AAERs (source: AAERs).
Log (CEO Penalty Private)	The natural logarithm of the dollar value of the CEO's total monetary penalties disclosed in SCACs (source: Stanford Securities Class Action Clearinghouse).
Private Litigation CEO	An indicator variable that equals one if the CEO of an AAER firm is the subject of private litigation within three years after the enforcement file year, and zero otherwise (source: Stanford Securities Class Action Clearinghouse).

Firm Political Contribution Variable Definitions

Log (Firm Contribution)	The natural logarithm of the calendar year dollar amount of firm political contributions (source: FEC).
Log (Average Firm Contribution)	The natural logarithm of the average of the calendar year dollar amount of firm political contributions during either misconduct years or restated years (source: FEC, AAER).
Log (Total Firm Contribution)	The natural logarithm of the total of the calendar year dollar amount of firm political contributions during either misconduct years or restated years (source: FEC, AAER).

Other Firm Variable Definitions

AAER_FIRM	An indicator variable that equals one if a restating firm being investigated by the SEC is prosecuted by the SEC within five years after the investigation close year, and zero otherwise (source: AAERs, SEC Investigations data from Blackburne et al. 2020).
Analyst Following	Number of analysts issuing quarterly EPS forecasts during the fiscal year; set to equal to zero if the firm is not covered by IBES (source: Institutional Brokers' Estimate System).
Book-to-Market	The book value of total assets divided by the sum of the market value of equity and the book value of liabilities (source: Compustat).
CAPEX	Capital expenditures scaled by total assets (source: Compustat).
DACC	The performance-matched discretionary accruals (*DACC*) are measured using the modified Jones model, augmented to include lagged return on assets (*ROA*) as follows: $TACC_{it}/ASSETS_{it-1} = a_0 + a_1(1/ASSETS_{it-1}) + a_2((\Delta SALES_{it} - \Delta AR_{it})/ASSETS_{it-1})) + a_3(PPE_{it}/ASSETS_{it-1}) + ROA_{it-1} + \varepsilon_{it}$ The residual from the regression is defined as the performance-matched discretionary accruals.
Distance to SEC	The natural logarithm of the distance between the firm's headquarters and the closest SEC regional office (Kedia and Rajgopal, 2011).
Firm Age	The number of years since the firm's first appearance in CRSP (source: Center for Research in Security Prices).
Firm Size	The natural logarithm of the year-end value of total assets (source: Compustat).
Firm Total Penalty	The natural logarithm of the dollar value of the firm's total monetary penalties disclosed in the AAER scaled by total assets (source: AAERs).
Fortune 500	An indicator variable that equals one if the firm is included in the Fortune 500 index, and zero otherwise (source: Compustat).
Leverage	The ratio of year-end total debt to year-end total assets (source: Compustat).
Misconduct	An indicator variable that equals one in years when a firm engages in financial reporting–related misconduct, according to an AAER issued against the firm, and zero otherwise (source: AAERs).
Net Income Effect	The ratio of accumulated change in net income after restatement to the accumulated

	revenues during the restated period (source: AuditAnalytics)
R&D	The ratio of research and development expenses to total assets. The variable is set to zero if the XRD data item on Compustat is missing (source: Compustat).
ROA	The operating cash flow minus capital expenditure, scaled by year-end total assets (source: Compustat).
SEC_IVSTG	An indicator variable that equals one if a restating firm is investigated by the SEC within five years after the restatement file year, and zero otherwise (source: AuditAnalytics, SEC Investigations data from Blackburne et al. 2020).
TobinQ	The ratio of the market value of total assets to the book value of total assets (source: Compustat).
Volatility	The stock market volatility (source: CRSP).

Appendix B: Data Collection

We collected information on the misconduct period and the total penalties assessed by the SEC from the text of the AAER. An excerpt from AAER No. 2654[5] showing the hand collected data is provided below:

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 20212 / July 26, 2007

Accounting and Auditing Release No. 2654 / July 26, 2007

***Securities and Exchange Commission v. Cardinal Health, Inc.*, United States District Court for the Southern District of New York, Civil Action No. 07 CV 6709 (S.D.N.Y. July 26, 2007)**

SEC Sues Cardinal Health, Inc. For Fraudulent Earnings and Revenue Management Scheme

Pharmaceutical Distribution Company to Pay $35 Million Penalty

The Securities and Exchange Commission today filed a civil action against Cardinal Health, Inc. (Cardinal), a pharmaceutical distribution company based in Dublin, Ohio, in which Cardinal agreed to pay $35 million to settle charges that it engaged in a nearly four-year long fraudulent revenue and earnings management scheme, as well as other improper accounting and disclosure practices.

The Commission's complaint alleges that, from September 2000 through March 2004, Cardinal engaged in this conduct in order to present a false picture of its operating results to the financial community and the investing public - one that matched Cardinal's publicly disseminated earnings guidance and analysts' expectations, rather than its true economic performance. Through these practices, Cardinal materially overstated its operating revenue, earnings and growth trends in certain earnings releases and filings with the Commission.

[5] https://www.sec.gov/litigation/litreleases/2007/lr20212.htm

Appendix B (continued)

We collected the disgorgement payment, civil penalties and other career outcomes that the SEC assessed against the CEO from the text of the AAER. An excerpt from AAER No. 3032[6] showing the hand collected data is provided below:

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 21170 / August 6, 2009

Accounting and Auditing Enforcement Release No. 3032 / August 6, 2009

***Securities and Exchange Commission v. Maurice R. Greenberg and Howard I. Smith*, Civil Action No. 09 Civ 6939 (S.D.N.Y.)**

SEC Charges Hank Greenberg and Howard Smith for Roles in Alleged AIG Accounting Violations

The Securities and Exchange Commission today charged former American International Group Chairman and CEO Maurice "Hank" Greenberg and former Vice Chairman and CFO Howard Smith for their involvement in numerous improper accounting transactions that inflated AIG's reported financial results between 2000 and 2005. The complaint alleges that Greenberg and Smith are liable as control persons for AIG's violations of the antifraud and other provisions of the securities laws. Smith is also charged with direct violations of the antifraud and other provisions of the securities laws.

Without admitting or denying the allegations in the complaint, Greenberg has consented to a judgment enjoining him from violating Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 and from controlling any person who violates Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13, and directing him to pay a penalty of $7.5 million and disgorgement of $7.5 million.

[6] https://www.sec.gov/litigation/litreleases/2009/lr21170.htm

Appendix C: Senate and House Committee Categories

Panel A: Senate Committee Categories

A Committees	B Committees	C Committees
Agriculture, Nutrition, and Forestry	Budget	Ethics (Select)
Appropriations	Rules and Administration	Indian Affairs
Armed Services	Veterans' Affairs	Joint Committee on Taxation
Banking, Housing, and Urban Affairs	Small Business and Entrepreneurship	Joint Committee on the Library
Commerce, Science, and Transportation	Aging (Special)	Joint Committee on Printing
Energy and Natural Resources	Joint Economic Committee	
Environment and Public Works		
Finance		
Foreign Relations		
Homeland Security and Governmental Affairs		
Judiciary		
Health, Education, Labor, and Pensions		
Intelligence (Select)		

Panel B: House Committee Categories

A Committees (Exclusive)	B Committees (Non-Exclusive)	C Committees (Exempt)
Appropriations	Agriculture	Ethics
Rules	Armed Services	Benghazi (Select)
Ways and Means	Budget	Intelligence (Select)
Financial Services (for members serving on the panel in the 109th and subsequent Congresses)	Education and the Workforce	Climate Crisis (Select)
	Energy and Commerce	Deficit Reduction (Joint, Select)
Energy and Commerce (for members serving on the panel in the 104th Congress and subsequent Congresses)	Foreign Affairs	Joint Committee on Taxation
	Homeland Security	Joint Committee on the Library
	House Administration	Joint Committee on Printing
	Judiciary	
	Natural Resources	
	Oversight and Accountability	
	Science, Space, and Technology	
	Small Business	
	Transportation and Infrastructure	
	Veterans' Affairs	

Source: https://www.house.gov/committees
https://www.senate.gov/committees/
https://crsreports.congress.gov/product/pdf/R/R46806
https://sgp.fas.org/crs/misc/98-151.pdf

Fig. 1. Percent increase in political contributions from 1993 to 2016.

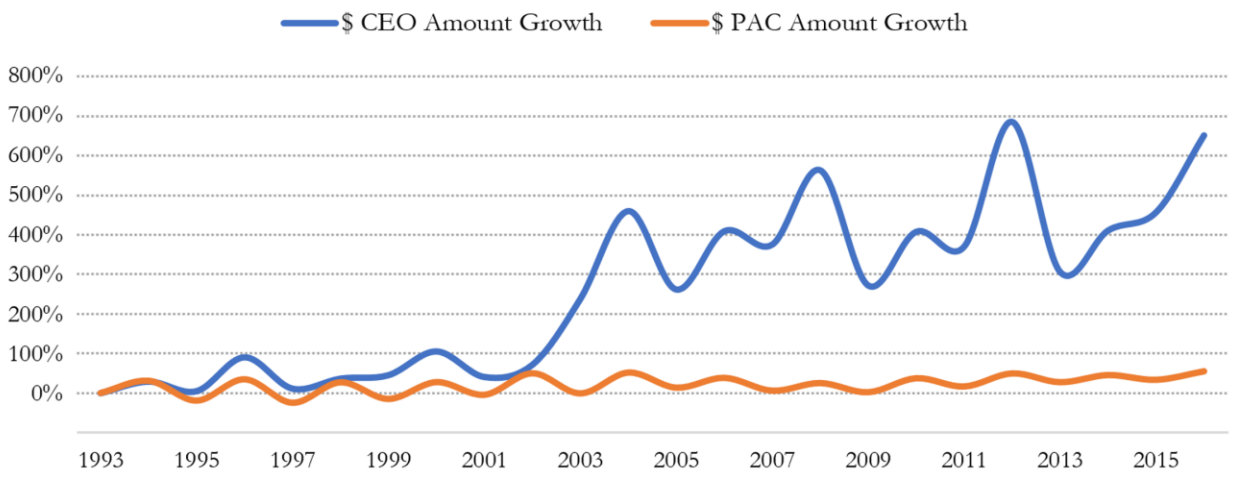


Fig. 2. Breakdown of CEO personal political contributions from 1993 to 2016 by recipient.

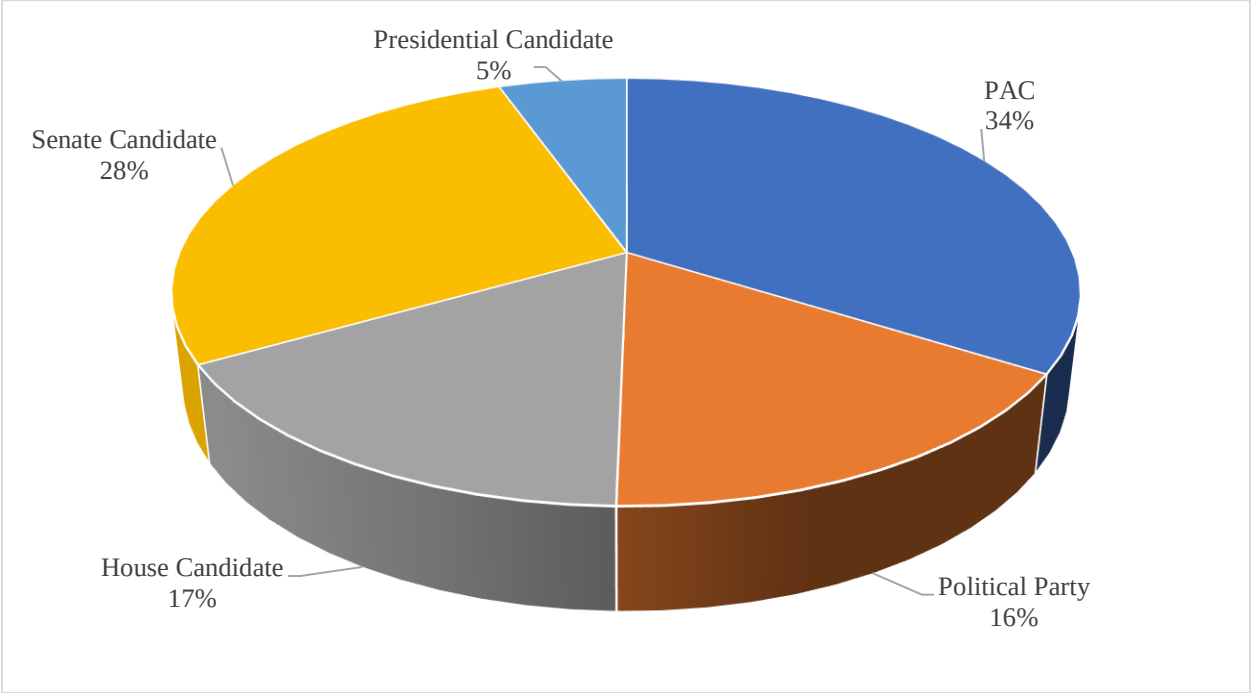
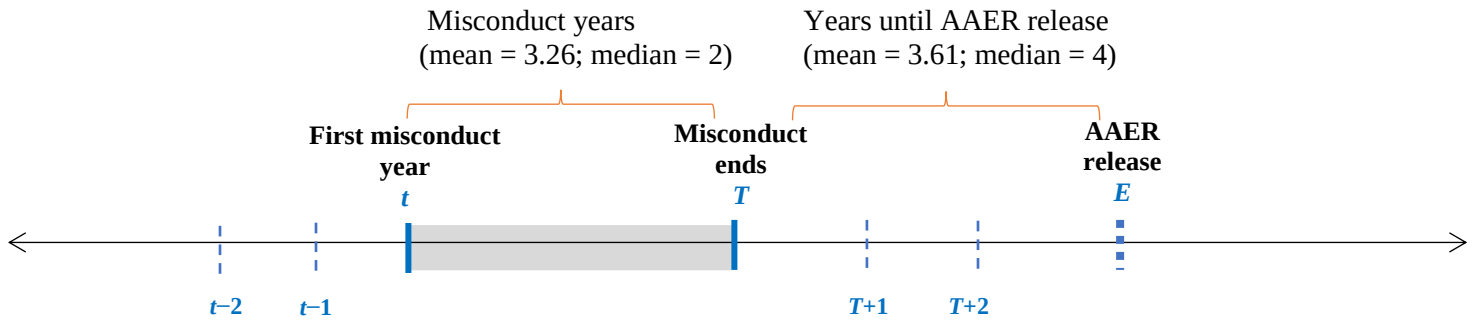


Fig. 3. Timeline of Misconduct Years and AAER Release.



Areas in gray are misconduct years. In our empirical tests, we create a dummy variable *Misconduct*, which equals one if prosecuted firm *i* misreports its financial numbers in year *t*, and zero otherwise.

	N	Mean	St. Dev.	p25	p50	p75
Misconduct years [*t*, *T*]	210	3.26	3.11	1	2	4
Gap between the last misconduct year and the first AAER year [*T*, *E*]	210	3.61	1.74	2	4	5

Table 1. Sample selection and distribution.

Panel A: Sample Selection

	Firms	Firm-Years	CEOs	CEO-Years
ExecuComp firm list from 1993 to 2016	3,814	44,620	8,232	44,620
Less: Firms with missing CEO data in ExecuComp	(10)	(1,075)	(142)	(1,075)
Less: Firms with missing data in Compustat	(199)	(4,805)	(741)	(4,805)
Final Sample	**3,605**	**38,740**	**7,400**	**38,740**
Ever donating during 1993–2016	1,287	16,229	6,677	
Ever donating during tenure			5,421	23,231

Panel B: Sample Distribution by Year

Year	Firm	Donate-CEO	Donate-Firm	Year	Firm	Donate-CEO	Donate-Firm
1993	998	527	360	2005	1,555	887	436
1994	1,330	850	425	2006	1,678	1,034	464
1995	1,385	807	409	2007	2,044	1,210	513
1996	1,417	937	455	2008	1,874	1,232	482
1997	1,429	754	408	2009	1,908	1,057	483
1998	1,473	862	428	2010	1,907	1,189	517
1999	1,510	891	380	2011	1,862	1,105	499
2000	1,460	921	389	2012	1,849	1,219	501
2001	1,398	725	370	2013	1,860	998	492
2002	1,385	804	390	2014	1,859	1,075	508
2003	1,502	907	407	2015	1,770	1,068	478
2004	1,582	1,030	478	2016	1,705	1,142	468
Total					**38,740**	**23,231**	**10,740**

This table reports the sample selection procedure. Our sample includes all ExecuComp CEOs from 1993 to 2016. Panel A presents the sample size at firm and CEO levels, respectively. Panel B shows the sample distribution by year.

Table 2. Descriptive statistics.

Panel A: Summary Data for Full Sample

	N	Mean	St.Dev	P25	Median	P75
CEO Contribution	38,740	5847.41	12846.70	0.00	1097.44	5557.76
Candidate Contribution	38,740	2761.53	6032.86	0.00	0.00	2706.80
PAC Contribution	38,740	1776.77	4870.02	0.00	0.00	742.33
Party Contribution	38,740	859.31	4160.75	0.00	0.00	0.00
Candidate House	38,740	863.35	2155.28	0.00	0.00	571.87
Candidate Senate	38,740	1455.58	4016.36	0.00	0.00	1065.21
Candidate President	38,740	285.04	1054.18	0.00	0.00	0.00
Candidate CMT A	38,740	748.49	2429.33	0.00	0.00	0.00
Candidate CMT B	38,740	264.38	1060.03	0.00	0.00	0.00
Candidate CMT C	38,740	15.85	227.90	0.00	0.00	0.00
Candidate Nonincumbent	38,740	587.71	3740.87	0.00	0.00	0.00
Firm Contribution	38,740	26299.94	77605.15	0.00	0.00	5042.37
Misconduct	38,740	0.02	0.13	0.00	0.00	0.00
Firm Size	38,740	7.58	1.70	6.33	7.45	8.69
TobinQ	38,740	1.95	1.66	1.15	1.49	2.15
ROA	38,740	0.04	0.11	0.01	0.04	0.08
CAPEX	38,740	0.05	0.06	0.02	0.03	0.07
R&D	38,740	0.03	0.06	0.00	0.00	0.03
CEO Tenure	38,740	1.30	0.80	0.69	1.39	1.95
CEO Age	38,740	4.01	0.13	3.93	4.03	4.09
CEO Gender	38,740	0.98	0.15	1.00	1.00	1.00
CEO Delta	38,740	5.57	1.61	4.58	5.54	6.58
CEO Vega	38,740	3.53	2.02	2.33	3.78	5.00
CEO Compensation	38,740	7.90	1.18	7.16	7.94	8.68

Panel B: Summary Data for Subsample of CEOs who Made Contributions

	N	Mean	St.Dev	P25	Median	P75
CEO Contribution	23,231	9,751.13	15,399.81	1,534.56	3,921.12	10,102.44
Candidate Contribution	19,031	5,621.44	7,616.53	1,348.31	2,754.58	6,467.51
PAC Contribution	11,563	5,952.79	7,389.46	1,191.67	3,396.23	7,105.53
Party Contribution	5,349	6,223.53	9,592.19	595.83	1,597.81	6,699.32
Candidate House	11,291	2,962.21	3,117.88	849.12	1,677.54	3,699.06
Candidate Senate	12,141	4,644.53	6,054.96	1,187.43	2,273.12	5,557.76
Candidate President	4,240	2,604.39	2,028.28	1,113.52	2,130.54	3,205.85
Candidate CMT A	9,008	3,218.98	4,174.87	1,078.64	1,695.89	3,562.29
Candidate CMT B	4,976	2,058.30	2,248.68	676.70	1,353.40	2,706.80
Candidate CMT C	318	1,930.60	1,624.53	798.90	1,353.40	2,731.09
Candidate Nonincumbent	7,876	2,890.81	7,885.53	838.77	1,629.43	3,089.10

Table 2. Descriptive statistics (continued).

Panel C: Summary Data for Subsample where Firm Restated Financial Numbers						
	N	Mean	St.Dev	P25	Median	P75
SEC_IVSTG	2090	0.24	0.43	0.00	0.00	0.00
Average Contribution	2090	5,300.11	35,328.16	0.00	0.00	3,383.50
Average Firm Contribution	2090	19,775.44	70,611.97	0.00	0.00	0.00
Total Contribution	2090	11,144.23	61,117.90	0.00	0.00	6,412.53
Total Firm Contribution	2090	56,030.42	259,231.00	0.00	0.00	0.00
DACC	2090	-0.03	2.67	-0.12	0.00	0.12
Firm Size	2090	7.56	1.74	6.30	7.42	8.70
Leverage	2090	0.25	0.43	0.05	0.20	0.36
Book-to-Market	2090	0.37	5.23	0.27	0.47	0.73
Firm Age	2090	24.57	19.41	11.00	19.00	35.00
Analysts Following	2090	8.58	7.06	3.00	7.00	12.00
Fortune 500	2090	0.21	0.41	0.00	0.00	0.00
Distance to SEC	2090	4.22	1.78	3.05	4.52	5.61
Volatility	2090	0.38	0.30	0.21	0.31	0.45
CEO Age	2090	4.01	0.14	3.91	4.01	4.09
CEO Tenure	2090	1.34	0.86	0.69	1.39	2.08
CEO Gender	2090	0.97	0.18	1.00	1.00	1.00
CEO Delta	2090	5.40	1.70	4.47	5.49	6.45
CEO Vega	2090	3.46	2.10	2.07	3.79	5.05
CEO Compensation	2090	7.93	1.28	7.24	8.06	8.73
Net Income Effect ($100,000)	2090	-0.01	0.07	0.00	0.00	0.00

Panel D: Summary Data for Subsample where Firm received an AAER						
	N	Mean	St.Dev	P25	Median	P75
AAER_CEO	224	0.19	0.39	0.00	0.00	0.00
Average Contribution	224	6,031.76	12,355.17	299.41	1,627.04	5,570.74
Average Firm Contribution	224	54,313.42	125,901.90	0.00	0.00	43,789.99
Total Contribution	224	24,931.57	61,268.94	799.47	4,819.09	16,964.80
Total Firm Contribution	224	210,681.40	570,423.10	0.00	0.00	114,921.40
DACC	224	-0.16	1.67	-0.25	-0.03	0.10
Firm Size	224	11.14	12.41	7.11	8.31	9.81
Leverage	224	0.26	0.21	0.10	0.23	0.35
Book-To-Market	224	0.56	0.51	0.31	0.46	0.70
Firm Age	224	30.69	22.06	14.00	24.00	41.00
Analysts Following	224	12.08	8.42	5.00	10.00	19.00
Fortune 500	224	0.43	0.50	0.00	0.00	1.00
Distance to SEC	224	5.36	5.62	2.91	4.53	5.64
Volatility	224	0.39	0.26	0.21	0.33	0.49
CEO Age	224	4.07	2.11	3.97	4.08	4.16
CEO Tenure	224	1.27	1.28	0.00	1.10	1.61
CEO Gender	224	0.99	0.12	1.00	1.00	1.00
CEO Delta	224	5.57	1.84	4.74	5.84	6.61
CEO Vega	224	4.10	2.28	2.93	4.56	5.90
CEO Compensation	224	8.35	1.63	7.69	8.58	9.26
Firm Total Penalty	224	0.36	0.74	0.00	0.02	0.24

Table 2. Descriptive statistics (continued).

Panel E: Summary Data for CEO Public and Private Enforcement Outcomes						
	N	Mean	St.Dev	P25	Median	P75
Log(CEO Disgorgement)	215	0.76	2.35	0.00	0.00	0.00
Log(CEO Civil Penalty)	215	0.63	1.92	0.00	0.00	0.00
Barred from Being Officers	215	0.35	0.86	0.00	0.00	0.00
Private Litigation CEO	215	0.40	0.49	0.00	0.00	1.00
Log(CEO Penalty Private)	215	0.50	2.81	0.00	0.00	0.00

This table reports summary statistics for variables used in the main analyses. The sample includes firms covered by ExecuComp between 1993 and 2016. Data on individual campaign contributions are from FEC individual contributions files, and data on firm-level control variables are from Compustat. Panel A presents the descriptive statistics for variables used in the contributions-misconduct analysis. Panel B presents descriptive statistics for CEO contributions conditional on making donations. Panels C and D presents descriptive statistics for variables used in CEO personal prosecution analysis, and Panel E provides descriptive statistics on CEO enforcement outcomes. All continuous variables except for the CEO contribution variables are winsorized at the 1st and 99th percentiles. Variables are defined in Appendix A.

Table 3. CEO political contributions during misconduct years.

Dependent variable =	*Log (CEO Contribution)*					
	(1)	(2)	(3)	(4)	(5)	(6)
Misconduct	0.792***	0.928***	0.467**	0.599**	0.423**	0.807***
	(3.01)	(3.55)	(2.14)	(2.80)	(2.15)	(3.77)
Log (Firm Contribution)			0.164***	0.153***	0.070***	0.093***
			(12.00)	(11.67)	(6.65)	(6.57)
Firm Size			0.321***	0.259***	0.209***	0.176**
			(8.24)	(6.45)	(3.35)	(2.51)
TobinQ			-0.008	-0.023	0.030	0.005
			(-0.38)	(-1.02)	(1.04)	(0.18)
ROA			-0.400	-0.152	0.208	-0.019
			(-1.41)	(-0.59)	(1.19)	(-0.09)
CAPEX			0.190	0.559	0.192	1.282*
			(0.25)	(0.64)	(0.34)	(1.77)
R&D			-5.706***	-3.126***	-0.860	-1.822*
			(-6.45)	(-3.25)	(-1.01)	(-1.84)
CEO Tenure			0.338***	0.338***	0.240***	0.300***
			(5.78)	(6.29)	(4.81)	(5.45)
CEO Age			1.146***	1.346***	-0.404	1.708***
			(3.31)	(3.88)	(-0.21)	(3.94)
CEO Gender			0.359	0.377	0.000	0.538
			(1.20)	(1.32)	(0.00)	(1.69)
CEO Delta			0.379***	0.390***	0.100***	0.311***
			(10.24)	(10.78)	(2.82)	(8.01)
CEO Vega			-0.116***	-0.088***	0.026	-0.052*
			(-4.35)	(-3.40)	(1.43)	(-2.01)
CEO Compensation			-0.029	-0.012	0.032	-0.003
			(-0.73)	(-0.31)	(1.40)	(-0.11)
Year F.E.	No	Yes	Yes	Yes	Yes	Yes
Industry F.E.	No	No	No	Yes	No	No
CEO F.E.	No	No	No	No	Yes	No
Firm F.E.	No	No	No	No	No	Yes
S.E. Cluster	Firm, Year	Firm, Year	Firm, Year	Firm, Year	CEO, Year	Firm, Year
Observations	38,740	38,740	38,740	38,672	37,708	38,570
Adj. R-squared	0.001	0.017	0.153	0.175	0.638	0.462

This table reports regression estimates for the following model:

$$Log(\ CEO\ Contribution)_{i,t} = \alpha_1 Misconduct_{i,t} + \boldsymbol{\gamma} Controls_{i,t} + F.E. + \varepsilon_{i,t}.$$

The dependent variable *Log (CEO Contribution)* is the natural logarithm of the calendar year dollar amount of CEO political contributions. *Misconduct* equals one if a prosecuted firm *i* misreports its financial numbers in year *t*, and zero otherwise. *Controls* is a vector of control variables. All variable definitions are provided in Appendix A. Industry fixed effects are measured using 2-digit SIC (Standard Industrial Classification) Code. All continuous variables are winsorized at the 1st and 99th percentiles. Two-tailed probability values are computed using standard errors clustered as noted in the table (presented in parentheses). Statistical significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively.

Table 4. Dynamic pattern in CEO versus firm political contributions

Dependent variable =	*Log (CEO Contribution)*		*Log (Firm Contribution)*	
	(1)	(2)	(3)	(4)
Pre-Misconduct (t-2)		0.201		0.203
		(0.95)		(0.86)
Pre-Misconduct (t-1)		0.213		0.173
		(0.87)		(0.88)
First Misconduct Year (t)	0.729***	0.759***	-0.106	-0.079
	(3.10)	(2.99)	(-0.57)	(-0.37)
Misconduct Years (t+1, T)	0.837***	0.862***	-0.185	-0.162
	(3.19)	(3.25)	(-1.14)	(-0.94)
Difference Test	**F-Statistic (p-value)**	**F-Statistic (p-value)**	**F-Statistic (p-value)**	**F-Statistic (p-value)**
First Misconduct Year(t) = Misconduct Years (t+1, T)	0.12 (0.731)	0.11 (0.744)	0.17(0.685)	0.16(0.694)
Pre-Misconduct (t-1) = First Misconduct Year (t)		5.82 (0.024)		2.88(0.103)
Control Variables	Included	Included	Included	Included
Year F.E.	Yes	Yes	Yes	Yes
Firm F.E.	Yes	Yes	Yes	Yes
S.E. Cluster	Firm, Year	Firm, Year	Firm, Year	Firm, Year
Observations	38,570	38,570	38,570	38,570
Adj-R-squared	0.462	0.462	0.849	0.849

This table reports regression estimates for all ExecuComp firms during the period 1993–2016 following the model:

$$Log(CEO\ Contribution)/Log\ (Firm\ Contribution)_{i,t} = \boldsymbol{\beta} \sum_{j=1}^{2} Pre\_Misconduct_{i,t-j} + \alpha_1 First\ Misconduct\ Year_{i,t} + \alpha_2 Other\ Misconduct\ Years_{i,t} + \boldsymbol{\gamma} Controls_{i,t} + F.E. + \varepsilon_{i,t}.$$

The dependent variable *Log (CEO Contribution)* ($Log\ (Firm\ Contribution)$) is the natural logarithm of the dollar amount of CEO (firm) annual political contributions. Indicator variables $Pre\_Misconduct_{i,t-j}$ equal one for the period before the misconduct period, respectively, and zero otherwise. For example, $Pre\_Misconduct_{t-1}$ equals one for observations in the year before the misconduct starts, and zero for all other years. The indicator variable *First Misconduct Year* equals one for the first year when prosecuted firm *i* misreports its financial numbers in year *t*, and zero otherwise. The indicator variable *Other Misconduct Year* equals one if prosecuted firm *i* misreports its financial numbers in year *t* (excluding the first year when misconduct occurs), and zero otherwise. *Controls* is a vector of control variables. Variables are defined in Appendix A. All continuous variables are winsorized at the 1st and 99th percentiles. Two-tailed probability values are computed using standard errors clustered by firm and year (presented in parentheses). Statistical significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively.

Table 5. Recipients of CEO political contributions.

Panel A: CEO Political Contributions during Misconduct Years by Recipient Type

Dependent variable =	*Log (Candidate Contribution)*	*Log (PAC Contribution)*	*Log (Party Contribution)*
	(1)	(2)	(3)
Misconduct	0.782***	0.033	-0.030
	(3.62)	(0.19)	(-0.18)
Control variables	Included	Included	Included
Year F.E.	Yes	Yes	Yes
Firm F.E.	Yes	Yes	Yes
S.D. Cluster	Firm, Year	Firm, Year	Firm, Year
Observations	38,570	38,570	38,570
Adj. R-squared	0.386	0.420	0.258

Panel B: CEO Political Contributions during Misconduct Years by Candidate Type

Dependent variable =	*Log (Candidate House)*	*Log (Candidate Senate)*	*Log (Candidate President)*
	(1)	(2)	(3)
Misconduct	0.475**	0.360	0.118
	(2.51)	(1.66)	(1.02)
Control variables	Included	Included	Included
Year F.E.	Yes	Yes	Yes
Firm F.E.	Yes	Yes	Yes
S.D. Cluster	Firm, Year	Firm, Year	Firm, Year
Observations	38,570	38,570	38,570
Adj. R-squared	0.322	0.327	0.227

Panel C: CEO Political Contributions during Misconduct Years by Candidate Committee Type

Dependent variable =	*Log (Candidate CMT A)*	*Log (Candidate CMT B)*	*Log (Candidate CMT C)*	*Log (Candidate Nonincumbent)*
	(1)	(2)	(3)	(4)
Misconduct	0.366*	0.113	-0.014	0.176
	(1.87)	(0.82)	(-0.66)	(1.02)
Control variables	Included	Included	Included	Included
Year F.E.	Yes	Yes	Yes	Yes
Firm F.E.	Yes	Yes	Yes	Yes
S.D. Cluster	Firm, Year	Firm, Year	Firm, Year	Firm, Year
Observations	38,570	38,570	38,570	38,570
Adj. R-squared	0.296	0.244	0.051	0.250

This table reports regression estimates for all ExecuComp firms during the period 1993–2016, following the model:

$$Log(CEO\ Contribution)_{i,t} = \alpha_1 Misconduct_{i,t} + \boldsymbol{\gamma} Controls_{i,t} + F.E. + \varepsilon_{i,t}.$$

In Panel A, the dependent variable *Log(Candidate/PAC/Party Contribution)* is the natural logarithm of the dollar amount of CEO annual political contributions to candidates/corporate PACs/party committees. In Panel B, the dependent variable *Log(Candidate House/Senate/President)* is the natural logarithm of the dollar amount of CEO annual political contributions to House/Senate/presidential candidates. In Panel C, the dependent variable *Log(Candidate CMT A/B/C/Nonincombent)* is the natural logarithm of the dollar amount of CEO annual political contributions to incumbent candidates sitting on different committee categories. *Misconduct* equals one if prosecuted firm *i* misreports its financial numbers in year *t*, and zero otherwise. *Controls* is a vector of control variables. Variable definitions are provided in Appendix A. All continuous variables are winsorized at the 1st and 99th percentiles. Two-tailed probability values are computed using standard errors clustered by firm and year (presented in parentheses). Statistical significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively.

Table 6. SEC enforcement and the distinction between CEO and firm political contributions.

Dependent variable =	*SEC_IVSTG*		*AAER_FIRM*		*AAER_CEO*	
	(1)	(2)	(3)	(4)	(5)	(6)
Log (Average Contribution)	0.002		-0.008		-0.754***	
	(0.12)		(-0.18)		(-2.90)	
Log (Average Firm Contribution)	-0.030		-0.117***		0.120	
	(-1.42)		(-3.09)		(1.64)	
Log (Total Contribution)		0.007		0.002		-0.483***
		(0.47)		(0.05)		(-2.84)
Log (Total Firm Contribution)		-0.030		-0.116***		0.099
		(-1.58)		(-3.04)		(1.25)
DACC	0.019***	0.020***	0.085	0.087	0.738**	0.584
	(7.52)	(6.88)	(1.40)	(1.45)	(2.29)	(1.63)
Firm Size	0.118*	0.118*	0.423	0.427	2.377***	2.029***
	(1.82)	(1.82)	(1.04)	(1.04)	(4.42)	(3.86)
Leverage	0.158***	0.157***	-0.119	-0.121	1.918	1.058
	(2.62)	(2.59)	(-0.48)	(-0.48)	(0.49)	(0.26)
Book-to-Market	0.029	0.028	0.124	0.130	-9.587***	-7.990***
	(0.76)	(0.76)	(0.35)	(0.36)	(-3.67)	(-3.20)
Firm Age	0.002	0.002	0.007	0.008	-0.124***	-0.096***
	(0.45)	(0.46)	(0.61)	(0.62)	(-4.21)	(-3.53)
Analysts Following	0.015	0.015	-0.030	-0.031	-0.771***	-0.625***
	(1.13)	(1.13)	(-0.83)	(-0.87)	(-3.47)	(-3.15)
Fortune 500	0.213	0.215	1.237	1.276	-0.666	-0.470
	(0.93)	(0.94)	(1.32)	(1.34)	(-0.52)	(-0.42)
Distance to SEC	-0.023	-0.022	0.139	0.143	-0.094	-0.101
	(-0.76)	(-0.74)	(0.89)	(0.91)	(-0.24)	(-0.31)
Volatility	0.140	0.139	1.077	1.090	-16.143***	-12.704**
	(0.32)	(0.32)	(0.86)	(0.87)	(-3.27)	(-2.05)
CEO Age	0.066	0.065	-5.837*	-5.863*	-3.464	-3.420
	(0.14)	(0.14)	(-1.86)	(-1.86)	(-0.47)	(-0.54)
CEO Tenure	-0.110	-0.126	0.449	0.424	-0.719	-0.545
	(-1.15)	(-1.27)	(1.00)	(0.96)	(-0.86)	(-0.69)
CEO Gender	1.189*	1.187*	-0.129	-0.088	-1.641	-2.130
	(1.90)	(1.90)	(-0.07)	(-0.04)	(-0.54)	(-0.66)
CEO Delta	0.083*	0.081*	-0.143	-0.147	-5.562***	-4.522***
	(1.73)	(1.71)	(-0.90)	(-0.93)	(-5.87)	(-3.35)
CEO Vega	-0.042	-0.042	-0.204	-0.196	1.487***	1.069***
	(-0.97)	(-0.96)	(-1.27)	(-1.22)	(3.31)	(4.27)
CEO Compensation	-0.069	-0.068	0.277	0.278	2.204***	1.730*
	(-1.18)	(-1.18)	(1.07)	(1.08)	(2.79)	(1.80)
Net Income Effect	-4.329***	-4.320***	12.693***	12.770***		
	(-3.21)	(-3.18)	(3.65)	(3.65)		
Firm Total Penalty					0.594	0.449
					(0.77)	(0.64)
Year F.E.	Yes	Yes	Yes	Yes	Yes	Yes
Industry F.E.	Yes	Yes	Yes	Yes	Yes	Yes
S.E. Cluster	Industry,Year	Industry,Year	Industry,Year	Industry,Year	Industry,Year	Industry,Year
Observations	2,040	2,040	314	314	161	161
Pseudo R-squared	0.119	0.120	0.267	0.268	0.560	0.534

Table 6. SEC enforcement and the distinction between CEO and firm political contributions (continued).

This table reports regression estimates of the differential effect of firm versus CEO contributions on enforcement outcomes, using the following model:

$$\Pr(Enforcement\ Outcomes)_{i,j} = \beta_0 + \beta_1 Log(CEO\ Contribution)_{i,t-T} + \beta_2 Log(Firm\ Contribution)_{j,t-T}$$
$$+\boldsymbol{\theta} Controls_{i,j} + Year\ F.E. + Industry\ F.E. + \varepsilon_{i,j}.$$

The dependent variable *Enforcement Outcomes* is one of the following: *SEC_IVSTG*, *AAER_FIRM*, or *AAER_CEO*. *SEC_IVSTG* is an indicator variable that equals one if there is an SEC investigation against the restating firm *i* within five years after the restatement file year, and zero otherwise. *AAER_FIRM* is an indicator variable that equals one if there is an AAER against the restating and investigated firm *i* within five years after the investigation close year, and zero otherwise. *AAER_CEO* is an indicator variable that equals one if there is a personal prosecution against the CEO in firm *i* within three years after the enforcement file year, and zero otherwise. The independent variable $Log(CEO\ Contribution_{i,t-T})$ [$Log(Firm\ Contribution_{i,t-T})$] measures either the average/total CEO [firm] contribution during the restated years. *Controls* is a vector of control variables. Variables are defined in Appendix A. All continuous variables are winsorized at the 1st and 99th percentiles. Two-tailed probability values are computed using standard errors clustered by industry and year (presented in parentheses). Statistical significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively.

Table 7. CEO political contributions and SEC enforcement against CEO.

Dependent variable =	*Log (CEO Disgorgement)*		*Log (CEO Civil Penalty)*		*Barred from being Officer*	
	(1)	(2)	(3)	(4)	(5)	(6)
Log (Average Contribution)	-0.105***		-0.147***		-0.041**	
	(-3.22)		(-3.03)		(-2.35)	
Log (Average Firm Contribution)	0.095*		0.064		0.023	
	(1.75)		(1.08)		(1.17)	
Log (Total Contribution)		-0.098***		-0.130***		-0.034**
		(-3.36)		(-2.97)		(-2.13)
Log (Total Firm Contribution)		0.088*		0.054		0.018
		(1.78)		(0.99)		(1.02)
Control variables	Included	Included	Included	Included	Included	Included
Year F.E.	Yes	Yes	Yes	Yes	Yes	Yes
Industry F.E.	Yes	Yes	Yes	Yes	Yes	Yes
S.D. Cluster	Industry, Year	Industry, Year	Industry, Year	Industry, Year	Industry, Year	Industry, Year
Observations	215	215	215	215	215	215
Adj. R-squared	0.081	0.083	0.022	0.021	0.061	0.056

This table reports regression estimates for the AAER sample using the following the model:

$$\Pr(CEO\ Outcomes)_{i,j} = \beta_0 + \beta_1 Log(CEO\ Contribution)_{i,t-T} + \beta_2 Log(Firm\ Contribution)_{j,t-T}$$
$$+\boldsymbol{\theta} Controls_{i,j} + Year\ F.E. + Industry\ F.E. + \varepsilon_{i,j}.$$

The dependent variable *CEO Outcomes* is one of the following: *Log(CEO Disgorgement)*, *Log(CEO Civil Penalty)*, or *Barred from being Officers. Log(CEO Disgorgement)* and *Log(CEO Civil Penalty)* are the natural logarithm of the dollar amount of CEO disgorgement or civil penalties disclosed in the AAERs. *Barred from being Officers* is an ordered variable that equals 4 if the CEO is barred from being an officer permanently, 3 if the CEO is barred from being an officer for 10 years, 2 if the CEO is barred from being an officer for 5 years, 1 if the CEO is barred from being an officer for less than 5 years, and zero if the CEO is not barred from being an officer. The independent variable $Log(CEO\ Contribution_{i,t-T})$ [$Log(Firm\ Contribution_{i,t-T})$] measures either the average/total CEO [firm] contribution during the misconduct years. *Controls* is a vector of control variables. Variables are defined in Appendix A. All continuous variables are winsorized at the 1st and 99th percentiles. Two-tailed probability values are computed using standard errors clustered by industry and year (presented in parentheses). Statistical significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively.

Table 8. CEO political contributions and private civil litigation against the CEO.

Dependent variable =	*Private Litigation CEO*		*Log (CEO Penalty Private)*	
	(1)	(2)	(3)	(4)
Log (Average Contribution)	-0.091		0.020	
	(-0.64)		(0.35)	
Log (Average Firm Contribution)	0.090		0.060	
	(0.95)		(1.13)	
Log (Total Contribution)		-0.070		0.032
		(-0.55)		(0.61)
Log (Total Firm Contribution)		0.080		0.051
		(0.92)		(1.05)
Control variables	Included	Included	Included	Included
Year F.E.	Yes	Yes	Yes	Yes
Industry F.E.	Yes	Yes	Yes	Yes
S.D. Cluster	Industry, Year	Industry, Year	Industry, Year	Industry, Year
Observations	164	164	215	215
Pseudo R-Squared /Adj. R-squared	0.506	0.507	0.255	0.255

This table reports regression estimates for our AAER sample using the following model:

$$Private\ Litigation\ CEO_{i,j} = \beta_0 + \beta_1 Log(CEO\ Contribution)_{i,t-T} + \beta_2 Log(Firm\ Contribution)_{j,t-T}$$
$$+\boldsymbol{\theta} Controls_{i,j} + Year\ F.E. + Industry\ F.E. + \varepsilon_{i,j}.$$

The dependent variable *Private Litigation CEO* in columns (1)–(2) is an indicator variable that equals one if there is a private litigation against the CEO in firm *i* within three years after the enforcement file year *t*, and zero otherwise. The dependent variable *Log(CEO Penalty Private)* in columns (3)–(4) is the natural logarithm of the dollar value of the CEO's total monetary penalties disclosed in the private litigations. The independent variable $Log(CEO\ Contribution_{i,t-T})$ [$Log(Firm\ Contribution_{i,t-T})$] measures either the average/total CEO [firm] contribution during the misconduct years. *Controls* is a vector of control variables. Variables are defined in Appendix A. All continuous variables are winsorized at the 1st and 99th percentiles. Two-tailed probability values are computed using standard errors clustered by industry and year (presented in parentheses). Statistical significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively.

Table 9. Peer CEO political contributions during misconduct period.

Dependent variable =	*Log (CEO Contribution)*		
	(1)	(2)	(3)
Misconduct (MSA Peers)	-0.033		
	(-0.57)		
Misconduct (State Peers)		-0.022	
		(-0.39)	
Misconduct (SIC4 Peers)			-0.062
			(-0.70)
Log(Firm Contribution)	0.092***	0.092***	0.092***
	(6.54)	(6.53)	(6.53)
Firm Size	0.187**	0.187**	0.187**
	(2.70)	(2.69)	(2.70)
TobinQ	0.006	0.006	0.006
	(0.23)	(0.23)	(0.24)
ROA	-0.034	-0.033	-0.036
	(-0.15)	(-0.15)	(-0.16)
CAPEX	1.302*	1.302*	1.304*
	(1.79)	(1.79)	(1.79)
R&D	-1.782*	-1.782*	-1.780*
	(-1.81)	(-1.81)	(-1.80)
CEO Tenure	0.303***	0.303***	0.303***
	(5.51)	(5.52)	(5.51)
CEO Age	1.688***	1.688***	1.687***
	(3.90)	(3.91)	(3.90)
CEO Gender	0.530	0.530	0.530
	(1.66)	(1.66)	(1.66)
CEO Delta	0.312***	0.312***	0.312***
	(8.02)	(8.02)	(8.03)
CEO Vega	-0.052*	-0.052*	-0.051*
	(-2.00)	(-2.00)	(-1.99)
CEO Compensation	-0.004	-0.003	-0.003
	(-0.13)	(-0.13)	(-0.13)
Year F.E.	Yes	Yes	Yes
Firm F.E.	Yes	Yes	Yes
S.D. Cluster	Firm, Year	Firm, Year	Firm, Year
Observations	38,740	38,740	38,740
Adj. R-squared	0.461	0.461	0.461

This table reports regression estimates for all ExecuComp firms during the period 1993–2016, using the following model:

$$Log(CEO\ Contribution)_{i,t} = \alpha_1 Misconduct_{i,t} + \gamma Controls_{i,t} + F.E. + \varepsilon_{i,t}.$$

The dependent variable *Log(CEO Contribution)* is the natural logarithm of the dollar amount of CEO annual contributions. *Misconduct (MSA/State/SIC4 Peers)* equals one if a firm in the same MSA/State/SIC4 misreports its financial numbers in year *t*, and zero otherwise. *Controls* is a vector of control variables that mirror those used in Table 3. Variables are defined in Appendix A. All continuous variables are winsorized at the 1st and 99th percentiles. Two-tailed probability values are computed using standard errors clustered by firm (presented in parentheses). Statistical significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively.

Table 10. Effect of SOX period on pattern of CEO political contributions.

Dependent variable =	*Log (CEO Contribution)*		
	(1)	(2)	(3)
	Pre-SOX	*Post-Sox*	*Difference*
Misconduct	0.468*	0.860**	0.392**
	(2.18)	(2.23)	
Log (Firm Contribution)	0.083***	0.099***	
	(4.20)	(5.29)	
Year F.E.	Included	Included	
Firm F.E.	Yes	Yes	
Control variables	Yes	Yes	
S.D. Cluster	Firm, Year	Firm, Year	
Observations	13,626	24,816	
Adj. R-squared	0.464	0.534	

This table reports regression estimates for the following model for the pre-2002 and post-2002 periods, when several high-profile accounting restatements resulted in stiff penalties for executives and where CEOs were newly required to sign financial statements under the provisions of SOX:

$$Log(CEO\ Contribution)_{i,t} = \alpha_1 Misconduct_{i,t} + \boldsymbol{\gamma} Controls_{i,t} + F.E. + \varepsilon_{i,t}.$$

The dependent variable *Log(CEO Contribution)* is the natural logarithm of the calendar year dollar amount of CEO political contributions. *Misconduct* equals one if a prosecuted firm *i* misreports its financial numbers in year *t*, and zero otherwise. *Controls* is a vector of control variables. All variable definitions are provided in Appendix A. All continuous variables are winsorized at the 1st and 99th percentiles. Two-tailed probability values are computed using standard errors clustered as noted in the table (presented in parentheses). Statistical significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively. The difference in column (3) is measured using the Stata Command *bdiff*, which implements a bootstrap approach that determines significance based on the number of simulations where the coefficient in column (2) exceeds the coefficient in column (1). More details on this command are provided in Section 4.6.