You Are Being Targeted: Board or Auditor Networks and the SEC Comment Letters

John Campbell
Terry College of Business
johnc@uga.edu

Ting-Chiao Huang
Monash Business School
Ting.Huang@monash.edu

Yi-Hung Lin
Monash Business School
Jerry.Lin@monash.edu

Nhat (Nate) Nguyen
Colorado State University
Nate.nguyen@colostate.edu

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Abstract

We examine whether the Security and Exchange Commission (SEC) targets firms sharing directors or auditors (connected firms) with those that receive comment letters (CL firms) in its review process. We find that connected firms are more likely to receive comment letters from the SEC. Additional analysis suggests that these firms are more likely to receive comment letters on the same topic as CL firms, are more likely to have their 10-Ks reviewed by the same SEC staff, are more likely to share the same accounting issues, and are less likely to receive comment letters after removing common directors or auditors with CL firms. Moreover, the SEC is quicker to target connected firms, particularly when they face similar accounting issues. This contagion effect varies predictably with director or auditor characteristics and is mitigated by institutional shareholders. Finally, connected firms are more likely to restate their filings with the SEC. Overall, our findings suggest that the SEC relies on director or auditor networks of CL firms to identify its next targets.

Keywords: SEC comment letter; board interlock; common directors; common auditor; network; contagion; financial reporting; restatement.

JEL codes: G18; G38; K22; K42; M41; M48.

Data availability: Data are available from the sources cited in the text.

1. INTRODUCTION

Section 408 of the Sarbanes-Oxley Act (SOX) of 2002 requires that the Securities Exchange Commission (SEC)'s Division of Corporation Finance review registrants' fillings at least once every three years to ensure that firms comply with accounting reporting and disclosure. The SEC can choose which filings to review, using "any…factors that the Commission may consider relevant" (Paragraph (b) of Section 408 of SOX). If the SEC chooses a firm to review and finds that it fails to comply, the SEC sends that firm comment letters prompting it to address the concerns. After the review process, the SEC makes these comment letters publicly available to provide useful information to the firm's stakeholders.

We motivate our research by Cunningham and Leidner (2022), which notes the limited transparency of the SEC's review process. Cunningham and Leidner conduct a survey of the comment letter literature and conclude that "while the literature points to a variety of signals of effectiveness, little is known about the extent to which the filing review process uses resources efficiently" (p. 1655). Accordingly, "the public is not made aware of the potential deficiencies until after the filing review process is complete and the company has adequately responded to all comments" (p. 1661). Cunningham and Leidner call for more research on "the conditional probability of receiving a comment letter given that a review occurred" and on "the efficiency of the selection process" (p. 1667).

We respond to this call by studying whether the SEC considers firm networks based on common directors or auditors when deciding what filings to review. Prior studies have examined various determinants of firms' propensity to be selected for review by the SEC (e.g., Cassell, Dreher, and Myers 2013; Eiler and Kutcher 2016; Heese, Khan, and Ramanna 2017; Kubick, Lynch, Mayberry, and Omer 2016; Liu and Moffitt 2016). However, these studies focus on firm-level determinants, overlooking the role of inter-firm networks in the SEC's review process. We seek to fill this gap in the literature.

We consider two firms as being connected in a fiscal year when a director sits on both boards (Kang 2008; Mizruchi 1996) or when an auditor audits both firms in that year. Prior research documents that common directors (Bizjak, Lemmon, and Whitby 2009; Chiu et al. 2013; Cheng, Felix, and Zhao 2019; Falato, Kadyrzhanova, and Lel 2014; Fracassi 2017; Zhong, Liu, and Yuan 2017) or auditors (Baugh and Schmardebeck 2023; Cai, Kim, Park, and White 2016; Chen, Chen, Chin, and Lobo 2020; Fan, Gunn, Li, and Shao 2022; Francis and Wang 2021; Francis and Michas 2013; Li et al. 2017) facilitate the dissemination of accounting practices, firm policies, and corporate governance across firms in the network. As such, it is likely that the SEC relies on firm networks established by common directors or auditors in its review process.

While networks can transfer *proper* business practices among connected firms, they can also transfer *improper* business practices (Chiu, Teoh, and Tian 2013; Han, Hu, Liu, and Tian 2017). As such, the SEC may suspect that the issues it identifies when reviewing one firm may appear in other connected firms. Therefore, it is possible that firms sharing directors or auditors with those that receive comment letters are more likely to be targeted by the SEC. We call this the "*contagion effect*." Alternatively, through common board or auditor, firms may learn from those that receive comment letters and enhance their compliance with the SEC (Duro, Heese, and Ormazabal 2019; Zhong et al. 2017), which reduces their propensity to be targeted. We call this the "*learning effect*." Overall, whether and how sharing directors or auditors with other firms that receive comment letters affect a firm's likelihood of being targeted by the SEC remain empirical questions.

For brevity, we refer to firms that receive comment letters as *CL firms* and those connected to them through common directors or auditors as *connected firms* throughout this paper. Using a sample of U.S.-incorporated firms from 2004 to 2020, we find that connected firms are more likely to receive comment letters from the SEC. Our findings are robust to [1]

estimating a bivariate probit model with partial observability, [2] alternative specifications of board and auditor interlocks, [3] controlling for omitted variables at the firm level, [4] employing entropy balancing to address covariate imbalance, and [5] excluding firms that receive comment letters in the past three years. These findings suggest that the contagion effect through firm networks is dominant.

We then conduct a series of additional analyses to further understand the relationship between being connected with CL firms and being targeted by the SEC. We find that when CL firms receive letters on a specific topic (e.g., core earnings), connected firms are more likely to receive letters on the same topic. Connected firms are more likely to be reviewed by the same SEC staff and to have more overlapping issues with CL firms. To mitigate the SEC's attention, connected firms can remove common directors or auditors with CL firms.

We further show that the SEC takes less time to identify and to review connected firms, particularly when they have similar accounting issues to CL firms. The contagion effect varies with director and auditor characteristics. It is stronger when the common auditors are Big 4 and when external scrutiny from institutional investors is weaker. Connected firms are also more likely to restate their 10-K filings. Collectively, these results suggest that the SEC tends to target firms connected through shared directors or auditors with CL firms and this strategy appears to rely on the SEC's knowledge that improper accounting practices can spread through firms in the same network.

Our study contributes to both research and practice. First, we extend prior research on the contagion effect of misreporting through board and auditor interlocks. Regarding board interlocks, Chiu et al. (2013) show that earnings management spreads between firms with common directors. Brown, Tian, and Tucker (2018) find that non-CL firms tend to modify their risk disclosures when their industry peers receive comment letters on similar disclosures. Heese et al. (2017) document that firms with political connections are more likely to receive comment

letters. Our paper extends this literature on the contagion effect by documenting the role of board interlocks in the SEC's review process.

Regarding auditor interlocks, Baugh and Schmardebeck (2023) find that auditors, particularly Big 4 auditors, have distinct styles that may lead to the propagation of decision errors across their clientele.[1] Our study provides corroborative evidence that the accounting issues in CL firms detected by the SEC are likely to apply to network firms with common auditors. By demonstrating that firms connected to CL firms through board and auditor interlocks are more likely to receive comment letters and restate their 10-K filings, our study complements the increasing concerns from stakeholders about ineffective governance, lack of independence, and systematic low-quality audits associated with board or auditor interlocks (Kang 2008; Francis and Michas 2013; SEC 2022).

Second, this paper expands our understanding of the SEC's review process. While prior research examines determinants of being targeted by the SEC at the firm level, no study has done so at the network level.[2] Our findings suggest that when the SEC selects its targets, those connected with CL firms through common directors or auditors appear to be the primary candidates. Given the SEC's increased workload and limited resources (GAO 2002; Cunningham and Leidner 2022; Ege, Glenn, and Robinson 2020) and the fact that it only publicizes the review outcomes ex-post, our research is particularly timely and relevant to corporate stakeholders as it helps them make better informed decisions (e.g., investors making investment decisions, financial institutions assessing a firm's financial reporting risk, and shareholders selecting board directors and auditors).

[1] Baugh and Schmardebeck (2023) focus on CL firms and measure the similarity of the textual content of the paired comment letters. In contrast, our research takes a broader perspective by examining how board or auditor interlocks influence a firm's likelihood of receiving comment letters. We also investigate whether a firm is more likely to be reviewed by the same SEC staff and receive comment letters on similar issues.

[2] Cunningham and Leidner (2022) conduct a thorough literature review and summarize prior determinants of the probability of receiving a comment letter in their Table 1. The table shows that none of these factors are at the network level.

2. BACKGROUND AND HYPOTHESIS DEVELOPMENT

2.1. The SEC Review Process

To protect investors' interests, SOX requires the Division of Corporation Finance (henceforth, the Division) in the SEC to review disclosures in firms' filings at least once every three years to ensure compliance with applicable reporting requirements such as the U.S. GAAP and the SEC reporting rules. The "Division's review involves evaluating the disclosure from a potential investor's perspective and asking questions that an investor might ask when reading the document."[3]

The Division can conduct the reviews at three different levels: [1] a full cover-to-cover review in which the Division examines the entire filling; [2] a financial statement review in which the Division examines the financial statements and related disclosures (e.g., management's discussion and analysis of financial condition and results of operations); and [3] a review on targeted issues in which the Division examines the filing for one or more specific disclosure items (SEC 2019). The Division reviews not only a registrant's filings, but also other publicly available information such as organizational charts, overall management structures, and other non-financial disclosures (Deloitte 2017).

Once the SEC has chosen a firm for review and discovered non-compliance, it sends comment letters to this firm to request explanations and/or amendments, if necessary. This process continues until the firm has resolved all concerns that the SEC raises. Afterwards, the SEC makes these comment letters and the associated responses from the firm public on its EDGAR system no sooner than 20 business days after the end of the review to increase the transparency of the review process. Market participants generally find these publicized comments informative. For example, SEC Insight Inc., an independent privately held investment research institution that analyses comment letters and their responses, states that:

[3] See the SEC Filing Review Process at https://www.sec.gov/divisions/corpfin/cffilingreview.htm.

"SEC comment letters, and their responses, are analytically rich. We consistently find them to be an important and helpful supplement to some of the more formal disclosure and communication mechanisms available to, and employed by, registrants. Like us, public companies know that SEC comment letters reveal areas of Staff concern about their accounting and/or disclosure practices. To the average securities analyst or investor, the SEC Staff is in the enviable position of being able to ask, and often secure the answers to, questions that are frequently dodged, dismissed, or ignored by a registrant when asked by a non-regulator. We have long believed that the majority of public companies chronically, and often deliberately, mislead investors regarding SEC matters. This is done through repeated failures to provide adequate and substantive disclosures regarding the same. The comment letter proposal provides one important means for investors to level the playing field with registrants by enhancing their ability to do what investors do best in transparent markets; that is, assess and discount risk."[4]

Prior studies have explored determinants of firm receiving comment letters. Based on paragraph (b) of the SOX Section 408, Cassell et al. (2013) find that firms are more likely to receive comment letters when they report net loss, have higher bankruptcy risk, involve in mergers and acquisitions, rely less on external financing, have weaker corporate governance, employ smaller auditors, restate previous financial statements, and are older. Kubick et al. (2016) focus on tax-related comment letters and find that firms engaging in tax avoidance activities are more likely to receive tax-related comment letters from the SEC. Exploring the materiality judgement about accounting errors, Acito, Burks, and Johnson (2019) document that the SEC is more likely to request a materiality narrative when the errors are larger and involve multiple accounting issues.

Recent studies also explore how resources affect the SEC's review process. Gunny and Hermis (2020) find that the SEC issues fewer comment letters, focuses more on the most severe cases of non-compliance, and lengthens the review process when busy. Additionally, the SEC staff's unique styles and personal characteristics (e.g., CPA or CFA qualifications) can influence the review process and outcomes (Do and Zhang 2022; Baugh, Kim, and Lee 2022).

Recently, the SEC has been facing resource constraints, resulting in delayed and lower-

[4] See the full report at https://www.sec.gov/news/press/s72804/secinsight093004.pdf.

quality reviews (Ege et al. 2020; GAO 2002). This issue is particularly important because a key limitation in the transparency of comment letters is that the review outcomes are publicly available only after the review process is complete (Cunningham and Leidner 2022). We extend the literature on the determinants of the SEC review process by exploring whether a firm is more likely to receive comment letters when it shares common directors or auditors with other firms receiving comment letters. Our research has important implications for both research and practice because it seeks to improve our understanding of the SEC's review process.

2.2. Hypothesis Development – Common Directors

The board of directors is responsible for monitoring and assisting management in forming strategies (Johnson, Daily, and Ellstrand 1996), thus playing a crucial role in protecting shareholders' interests (Chiu et al. 2013; Zahra and Pearce II 1989). It is common for directors to hold directorships in multiple firms simultaneously. In our setting, two or more firms are connected in a fiscal year when they share the same director(s) in that year, creating a network of interconnected firms (Bizjak et al. 2009; Cheng et al. 2019; Falato et al. 2014; Fracassi 2017; Kang 2008; Mizruchi 1996; Zhong et al. 2017).

In the context of board interlocks, social capital theory posits that common directors can facilitate the sharing of business practices, firm policies, and corporate governance among connected firms (Bizjak et al. 2009; Cheng et al. 2019; Falato et al. 2014; Fracassi 2017; Zhong et al. 2017). This is because directors are key corporate decision makers who are proactively involved in communication with internal and external parties. As a result, connections formed through participating in multiple boards are likely to facilitate the spread of information and corporate practices among network firms. Prior studies suggest that knowledge and practices in relation to option backdating (Bizjak et al. 2009) and disclosure policies (Cai, Dhaliwal, Kim, and Pan 2014) are disseminated through firm networks established by board interlocks.

While board interlocks can facilitate beneficial information sharing, they can also spread improper management practices. Prior research suggests that aggressive accounting choices and earnings management can spread via board networks (Chiu et al. 2013; Han et al. 2017). Additionally, interlocked directors can also exploit private information obtained from their networks. Cheng et al. (2019) document more short sales among connected firms before a network firm announces unfavourable earnings news, suggesting that directors of board interlocked networks share private information. Relatedly, drawing on signalling and attribution theory (Spence 1973), Kang (2008) finds that firms sharing directors with those accused of financial reporting fraud face significant reputational penalties, especially when these directors hold audit or governance chair positions. To the extent that sharing directors means sharing improper accounting practices, firms sharing directors with CL firms are *more* likely to receive comment letters from the SEC.

However, directors of CL firms might learn from the review process and subsequently improve accounting practices either at the CL firms or at their other firms. Zhong et al. (2017) find that directors who face regulatory sanctions at another firm attend board meetings more frequently and that firms sharing directors with sanctioned firms are more likely to produce transparent financial statements. Similarly, Cheng, Felix, and Indjejikian (2019) suggest that directors learn from their prior experience with disclosures of internal control material weaknesses, and that this learning enhances internal control and financial reporting practices in network firms. In the context of the SEC comment letters, Duro et al. (2019) suggest that CL firms improve their financial reporting quality after receiving comment letters. Through board interlocks, such improvements may extend to network firms, potentially reducing their likelihood of receiving comment letters. Therefore, to the extent that sharing directors means learning from CL firms' mistakes for future improvements, connected firms through common directors are *less* likely to receive comment letters from the SEC. This discussion suggests that

sharing directors with CL firms may or may not be associated with the likelihood of receiving comment letters from the SEC. Due to the lack of prior guidance, we state our first hypothesis in the null form as follows.

> **H1:** Sharing directors with CL firms is not associated with the likelihood of receiving comment letters.

2.3. Hypothesis Development – Common Auditors

External auditors assure the reliability of firms' financial reporting, thus playing a crucial role in shaping firms' information environment (Gaynor, Kelton, Mercer, and Yohn 2016). It is common for an auditor to have multiple clients simultaneously. In our setting, two or more firms are connected in a fiscal year if they share the same auditor in that year. To maintain audit quality, auditors often standardize their audit procedures, creating their own styles (Francis, Pinnuck, and Watanabe 2014; Chen et al. 2020; Jiu et al. 2020; Heflin, Tan, Ton, and Wang 2024), which can lead to the propagation of decision errors among firms sharing the same auditors. As such, auditors with past audit failures tend to provide low-quality audits on other engagements (Francis and Michas 2013; Li, Qi, Tian, and Zhang 2017), and firms sharing a common Big 4 auditor tend to exhibit similar disclosure issues (Baugh and Schmardebeck 2023). To the extent that sharing auditors means sharing improper accounting practices, the SEC can increase the efficiency of the review process by targeting clients sharing auditors with CL firms because these clients are likely to face similar accounting problems. Therefore, it is possible that connected firms through common auditors are *more* likely to receive comment letters from the SEC.

However, auditors of CL firms may learn from the review process and enhance their scrutiny over their other clients. Lennox and Li (2014) suggest that auditors improve audit quality based on prior litigation experiences. Similarly, Guo, Lisic, Pittman, Seidel, Zhou, and Zhou (2022) show that auditors directly exposed to Arthur Andersen's demise impose stricter scrutiny and deliver higher audit quality. In the context of the SEC comment letters, Bills,

Cating, Lin, and Seidel (2025) find that goodwill impairment is more likely when the auditor is exposed to more goodwill comment letters received by other clients. Thus, auditors of CL firms may apply these experiences and apply the improvements on their other clients, potentially reducing other clients' likelihood of receiving comment letters. This discussion suggests that sharing auditors with CL firms may or may not be associated with receiving comment letters. Without prior guidance, we state this second hypothesis in the null form as follows.

> **H2:** Firms with common auditors with CL firms is not associated with the likelihood of receiving comment letters.

3. RESEARCH DESIGN AND SAMPLE SELECTION

3.1. Model Specification

We start by identifying all firms that received comment letters from the SEC in our sample period, based on the ex-post public notification of the review process. We then identify the fiscal years *t* of the 10-K filings referenced in these comment letters.[5] We do this because the SEC reviews each company at least once every three years and this review can trigger comment letters related to 10-K filings over this period. As such, a 10-K filing in year *t* can be referenced in the comment letters that the SEC sends to the firm in year *t+1*, *t+2*, or *t+3*.[6] Because the duration of the review process varies by firms, we capture the fiscal year *t* of the 10-K filing referenced in the SEC's comment letters rather than the fiscal year when the firm receives the comment letters. For example, if firm A receives comment letters from the SEC in year 4 referencing a 10-K filing in year 1 (because the 3-year window goes from year 1 to year 3), we count year 1 as the comment letter year, rather than year 4. Throughout this paper, we refer to CL firms in year *t* as those whose 10-K filings in year *t* are referenced in comment

[5] Cunningham and Leidner (2022) note that the SEC also issues comment letters on other forms of filings, such as transactional filings, 6-Ks, and 8-Ks. However, 10-K filings are among the most common type of filings examined in prior comment letter literature. Therefore, we focus on 10-K filings in this study, leaving other forms of filings for future research.

[6] Year *t+3* review is for filings from years *t* to year *t+2*.

letters sent in later years by the SEC.

Following Cassell et al. (2013) and Kubick et al. (2016), we estimate the following logistic regression to test both H1 and H2:

$$CL_{it} = \beta_0 + \beta_1 N\_CD\_CL_{it} + \beta_2 N\_CD\_NCL_{it} + \beta_3 N\_CA\_CL_{it} + \beta_4 N\_CA\_NCL_{it} + CONTROLS + FE + \varepsilon_{it} \quad (1)$$

In this equation, CL_{it} equals one if firm *i* has its 10-K filing for year *t* referenced in later comment letters, and zero otherwise (Cassell et al. 2013; Dechow et al. 2016; Gietzmann and Pettinicchio 2014; Kubick et al. 2016). $N\_CD\_CL_{it}$ is the *number* of common directors that firm *i* in year *t* shares with CL firms. To attribute our findings specifically to common directors with CL firms rather than to common directors in general, we control for $N\_CD\_NCL_{it}$, the number of common directors with non-CL firms.

Meanwhile, $N\_CA\_CL_{it}$ is the number of CL firms sharing an auditor with firm *i* in year *t*. We also include $N\_CA\_NCL_{it}$, the number of non-CL peers sharing an auditor with firm *i* in year *t* to ensure that our results capture the sharing of common auditors with CL firms rather than the mere presence of common auditors. We measure auditor clientele at the audit office level and focus on industry peers rather than all clients of an audit office. This approach is consistent with the fact that audit offices accumulate knowledge and develop expertise within specific industries (Francis and Yu 2009; Reichelt and Wang 2010; Chen et al. 2020).

For more thorough analyses, we also replace the variables based on numbers, i.e., those with prefix *N_*, with their percentage counterparts, i.e., those with prefix *P_*. Specifically, $P\_CD\_CL_{it}$ ($P\_CD\_NCL_{it}$) is the *proportion* of directors that firm *i* in year *t* shares with CL (non-CL) firms, computed as firm *i*'s number of shared directors with CL (non-CL) firms scaled by its board size. Similarly, $P\_CA\_CL_{it}$ ($P\_CA\_NCL_{it}$) is the proportion of CL (non-CL) firms among the clients of firm *i*'s auditor in year *t*, computed as the number of CL (non-CL) clients divided by all audit clients of firm *i*'s auditor in year *t*.

To minimize concern of correlated omitted variables, we follow prior studies (Cassell

et al. 2013; Kubick et al. 2016; Iselin, Johnson, Ott, and Raleigh 2024) and control for potential determinants of receiving comment letters in all regression models. *CONTROLS* in equation (1) stands for 29 controls in five categories, including [1] focal firm fundamentals, [2] selection criteria, [3] focal firm's visibility, [4] focal firm's managerial characteristics, and [5] focal firm's auditor characteristics.

Regarding *focal firm fundamentals*, we use [1] accounting comparability (*COMP*), [2] market-to-book ratio (*MTB*) and [3] low market-to-book ratio (*LOWMTB*), [4] high retail ownership (*HIGH_RETAIL*), [5] firm age (*AGE*), [6] profitability (*LOSS*), [7] financial distress (*ALTZ*), [8] sales growth (*SG*), [9] the number of segments (*SEG*), [10] merger and acquisition activities (*MA*), [11] restructures (*RESTRUCT*), [12] external financing activities (*EXTFIN*), and [13] high-litigation industries (*LITI*). Regarding *selection criteria* outlined in Section 408 of the SOX, we use [14] material weaknesses in internal controls (*ICWEAK*), [15] restatements (*RES*), [16] volatility of abnormal stock returns (*HIVOL*), and [17] firm size (*LNAT*). Regarding *focal firm visibility*, we use [18] firm's advertising intensity (*ADVERTISING*), [19] coverage in the Dow Jones news archives (*N_PRESS*), and [20] the number of analysts following (*N_ANALYST*). Regarding *focal firm's managerial characteristics*, we use [21] CEO/chair duality (*CEODUAL*), [22] CEO tenure (*CEOTEN*), [23] CFO/chair duality (*CFODUAL*), and [24] CFO tenure (*CFOTEN*). Regarding *focal firm's auditor characteristics*, we use [25] Big 4 auditors (*BIG4*), [26] second-tier auditors (*SECOND_TIER*), [27] auditor tenure (*AUTEN*), [28] auditor resigns (*AURES*), and [29] auditor dismissals (*AUDIS*).

We winsorize all continuous variables at the 1st and 99th percentiles to mitigate the influence of outliers. We further include industry and year fixed effects (FE) to control for unobserved invariant characteristics at these respective levels. We cluster standard errors by firm and year to account for correlated errors within these levels. Throughout our analyses, we use logit (ordinary least square) regression when the dependent variable is binary (continuous),

unless noted otherwise.

3.2. Sample Selection

Our sample begins with the intersection of *Compustat, Audit Analytics*, *BoardEx*, and *Execucomp* for the period from 2004 through 2020 (190,438 firm-year observations). We collect data on the SEC comment letters from the *Audit Analytics Comment Letter* and *Comment Letter Conversations* databases. For common directors, we identify the directors of a firm and trace their connections to other firms using *BoardEX* and *Execucomp*. For common auditors, we identify a firm's auditor and trace its connections to industry peers using *Audit Analytics*. We collect financial and audit data from *Compustat* and *Audit Analytics*, respectively.

The sample period begins in 2004 because this is when the SEC comment letters became publicly available per Section 404 of SOX. The sample ends in 2020 due to data availability and the time required for the SEC to review filings and for firms to file restatements. We focus on comment letters related to firms' 10-K filings because the SEC typically starts its reviews with these filings (Johnson 2015; Cassell et al. 2019). We delete financial and utility firms due to their unique regulatory and institutional structures (Kubick et al. 2016). We exclude observations with total assets below one million (Cassell et al. 2013, 2019) and those lacking data for control variables. Our final sample comprises 39,834 firm-year observations (5,227 unique firms).

[Insert Table 1 here]

Table 1 reports the distribution for our key variables across years (Panel A) and industries (Panel B). In our sample, the number of firms receiving comment letters increased steadily from 2004 to 2008 and declined gradually afterwards. The average firm in our sample has 0.49 to 1.66 (1.15 to 2.77) common directors with CL firms (non-CL firms), representing 6 to 21 percent (16 to 34 percent) of its common directors. The number of CL (non-CL) firms sharing auditors with the average firm ranges between 0.26 and 0.95 (between 1.72 and 3.75),

representing between 1 percent and 3 percent (between 6 percent and 12 percent) of the auditor's clientele. Overall, Panel A suggests that our observations are evenly distributed during the sample period.

In Panel B, firms from the chemicals and allied products industry (SIC 28) and the business services industry (SIC 73) account for a higher proportion of the sample. The number of CL firms corresponds with the relative weight of each industry, with firms in SIC 28 and SIC 73 accounting for the higher proportions of CL firms. Across the industries, the average number of common directors with CL firms (non-CL firms) ranges from 0.49 to 3.00 (0.67 to 2.80), and the average percentage of common directors with CL firms (non-CL firms) ranges from 5 to 30 percent (10 to 35 percent). On average, a firm shares a common auditor with 0.00 to 1.93 (0.00 to 6.98) CL (non-CL) firms, accounting for 0 to 6 percent (0 to 32 percent) of the auditor's clientele.

Overall, we observe substantial variations in interlocks with CL firms and non-CL firms through board and auditor networks across years and industries. This necessitates the inclusion of year fixed effects in our models to control for unobserved time-varying factors that affects all firms within each year and the inclusion of industry fixed effects to control for unobservable time-invariant factors within each industry.

[Insert Table 2 here]

In general, the descriptive statistics of our variables are consistent with those reported in previous studies (Cassell et al. 2013; Cohen, Hoitash, Krishnamoorthy, and Wright 2014; Heese et al. 2017; Hope, Thomas, and Vyas 2013) (Table 2, Panel A). On average, 28 percent of firm-year observations in our sample receive comment letters. An average firm shares 1.21 directors (*N_CD_CL*), or 15 percent of its directors (*P_CD_CL*), with CL firms, and 1.79 directors (*N_CD_NCL*), or 24 percent of its directors (*P_CD_NCL*), with non-CL firms. On average, a firm shares a common auditor with 0.64 CL firms (*N_CA_CL*) and 2.55 non-CL

firms (*N_CA_NCL*), which represents 2 percent (*P_CA_CL*) and 9 percent (*P_CA_NCL*) of the auditor's clientele, respectively. An average firm in our sample has size of $3.74 billion (*AT*) and sales growth of 16 percent (*SG*). Approximately 37 percent of firm-year observations report a net loss (*LOSS*), and 75 percent have Big 4 auditors (*BIG4*).

The Pearson matrix indicates that *CL* has significantly positive correlations with *N_CD_CL*, *P_CD_CL*, *N_CA_CL*, and *P_CA_CL* (Table 2, Panel B), providing preliminary evidence that firms sharing directors or auditors with CL firms are more likely to receive comment letters. In contrast, *CL* has significantly negative correlations with *P_CD_NCL*, *N_CA_NCL*, and *P_CA_NCL*, providing preliminary evidence that firms sharing directors or auditors with non-CL firms are less likely to receive comment letters. All correlations are below 0.80, except for the correlations among our variables of interest, necessitating the inclusion of other controls in our logistic regression. The variance inflation factors are below 10 (untabulated), suggesting that multicollinearity is unlikely to drive our results.

4. EMPIRICAL RESULTS

4.1. Main Results

Table 3 reports our main regression results.[7] *N_CD_CL* (column [1]) and *P_CD_CL* (column [2]) are significantly positive at the 1 percent level. Meanwhile, *N_CD_NCL* (column [1]) is significantly negative at the 1 percent level. The differences between *N_CD_CL* and *N_CD_NCL* and between *P_CD_CL* and *P_CD_NCL* are significant at the 1 percent level. Similarly, *N_CA_CL* (column [1]) and *P_CA_CL* (column [2]) are significantly positive at the 1 percent level. Meanwhile, *N_CA_NCL* (column [1]) and *P_CA_NCL* (column [2]) are significantly negative at the 1 percent level. The differences between *N_CA_CL* and *N_CA_NCL* and between *P_CA_CL* and *P_CA_NCL* are significant at the 1 percent level.

[Insert Table 3 here]

[7] All *p*-values are two-tailed, unless otherwise specified.

These results suggest that firms are more (less) likely to receive comment letters if they share directors or auditors with CL (non-CL) firms. In terms of economic importance, a one standard deviation increase in *N_CD_CL*, *P_CD_CL*, *N_CA_CL*, and *P_CA_CL* is associated with an increase of 5.95 percent, 5.38 percent, 5.33 percent, and 3.65 percent, respectively, in the odds of receiving comment letters.[8] For comparison, a one standard deviation increase in *COMP* and *ADVERTISING*, which have the largest coefficient estimates in column [1], increases the odds of receiving comment letters by 6.46 percent and 4.01 percent, respectively. Overall, Table 3 suggests that the SEC appears to target firms sharing directors and auditors with CL firms .

4.2. Sensitivity Tests

In this section, we perform a series of robustness checks to ensure our baseline results are not driven by sample selection bias, correlated omitted variables, construct validity issues, and reverse causality.

4.2.1. Bivariate probit model

The probability of receiving a comment letter can be decomposed into [1] the probability of being reviewed and [2] the probability of receiving comment letters, conditioned on the probability of being reviewed. To further investigate the role of common directors and auditors with CL firms in the review process, we estimate the *bivariate probit model* used in Gunny and Harris (2020). Specifically, we model the probability of a firm being reviewed as a function of size (*LARGE* and *SMALL*), restatement announcements (*RES*), high price-to-earnings ratio (*HIGHPE*), and high stock return volatility (*HIGHVOL*), while controlling for year and industry fixed effects. We then estimate the probability of comment letters being issued, conditional on the review, using equation (1).

[Insert Table 4 here]

[8] In the case of *N_CD_CL*, exp(0.038 × 1.522) – 1 = 0.0595. Other variables follow a similar pattern.

We first examine how board and auditor interlocks influence the probability of a firm being reviewed. Firms sharing directors or auditors with CL (non-CL) firms are more (less) likely to be reviewed (Table 4, Panel A, columns [1] and [2]).[9] Next, we analyze how board and auditor interlocks influence the probability of receiving comment letters, conditioned on the review. Consistent with our main results, we find that firms sharing directors or auditors with CL (non-CL) firms are more (less) likely to receive comment letters, conditioned on the review (Table 4, Panel A, columns [3] – [6]). Importantly, we do not include common directors and common auditors in both probability models simultaneously, as "the vectors of explanatory variables for the probability of filing review and the probability of comment letter issuance cannot be identical" (Gunny and Harris 2020, p.15). Overall, these findings suggest that connected firms are not only more likely to be reviewed, but also more likely to receive comment letters when reviewed. This implies that firms sharing directors or auditors with CL firms also tend to share financial reporting issues with these CL firms.

4.2.2. Alternative measures

We replace the number of common *directors* with CL (non-CL) firms with *N_CF_CL* (*N_CF_NCL*), the number of CL (non-CL) *firms* connected through common directors. We find that *N_CF_CL* (*N_CF_NCL*) remains significantly positive (negative) (Table 4, Panel B, column [1]). We find similar results when using the percentage counterparts of these measures. To further alleviate the concern that correlated omitted variables at the firm level drive our results, we include firm fixed effects and rerun our model. The results remain qualitatively unchanged (Table 4, Panel C).

4.2.3. Entropy balance

To mitigate the concern about covariate imbalance between firms with (*N_CD_CL* > 0)

[9] On a side note, large accelerated filers, restating firms, and firms with volatile stock returns are more likely to be reviewed, consistent with Gunny and Harris (2020).

and without (*N_CD_CL* = 0) common directors with CL firms or between firms with (*N_CA_CL* > 0) and without (*N_CA_CL* = 0) common auditors with CL firms, we entropy-balance the mean value of control variables across the two groups (Hainmuller 2012; Hainmueller and Xu 2013) so that all their differences become insignificant (untabulated). Our baseline findings remain unchanged in this entropy-balanced sample (Table 4, Panel D).

4.2.4. Past comment letters

To address concerns that prior experience with the SEC reviews might affect the likelihood of receiving comment letters in the current year (Kubick et al. 2016; Johnston and Petacchi 2017), we exclude firm-years that received comment letters in the past three years and rerun our model. Our inferences remain robust to this specification (Table 4, Panel E).[10]

4.2.5. Alternative explanation

One may argue that firms that are under SEC review may seek out directors or auditors of CL firms to learn from their experience, thus creating a reverse causality explanation for our baseline findings. We argue that when the SEC reviews a firm, it does not announce this process until later. Thus, if CL firms and unconnected firms are under investigation concurrently, unconnected firms do not know about the CL firms' undergoing investigation and thus cannot recruit directors or auditors of CL firms. Moreover, the reviews for filings in fiscal year t happens in fiscal year t+1. Thus, firms with filings in year t under review cannot recruit directors or auditors from CL firms in year t to learn about CL firms' experience. Therefore, our research design nullifies this alternative explanation.

To further address this, we lag our independent variables of interest by one year and show that firms sharing directors or auditors with CL firms in the prior year are more likely to have their 10-Ks in the current year referenced in later comment letters (Table 4, Panel F). In

[10] In an untabulated analysis, we control for whether a firm received CLs in the past three years, and we continue to find that firms sharing directors with CL firms are more likely to receive CLs.

untabulated analyses, we find that our inferences remain unchanged when we calculate our variables of interest [1] based on connected firms whose first dates of the comment letters are before the CL firms' fiscal year-end and [2] based on connected firms whose comment letters are publicly available after the CL firms' fiscal year-end. Overall, these tests suggest that reverse causality is not a concern in our setting.

5. ADDITIONAL ANALYSES

In this section, we provide more evidence that the SEC relies on director and/or auditor networks to identify its next targets for investigation for efficiency. We do so by conducting a series of additional analyses to triangulate the baseline results.

5.1. Same Comment Letter Topics

We explore whether a firm is more likely to receive comment letters on a specific topic when it shares directors or auditors with CL firms receiving comments on the same topic. Following Cassell et al. (2013) and Gietzmann and Pettinicchio (2014), we identify the eight topics: [1] core earnings, [2] non-core earnings, [3] classification, [4] fair value, [5] accounting, [6] risk, [7] other disclosure, and [8] non-GAAP issues. We restrict our analyses to firm-years with common directors or auditors with at least one peer. We then decompose *N_CD_CL* into *N_CD_CL_TOPIC* and *N_CD_CL_OTHER*, which represent the number of common directors with firms that receive comment letters on a specific topic and on other topics, respectively. Similarly, we decompose *N_CA_CL* into *N_CA_CL_TOPIC* and *N_CA_CL_OTHER*, which represent the number of firms with common auditors that receive comment letters on a specific topic and on other topics, respectively. We adopt the same approach for the percentage specifications.

We then replace our dependent variable with the number of issues related to a specific topic (*N_TOPIC*) or an indicator denoting whether a specific topic is covered in the comment letters a firm receives (*D_TOPIC*). For example, if firm A shares one director with firm B that

receives comment letters on the topic of [1] core earnings and two directors with firm C that receives comment letters on the topic of [3] classification, firm A has *N_CD_CL_TOPIC* of 1 (2) and *N_CD_CL_OTHER* of 2 (1) when we examine core earnings (classification). Meanwhile, if firm A receives comment letters with two issues related to [1] core earnings and three issues related to [3] classification, its *N_TOPIC* equals 2 (3) and *D_TOPIC* equals 1 (1) when we examine core earnings (classification).

[Insert Table 5 here]

We find that *N_CD_CL_TOPIC* is significantly positive for core earnings, non-core earnings, classification, fair value, accounting, risk, other disclosure, and non-GAAP issues (Table 5, Panel A). *N_CA_CL_TOPIC* is also significantly positive for classification, fair value, risk, and non-GAAP issues. Thus, firms are more likely to receive comment letters on a specific topic when they are connected to firms that receive comment letters on the same topic. Our inferences remain similar when we use *D_TOPIC* as the dependent variable (Table 5, Panel B) and when we use the percentage specification (Table 5, Panels C and D).

In an untabulated analysis, we further restrict the sample to firms with similar financial reporting issues to compare the likelihood of restatements related a specific topic conditioned on connections with CL firms. Specifically, following Cassell et al (2013) and Gietzmann et al (2014), we identify restatements related to [1] core earnings, [2] non-core earnings, [3] classification, or [5] accounting issues.[11] We limit our analysis to firms that subsequently restate financial statements for the current year due to core earnings (non-core earnings, classification, or accounting issues) when examining core earnings (non-core earnings, classification, or accounting issues). We identify 1,244, 1,629, 716, and 2,395 firm-years that subsequently restate financial statements due to core earnings, non-core earnings, classification,

[11] Audit Analytics codes the categories of restated issues. We review the category titles and descriptions to match them with topics addressed in comment letters (Cassell et al 2013; Gietzmann et al 2014).

and accounting issues, respectively. We find evidence that firms are more likely to restate their 10-Ks due to core earnings, non-core earnings, and classification issues when they are connected to CL firms that receive comment letters on the same topics. However, the results are weaker, likely due to the smaller sample size.

Overall, these analyses suggest that common directors or auditors facilitate the spread of inappropriate financial reporting practices among firms in the networks at the accounting topic level. Thus, the SEC's consideration of board and auditor networks is a rational decision that can improve the efficiency of the review process.

5.2. Same SEC Staff

To further address the efficiency aspect of the SEC review process, we test whether the same SEC staff that review CL firms are more likely to review connected firms. We thus identify connected and unconnected firms that have similar fundamentals, operate in the same 2-digit SIC industry, and receive comment letters *after* CL firms. Here, connected (unconnected) firms share at least one (no) director or auditor with CL firms. This matched sample mitigates the concern that our results are driven by confounding factors related to any unobserved firm-level fundamentals that correlate with the propensity to receive comment letters other than being connected to CL firms. For common directors (auditors), we replace the variables of interest in model (1) with *TREAT_CD* (*TREAT_CA*), which equals one for connected firms and zero for unconnected firms. The matched sample for common directors (auditors) consists of 211 (840) connected firm-years and 220 (806) unconnected firm-years.

We extract the names of the SEC staff that review 10-K fillings from the *Audit Analytics Comment Letter Conversations* database. We then create *P_SAMESTAFF*, which is the proportion of the SEC staff that review both CL firms and connected or unconnected firms.[12]

[12] *P_SAMESTAFF* = number of the *same* SEC staff who review CL firms and connected or unconnected firms, divided by the *total* number of SEC staff who review CL firms and connected or unconnected firms.

We find that both *TREAT_CD* and *TREAT_CA* are significantly positive with respect to *P_SAMESTAFF* (Table 6, Panel A, column [1], and Panel B, column [1], respectively), suggesting that connected firms tend to receive comment letters from the same SEC staff that review CL firms.

5.3. Same Accounting Issues

We further examine whether connected firms are more likely to receive comment letters on the same accounting issues as CL firms. We collect data on accounting issues covered in comment letters from the *Audit Analytics Comment Letter* database. We then create *P_SAMEACC*, which is the proportion of accounting issues received by connected firms that are the same as those received by CL firms.[13] We repeat this for unconnected firms as well.[14]

[Insert Table 6 here]

We find that both *TREAT_CD* and *TREAT_CA* are significantly positive with respect to *P_SAMEACC* (Table 6, Panel A, column [2], and Panel B, column [2], respectively). Thus, connected firms are more likely to receive comment letters on the same accounting issues as CL firms.

5.4. Removal of Common Directors or Auditors

If common directors or auditors contribute to this contagion effect, it is possible that connected firms can mitigate it by removing common directors or auditors with CL firms. To test this, we use [1] *N_CD_CL_QUIT*, the *number* of common directors with CL firms who leave the connected firm in year *t* after it received comment letters in year *t-1*; [2] *P_CD_CL_QUIT*, the *percentage* of common directors with CL firms who leave the connected

[13] *P_SAMEACC* = number of accounting issues in comment letters received by connected firms that are the same as those received by CL firms, divided by the total number of accounting issues identified in comment letters received by both CL firms and connected firms.

[14] Assume that connected firm A's comment letters include accounting issues #1, #2, and #3, unconnected firm B's comment letters include issues #5 and #6, and CL firm C's comment letters include issues #2, #3, #4, and #5. In this case, firms A and C share two issues (issues #2 and #3) out of five issues (issues #1 – #5). Thus, *P_SAMEACC* for firm A is 2/5, which is 0.4. Meanwhile, firms B and C share one issue (issue #5) out of five issues (issues #2 – #6). Thus, *P_SAMEACC* for firm B is 1/5, which is 0.2.

firm in year *t* after it received comment letters in year *t-1*; and [3] *D_CD_CL_QUIT*, an indicator equal to one if at least one common director with CL firms leaves the connected firm in year *t* after it received comment letters in year *t-1*, and zero otherwise. We find that connected firms that remove common directors with CL firms becomes less likely to receive comment letters (Table 6, Panel C, columns [1] – [3]). Our results remain unchanged when we restrict the sample to firms sharing directors with CL firms in the previous year (Table 6, Panel C, columns [4] – [6]).

To test the removal of common auditors, we use *D_CA_CL_QUIT*, an indicator equal to one if a firm shares an auditor with CL firms in year *t-1* and switches to another auditor in year *t*, and zero otherwise. This measure is significantly negative for both the full sample (Table 6, Panel D, column [1]) and for a restricted sample of firms having common auditors with CL firms in the previous year (Table 6, Panel D, column [2]). These analyses show that firms can reduce the SEC's attention after removing common directors or auditors with CL firms.

Overall, this section suggests that the SEC relies on director and auditor networks of CL firms to identify the next targets. Specifically, firms sharing directors or auditors with CL firms are more likely to receive comment letters from the same SEC staff and to have overlapping accounting topics and issues with CL firms. Firms can avoid being targeted if they remove common directors or auditors with CL firms.

5.5. Timing of SEC Review Process

To strengthen our baseline results, we test whether the SEC is quicker to identify connected firms. Specifically, we identify firm pairs connected and not connected through common directors or auditors that receive comment letters in the same year. For each pair, we calculate the absolute timing differences in days between the initiation of their first SEC conversations.

[Insert Table 7 here]

The mean (median) timing difference for firm pairs with common directors is 123.7 (98) days, significantly shorter than the 136.1 (115) days for firm pairs without common directors (Table 7, Panel A). Similarly, the mean (median) difference for firm pairs with common auditors is 122.6 (98) days, significantly shorter than the 134.0 (110) days for firm pairs without common auditors. Thus, the SEC is quicker to target firms sharing directors or auditors with CL firms, consistent with the contagion effects of board and auditor interlocks in the review process.

Next, we test whether the SEC is quicker to target connected firms with similar accounting issues to CL firms. We identify 23,909 (8,785) firm pairs that receive comment letters and share directors (auditors). For each firm pair with common directors (auditors), we compute *TIME_DIFF_CD* (*TIME_DIFF_CA*) as the log of the absolute timing difference between the dates the SEC first contacts the firms. We then measure whether each firm pair with common directors shares the same comment letter topic using [1] *D_CD_CL_CORE*, [2] *D_CD_CL_NONCORE*, [3] *D_CD_CL_CLASS*, [4] *D_CD_CL_FV*, [5] *D_CD_CL_ACC*, [6] *D_CD_CL_RISK*, [7] *D_CD_CL_OTHER*, [8] *D_CD_CL_NGAAP*, and [9] *D_CD_CL_ALL*. These indicators equal one for firm pairs that share core earnings, non-core earnings, classification, fair value, accounting, risk, other disclosure, non-GAAP, or at least one of these issues, respectively, and zero otherwise.[15] We include the same controls used in model (1).

For firm pairs with common directors, the SEC is quicker to target connected firms with similar accounting issues as CL firms (Table 7, Panel B), especially those related to core earnings, non-core earnings, classification, accounting, or other disclosure. For firm pairs with common auditors, the SEC is quicker to target connected firms with similar accounting issues with CL firms, especially those related non-core earnings, fair value, accounting, risk, other disclosure, or non-GAAP (Table 7, Panel C). Overall, the SEC is quicker to target connected

[15] These variables are for common directors. Those for common auditors use "*CA*" rather than "*CD*" in their titles.

firms when they exhibit similar issues with CL firms.

5.6. Director Characteristics

In our study, firm networks are based on common directors or auditors. As such, it is likely that characteristics of directors or auditors can affect the likelihood of connected firms receiving the SEC's comment letters. In this section, we conduct several tests regarding this aspect.

5.6.1. Directors on Audit Committee

Audit committees can shape the quality of firms' financial reports (Bédard, Chtourou, and Courteau 2004; Menon and Williams 1994). As such, directors on audit committees are likely to have more influence on reporting quality. Prior research finds that the contagion effect of earnings management and guidance stoppage is stronger when shared directors serve on audit committees (Cai et al. 2014; Chiu et al. 2013) and firms sharing audit committee members exhibit higher earnings management (Shi, Teoh, and Zhou 2023). Therefore, it is possible that those connected with CL firms through common directors are more likely to receive comment letters when these directors are on connected firms' audit committees.

We identify directors based on their audit committee membership. We split *N_CD_CL* into *N_ACD_CL* and *N_NACD_CL*, with the former (latter) standing for the number of common directors with CL firms (not) on connected firms' audit committees. Similarly, we split *N_CD_NCL* into *N_ACD_NCL* and *N_NACD_NCL*, with the former (latter) standing for the number of common directors with non-CL firms (not) on connected firms' audit committees. We split the percentage equivalents of these measures in a similar manner.

[Insert Table 8 here]

Both *N_ACD_CL* and *N_NACD_CL* are positive and significant (Table 8, Panel A, column [1]). The percentage equivalents of these measures also yield similar results (column [2]). The difference between common directors on audit committees and those not on audit

committees is significant for the percentage specifications (column [2]). Thus, while all connections through common directors with CL firms are problematic, connected firms are more likely to receive comment letters when common directors with CL firms are on their audit committees.[16]

Interestingly, while *N_ACD_NCL* (β_3) is significantly negative, *N_NACD_NCL* (β_4) is insignificant (Table 8, Panel A, column [1]), with the difference being significant at the 0.05 level. Thus, common directors with non-CL firms who serve on connected firms' audit committees are more effective in monitoring financial reporting. Again, the percentage equivalents of these measures yield similar results (column [2]).

5.6.2. Director Independence

More independent directors create better internal governance (Ettredge et al. 2011). Cassell et al. (2013) find that while board independence is not associated with the likelihood of receiving comment letters, more board independence is associated with fewer topics when receiving comment letters. This means that the contagion effect is likely to be stronger when firms have fewer independent common directors with CL firms. Like the above analyses, we decompose our measures of common directors based on whether a director is independent. Our variables of interest here are [1] *N_INDCD_CL*, [2] *N_NINDCD_CL*, [3] *N_INDCD_NCL*, and [4] *N_NINDCD_NCL*,[17] along with their percentage counterparts.

We find that connected firms are more likely to receive comment letters regardless of the independence of their common directors with CL firms (Table 8, Panel B). Meanwhile, connected firms are less likely to receive comment letters when their common directors with non-CL firms are independent. Thus, independent common directors with non-CL firms can

[16] In untabulated analysis, we also find that firms with common audit committee members with CL firms are also more likely to receive comment letters. Results are available upon request.

[17] [1] *N_INDCD_CL* (number of common directors with CL firms that are independent), [2] *N_NINDCD_CL* (number of common directors with CL firms that are not independent), [3] *N_INDCD_NCL* (number of common directors with non-CL firms that are independent), and [4] *N_NINDCD_NCL* (number of common directors with non CL firms that are not independent).

help improve financial reporting quality.

5.6.3. Director Tenure

Director tenure reflects a trade-off between experience and independence (Li and Wahid 2018; Patro, Zhang, and Zhao 2018). While directors with longer tenure possess a deeper understanding of the firm, they may become less independent over time. Conversely, directors with shorter tenure are more independent but may lack in-depth knowledge of the firm's operations. To assess whether the contagion effect depends on director tenure, we split our independent variables of interest based on whether a director's tenure is less than two years, using the above approach. Here, our variables of interest are [1] *N_SCD_CL*, [2] *N_LCD_CL*, [3] *N_SCD_NCL*, and [4] *N_LCD_NCL*,[18] along with their percentage counterparts.

We find that the contagion effect of sharing directors with CL firms does not vary with director tenure (Table 8, Panel C). Notably, firms sharing directors with non-CL firms are less likely to receive comment letters only when director tenure is long. Therefore, common directors with non-CL firms contributes more to reporting quality when they have a longer tenure.

5.6.4. Director Power

Common directors of more powerful firms exert stronger influence over network firms (Washington and Zajac 2005; Shropshire 2010). Thus, we posit that firms sharing directors with more powerful CL firms are more likely to receive comment letters. To test this, we split *N_CD_CL* based on whether the size of the connected firm, measured by market capitalization, is lower than the median size of CL firms (*N_PCD_CL*) or not (*N_NPCD_CL*). Similarly, we split *N_CD_NCL* based on whether the size of the connected firm is lower than the median size of non-CL firms (*N_PCD_NCL*) or not (*N_NPCD_NCL*). We split the percentage counterparts

[18] [1] *N_SCD_CL* (number of common directors with CL firms that have short tenures), [2] *N_LCD_CL* (number of common directors with CL firms that have long tenures), [3] *N_SCD_NCL* (number of common directors with non-CL firms that have short tenures), and [4] *N_LCD_NCL* (number of common directors with non-CL firms that have long tenures).

in the same manner.

Both *N_PCD_CL* and *N_NPCD_CL* are significantly positive (Table 8, Panel D), but are not significantly different from each other. Thus, the power of CL firms is irrelevant to the likelihood of connected firms receiving comment letters. Interestingly, firms sharing directors with non-CL firms are less likely to receive comment letters only when non-CL firms are more powerful than connected firms. Consistent with Shropshire (2010), this finding indicates that better-quality directors associated with better-status firms are more effective at disseminating robust governance and financial reporting practices across network firms.

5.7. Auditor Characteristics

5.7.1. Big 4 Auditors

Auditors play an important role in shaping their clients' financial reports. Auditors have unique styles based on standardized in-house policies that they apply on all their clients (Francis and Yu 2009; Baugh and Schmardebeck 2023). If Big 4 auditors have more influence on their clients than non-Big 4 auditors, sharing a Big 4 auditor with CL firms can magnify the contagion effect relative to sharing a non-Big 4 auditor. Thus, we split the sample into Big 4 clients and non-Big 4 clients and find that *N_CA_CL* is significantly positive and *N_CA_NCL* is significantly negative only for Big 4 clients (Table 9, Panel A). These results are consistent with our expectations.

5.7.2. Auditors' Industry Expertise

Auditors with industry expertise can better constrain clients' earnings management (Chi and Chin 2011; Reichelt and Wang 2010) and reduce the chance of restatements (Romanus, Maher, and Fleming 2008). Ahn, Hoitash, and Hoitash (2020) find that auditors with fair-value expertise reduce firms' likelihood of receiving comment letters on fair-value issues. As such, we expect that industry-expert auditors can mitigate the contagion effect among network firms.

[Insert Table 9 here]

We follow Minutti-Meza (2013) and Audousset-Coulier, Jeny, and Jiang (2016) to measure auditor industry expertise using the client portfolio share based on total assets. We classify auditors as specialists in industries that constitute the largest share in their portfolios. We find that the baseline results become insignificant when the auditor is an industry specialist and remain significant when the auditor is not an industry specialist (Table 9, Panel B). Thus, sharing industry specialist auditors with CL firms reduces the likelihood of connected firms receiving comment letters. Suggesting that industry specialist auditors can prevent the dissemination of poor accounting practices among firms in the network.

5.7.3. Auditor Tenure

Auditors accumulate client-specific knowledge over their tenure, and longer tenure is associated with higher audit quality (Ghosh and Moon 2005; Myers, Myers, and Omer 2003). Thus, longer auditor tenure can *reduce* the contagion effect of connections through common *directors*. However, auditors with longer tenure can also exert more influence over their clients. Thus, to the extent that auditors exhibit systematic errors across their clients due to audit styles, longer auditor tenure can *magnify* the contagion effect of connections through common *auditors*.

To test this, we create long and short tenure subsamples based on the sample median. We find that while *N_CD_CL* and *P_CD_CL* are significantly positive in both subsamples, they are larger in the short tenure subsample (Table 9, Panel C). We also find that *P_CA_CL* is significantly positive in the long tenure subsample but insignificant in the short tenure subsample. However, the differences are not statistically significant. Overall, we find some evidence that auditor tenure mitigates (magnifies) the contagion effect of connections through common directors (auditors).

Related to auditor tenure, we split the sample based on whether the audit engagements are continuing. We find that the contagion effect through common auditors is more robust for

continuing engagements than for first-time engagements. Specifically, *N_CA_CL* and *P_CA_CL* are significantly positive and *N_CA_NCL* is significantly negative in continuing engagements, but insignificant in initial engagements (Table 9, Panel D). Moreover, the differences in *N_CA_CL* and in *N_CA_NCL* between the two subsamples are significant at the 1 percent level. Overall, these analyses provide evidence that the SEC factors auditor tenure in its decision to review firms connected to CL firms.

5.8. Institutional Ownership

In addition to directors and auditors, institutional shareholders also play an important role in monitoring firms (Cornett, Marcus, Saunders, and Tehranian 2007; McConnell and Servaes 1990; Shleifer and Vishny 1986), improving corporate governance strength (Chung and Zhang 2011) and decreasing the likelihood of fraud (Sharma 2004). Thus, institutional ownership can potentially help prevent the spread of inappropriate accounting practices among network firms.

To test this, we obtain institutional ownership data from *Thomson-Reuters* database and create subsamples with high and low institutional ownership based on the median ownership of the top five institutional shareholders. The contagion effect is more robust for firms with lower institutional ownership, especially for connections through common directors (Table 9, Panel E). This is consistent with our expectation.

5.9. Restatements of 10-K Filings

Finally, we test the likelihood of 10-K restatement with respect to connections through common directors or auditors. We focus on 10-K filings because the SEC generally starts its reviews with them (Cassell et al. 2019; Johnson 2015). If poor accounting practices in CL firms spread through director or auditor networks, we expect that connected firms are more likely to restate their 10-K filings. In contrast, if connected firms learn from the SEC review process at CL firms through director or auditor networks, we expect that connected firms are less likely

to restate their 10-K filings.

[Insert Table 10 here]

We replace the dependent variable (*CL*) in equation (1) with RES_10K_{it}, which equals one if firm *i* subsequently restates its 10-K filing in fiscal year *t*, and zero otherwise. We find that *N_CD_CL* and *P_CD_CL* are significantly positive and *N_CD_NCL*, *N_CA_NCL*, *P_CD_NCL*, and *P_CA_NCL* are significantly negative (Table 10, columns [1] and [2]). Thus, firms are more likely to restate their 10-K filings when they share directors with CL firms and are less likely when they share directors or auditors with non-CL firms. A one standard deviation increase in *N_CD_CL* is associated with a 12.36 percent increase in the odds of 10-K filing restatements.[19] Thus, the contagion effect of common directors with respect to 10-K restatement is significant both statistically and economically.

Next, we relax our restriction on 10-K filings and use RES_{it}, an indicator equal to one if firm *i* subsequently restates any of its financial statements in year t, and zero otherwise. We find strong evidence that sharing an auditor with CL firms (*N_CA_CL* and *P_CA_CL*) increases the likelihood of restatements while sharing directors (*N_CD_NCL* and *P_CD_NCL*) or auditors (*N_CA_NCL* and *P_CA_NCL*) with non-CL firms reduces the likelihood of restatements (Table 10, columns [3] and [4]). Collectively, these analyses further strengthen the contagion effect of board and auditor networks on firms' financial reporting practices.

6. CONCLUSION

In this study, we seek to test whether the SEC targets firms connected through director or auditor networks for its review process. Our main finding is that firms are more likely to receive comment letters from the SEC when they share directors or auditors with those that receive comment letters. This result is robust to several sensitivity checks.

In additional analyses, we find that firms are more likely to receive comment letters on

[19] Exp (0.077 x 1.52) – 1 = 0.12362.

a specific topic when they share directors or auditors with those that receive comment letters on the same topic. Connected firms are more likely to be reviewed by the same SEC staff that review CL firms and to receive comment letters on overlapping issues with CL firms. Connected firms can avoid being targeted by removing common directors or auditors with CL firms. The contagion effect of connections through director or auditor networks varies predictably with director and auditor characteristics and can be mitigated by strong corporate governance.

Our research has important policy implications. Regulators are paying increasing attention to the potential spread of inappropriate financial reporting practices across firms sharing directors or auditors (PCAOB 2012; FTC 2017; CalPERS 2019). Our results validate these concerns by suggesting that firm connections through common directors or auditors are an important factor in the SEC's review process. However, not all connections are detrimental because firms are less likely to receive comment letters when they share directors or auditors with those that do not receive comment letters. These findings are particularly timely and relevant to corporate stakeholders, especially amid recent federal government shutdowns that further constrains the SEC's resources and its ability to oversee the U.S. markets (Gillison 2023).

Because the SEC only discloses review outcomes ex-post (Cunningham and Leidner 2022), our results caution corporate stakeholders about the potential contagion of poor financial reporting practices across network firms when making decisions (investment, lending, audit, etc.). Our findings about the exaggerating effect of Big 4 auditors and the mitigating effect of institutional shareholders with respect to the network contagion effect further underscore the influences of these entities in shaping firms' governance and financial reporting practices.

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APPENDIX
Variable Definition

Variable	Description
ADVERTISING	advertising expense divided by total sales
AGE	firm age
ALTZ	the firm's Altman's Z-score (Altman 1968; DeFond and Hung 2003)
AUDIS	1 if the auditor is dismissed, and 0 otherwise
AURES	1 if the auditor resigns, and 0 otherwise
AUTEN	number of years of auditor tenure
BIG4	1 if a firm is audited by a Big 4 auditor, and 0 otherwise
CEODUAL	1 if the CEO is also the chairman of the board of directors, and 0 otherwise
CEOTEN	number of years of CEO tenure
CFODUAL	1 if the CFO is also the chairman of the board of directors, and 0 otherwise, 0 otherwise
CFOTEN	number of years of CFO tenure
CL	1 if a firm receives a comment letter on the 10-K filing for the fiscal year, and 0 otherwise
COMP	median financial statement comparability for firm *i* for all firms in firm *i*'s SIC two-digit industry classification (De Franco, Kothari, and Verdi 2011)
D_CD_CL_QUIT	1 if at least one common director connected with CL firms leaves the board in year *t* after connected firms receive comment letters in year *t*-1, and 0 otherwise
D_TOPIC	1 if a specific topic is covered in comment letters a firm received, and 0 otherwise
EXTFIN	the sum of debt and equity financing divided by total assets
HIGH_RETAIL	1 if the firm was in the top quartile of the percentage of shares owned by retail investors in year t, and 0 otherwise
HIVOL	1 if the volatility of abnormal monthly stock returns is in the fourth quartile, and 0 otherwise
ICWEAK	1 if a firm has internal control weaknesses, and 0 otherwise
LITI	1 if a firm operates in a high-litigation industry (Francis, Philbrick, and Schipper 1994), and 0 otherwise
LNAT	natural logarithm of total assets
LOSS	1 if earnings before extraordinary items is negative, and 0 otherwise
LOWMTB	1 if the firm's *MTB* is below one, and 0 otherwise
MA	1 if a firm involves in mergers and acquisitions, and 0 otherwise
MTB	market value of equity divided by book value of equity
N_ACD_CL	number of common directors with CL firms who are also audit committee members of the subject firm
N_ACD_NCL	number of common directors with non-CL firms who are also audit committee members of the subject firm
N_ANALYST	number of analysts following the firm in year t
N_CD_CL	number of common directors with CL firms
N_CD_CL_OTHER	number of common directors with firms that receive comment letters on other topics
N_CD_CL_TOPIC	number of common directors with firms that receive comment letters on a specific topic
N_CD_NCL	number of common directors with non-CL firms
N_CD_CL_QUIT	number of common directors connected with CL firms leaves the board in year *t* after connected firms receive comment letters in year *t*-1

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APPENDIX (continued)

N_CA_CL	number of industry peers that receive comment letters in the auditor's clientele
N_CA_CL_OTHER	number of industry peers that receive comment letters on other topics in the auditor's clientele
N_CA_CL_TOPIC	number of industry peers that receive comment letters on a specific topic in the auditor's clientele
N_CA_NCL	number of industry peers that do not receive comment letters in the auditor's clientele
N_CF_CL	number of connected CL firms
N_CF_NCL	number of connected firms that do not receive comment letters
N_INDCD_CL	number of independent common directors with CL firms
N_INDCD_NCL	number of independent common directors with firms that do not receive comment letters
N_NACD_CL	number of common directors with CL firms who are non-audit committee members of the subject firm
N_NACD_NCL	number of common directors with non-CL firms who are non-audit committee members of the subject firm
N_NINDCD_CL	number of non-independent common directors with CL firms
N_NINDCD_NCL	number of non-independent common directors with non-CL firms
N_NPCD_CL	number of non-powerful common directors with CL firms
N_NPCD_NCL	number of non-powerful common directors with non-CL firms
N_LCD_CL	number of common directors with CL firms with tenure longer than two years
N_LCD_NCL	number of common directors with non-CL firms with tenure longer than two years
N_PRESS	average monthly number of press articles written about the firm in the RavenPack Dow Jones news archives
N_PCD_CL	number of powerful common directors with CL firms
N_PCD_NCL	number of powerful common directors with non-CL firms
N_SCD_CL	number of common directors with CL firms with tenure shorter than or equal to 2 years
N_SCD_NCL	number of common directors with non-CL firms with tenure shorter than or equal to 2 years
N_TOPIC	number of comment letters issues related to a specific topic
P_ACD_CL	number of common directors with CL firms who are also audit committee members of the subject firm divided by the subject firm's board size
P_ACD_NCL	number of common directors with non-CL firms who are also audit committee members of the subject firm divided by the subject firm's board size
P_CD_CL	number of common directors with CL firms divided by board size
P_CD_CL_OTHER	number of common directors with CL firms on other topics divided by board size
P_CD_CL_TOPIC	number of common directors with CL firms on a specific topic divided by board size
P_CD_NCL	number of common directors with non-CL firms divided by board size
P_CD_CL_QUIT	percentage of common directors connected with CL firms leaves the board in year *t* after connected firms receive comment letters in year *t-1*
P_CA_CL	number of CL industry peers in the auditor's clientele divided by total number of clients
P_CA_CL_OTHER	number of industry peers that receive comment letters on other topics in the auditor's clientele divided by total number of clients
P_CA_CL_TOPIC	number of industry peers that receive comment letters on a specific topic in the auditor's clientele divided by total number of clients
P_CA_NCL	number of non-CL industry peers in the auditor's clientele divided by total number of clients

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APPENDIX (continued)

P_CF_CL	proportion of connected CL firms
P_CF_NCL	proportion of connected non-CL firms
P_INDCD_CL	number of independent common directors with CL firms divided by board size
P_INDCD_NCL	number of independent common directors with non-CL firms divided by board size
P_NACD_CL	number of common directors with CL firms who are non-audit committee members of the subject firm divided by the subject firm's board size
P_NACD_NCL	number of common directors with non-CL firms who are non-audit committee members of the subject firm divided by the subject firm's board size
P_NINDCD_CL	number of non-independent common directors with CL firms divided by board size
P_NINDCD_NCL	number of non-independent common directors with non-CL firms divided by board size
P_NPCD_CL	number of non-powerful common directors with CL firms divided by board size
P_NPCD_NCL	number of non-powerful common directors with non-CL firms divided by board size
P_LCD_CL	number of common directors with CL firms with tenure longer than two years divided by board size
P_LCD_NCL	number of common directors with non-CL firms with tenure longer than two years divided by board size
P_PCD_CL	number of powerful common directors with CL firms divided by board size
P_PCD_NCL	number of powerful common directors with non-CL firms divided by board size
P_SAMEACC	number of same accounting topics identified in comment letters of treatment or control firms and CL industry peers
P_SAMESTAFF	number of same SEC staff who review the filings of both treatment or control firms and CL industry peers divided by the total number of SEC staff involved in the reviews
P_SCD_CL	number of common directors with CL firms with tenure shorter than or equal to two years divided by board size
P_SCD_NCL	number of common directors with non-CL firms with tenure shorter than or equal to two years divided by board size
RES	1 if a firm's financial statements in the current year are subsequently restated, and 0 otherwise
RES_10K	1 if a firm's 10-K filings in the current year are restated subsequently, and 0 otherwise
RESTRUCT	1 if a firm is involved in restructuring, and 0 otherwise
SECOND_TIER	1 if a firm is audited by a second-tier audit firm (i.e., BDO Seidman, Crowe Horwath, Grant Thornton, or McGladrey & Pullen), and 0 otherwise
SEG	the number of business segments
SG	year-to-year sales growth
TIME_DIFF_CD	Log of timing differences in days of first initial contacts from the SEC for each firm pair with common directors
TIME_DIFF_CA	Log of timing differences in days of first initial contacts from the SEC for each firm pair with common auditors

TABLE 1
Sample Distribution

Panel A: Distribution by year

Fiscal Year	*N*	*CL*	*N_CD_CL*	*N_CD_NCL*	*P_CD_CL*	*P_CD_NCL*	*N_CA_CL*	*N_CA_NCL*	*P_CA_CL*	*P_CA_NCL*
2004	2,645	690	1.02	1.71	0.14	0.24	0.74	2.74	0.02	0.07
2005	2,730	819	1.39	1.42	0.18	0.20	0.77	2.37	0.02	0.07
2006	2,668	781	1.32	1.52	0.17	0.21	0.74	2.27	0.02	0.07
2007	2,604	919	1.48	1.44	0.19	0.20	0.81	2.25	0.02	0.07
2008	2,508	1,069	1.59	1.31	0.21	0.18	0.95	1.75	0.03	0.06
2009	2,367	1040	1.66	1.15	0.21	0.16	0.89	1.72	0.03	0.06
2010	2,292	778	1.51	1.38	0.19	0.19	0.77	2.03	0.02	0.07
2011	2,258	841	1.56	1.33	0.19	0.18	0.75	1.98	0.02	0.07
2012	2,224	782	1.51	1.48	0.19	0.20	0.74	2.17	0.02	0.08
2013	2,259	632	1.31	1.81	0.16	0.24	0.67	2.61	0.02	0.09
2014	2,320	581	1.18	1.95	0.15	0.26	0.60	2.78	0.02	0.10
2015	2,280	602	1.23	1.97	0.15	0.26	0.65	2.57	0.02	0.09
2016	2,176	498	1.09	2.11	0.13	0.27	0.50	2.78	0.02	0.10
2017	2,145	345	0.81	2.30	0.10	0.30	0.30	3.08	0.01	0.11
2018	2,128	257	0.59	2.58	0.07	0.33	0.30	3.28	0.01	0.12
2019	2,097	279	0.64	2.59	0.08	0.32	0.31	3.34	0.01	0.12
2020	2,133	186	0.49	2.77	0.06	0.34	0.26	3.75	0.01	0.12

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TABLE 1 (continued)

Panel B: Distribution across (2-digit SIC codes) industries

SIC Codes	*N*	*CL*	*N_CD_CL*	*N_CD_NCL*	*P_CD_CL*	*P_CD_NCL*	*N_CA_CL*	*N_CA_NCL*	*P_CA_CL*	*P_CA_NCL*
1	96	25	1.28	1.63	0.16	0.21	0.01	0.10	0.00	0.00
2	1	1	3.00	2.00	0.30	0.20	0.00	0.00	0.00	0.00
7	4	3	1.50	1.75	0.11	0.17	0.00	0.00	0.00	0.00
10	630	68	0.49	2.80	0.05	0.35	0.16	6.48	0.01	0.32
12	45	29	2.09	2.42	0.21	0.25	0.42	0.78	0.02	0.04
13	1982	597	0.98	1.79	0.13	0.24	1.93	6.02	0.06	0.24
14	86	37	1.47	1.56	0.18	0.19	0.07	0.09	0.00	0.00
15	24	8	1.50	1.71	0.19	0.26	0.00	0.00	0.00	0.00
16	231	74	1.40	1.81	0.16	0.22	0.05	0.18	0.00	0.01
17	107	35	1.11	1.53	0.17	0.24	0.21	0.21	0.00	0.00
20	1018	290	1.46	1.78	0.15	0.20	0.14	0.43	0.00	0.02
22	19	6	1.68	1.53	0.23	0.19	0.11	0.16	0.00	0.01
23	382	126	1.18	1.74	0.15	0.22	0.25	0.42	0.01	0.02
24	213	61	1.31	2.03	0.17	0.25	0.05	0.09	0.00	0.01
25	344	90	1.58	1.87	0.19	0.23	0.01	0.09	0.00	0.00
26	418	109	2.07	2.50	0.22	0.28	0.12	0.37	0.01	0.03
27	449	136	1.72	1.65	0.19	0.19	0.24	0.58	0.00	0.01
28	5334	1258	1.18	2.20	0.15	0.29	1.19	6.98	0.03	0.19
29	90	26	2.46	2.88	0.25	0.31	0.10	0.34	0.01	0.03
30	394	133	1.42	1.78	0.16	0.20	0.08	0.16	0.00	0.00
31	171	50	1.01	1.33	0.14	0.19	0.05	0.06	0.00	0.00
32	220	84	1.58	2.10	0.18	0.24	0.16	0.30	0.02	0.03
33	593	196	1.34	1.77	0.16	0.22	0.15	0.32	0.01	0.02
34	659	215	1.24	1.72	0.15	0.22	0.07	0.16	0.00	0.01
35	2646	740	1.42	1.85	0.18	0.25	0.68	1.53	0.02	0.06
36	3797	999	1.05	1.50	0.15	0.22	0.88	2.55	0.03	0.08
37	1101	374	1.61	2.01	0.18	0.24	0.28	0.67	0.02	0.05
38	3148	725	0.96	1.61	0.13	0.23	0.67	2.55	0.01	0.07
39	364	110	1.16	1.28	0.14	0.16	0.04	0.12	0.00	0.00

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TABLE 1 (continued)

SIC Codes	*N*	*CL*	*N_CD_CL*	*N_CD_NCL*	*P_CD_CL*	*P_CD_NCL*	*N_CA_CL*	*N_CA_NCL*	*P_CA_CL*	*P_CA_NCL*
41	6	2	0.83	0.67	0.12	0.10	0.00	0.00	0.00	0.00
42	191	62	1.08	1.08	0.14	0.15	0.06	0.20	0.01	0.02
44	251	92	1.16	1.66	0.14	0.23	0.29	0.90	0.02	0.06
45	295	104	1.88	2.05	0.19	0.22	0.19	0.34	0.01	0.01
47	123	46	1.62	1.28	0.24	0.19	0.18	0.36	0.00	0.00
48	1324	400	1.41	1.86	0.17	0.23	0.40	1.15	0.01	0.04
50	1049	295	1.35	1.73	0.16	0.22	0.19	0.58	0.01	0.02
51	554	175	1.23	1.68	0.15	0.21	0.12	0.28	0.01	0.01
52	78	23	2.46	2.65	0.23	0.28	0.00	0.01	0.00	0.00
53	292	106	2.10	2.16	0.22	0.24	0.03	0.09	0.00	0.00
54	208	71	1.48	1.76	0.16	0.20	0.00	0.01	0.00	0.00
55	304	118	1.32	1.98	0.17	0.26	0.04	0.04	0.00	0.00
56	524	156	1.30	1.93	0.16	0.24	0.17	0.41	0.01	0.02
57	230	87	1.17	1.93	0.15	0.26	0.10	0.20	0.01	0.02
58	807	224	1.23	1.65	0.15	0.21	0.09	0.27	0.01	0.04
59	824	251	1.23	1.64	0.16	0.22	0.14	0.33	0.00	0.01
72	144	54	1.25	1.90	0.16	0.25	0.00	0.00	0.00	0.00
73	5265	1389	1.08	1.57	0.15	0.22	1.01	3.47	0.03	0.12
75	6	1	1.17	2.33	0.15	0.35	0.00	0.00	0.00	0.00
78	130	45	1.23	1.30	0.17	0.17	0.05	0.30	0.00	0.03
79	477	143	1.14	1.47	0.15	0.21	0.34	0.99	0.03	0.10
80	969	268	1.04	1.62	0.14	0.22	0.24	0.72	0.01	0.05
82	236	73	1.32	1.55	0.17	0.20	0.05	0.12	0.00	0.01
87	952	299	1.14	1.58	0.16	0.22	0.17	0.44	0.01	0.03
99	29	10	1.07	1.62	0.12	0.18	0.00	0.00	0.00	0.00

Note: This table presents the sample distribution by year (Panel A) and by industry (Panel B). The Appendix describes all variables in detail.

TABLE 2
Univariate Results

Panel A: Descriptive statistics

Variable	Mean	Std Dev	Q1	Median	Q3
CL	0.279	0.448	0.000	0.000	1.000
N_CD_CL	1.214	1.522	0.000	1.000	2.000
N_CD_NCL	1.785	1.647	0.000	1.000	3.000
P_CD_CL	0.153	0.173	0.000	0.125	0.250
P_CD_NCL	0.236	0.197	0.000	0.200	0.364
N_CA_CL	0.644	1.403	0.000	0.000	1.000
N_CA_NCL	2.533	5.020	0.000	1.000	3.000
P_CA_CL	0.020	0.044	0.000	0.000	0.017
P_CA_NCL	0.085	0.142	0.000	0.010	0.113
COMP	-0.038	0.057	-0.040	-0.018	-0.010
MTB	3.243	6.165	1.247	2.195	3.915
LOWMTB	0.179	0.384	0.000	0.000	0.000
ADVERTISING	0.012	0.030	0.000	0.000	0.009
N_PRESS	7.433	5.427	4.000	6.091	9.667
N_ANALYST	7.479	8.602	0.000	5.000	11.000
HIGH_RETAIL	0.207	0.405	0.000	0.000	0.000
ICWEAK	0.163	0.369	0.000	0.000	0.000
RES	0.259	0.438	0.000	0.000	1.000
HIVOL	0.319	0.466	0.000	0.000	1.000
LNAT	6.357	2.046	4.876	6.371	7.786
AT (in billions)	3.736	9.954	0.131	0.585	2.406
AGE	22.709	16.305	10.000	18.000	30.000
LOSS	0.369	0.483	0.000	0.000	1.000
ALTZ	3.567	6.625	1.418	2.997	5.076
SG	0.155	0.554	-0.033	0.067	0.198
SEG	2.239	1.856	1.000	1.000	3.000
MA	0.361	0.480	0.000	0.000	1.000
RESTRUCT	0.356	0.479	0.000	0.000	1.000
EXTFIN	0.013	0.124	0.000	0.000	0.000
LITI	0.383	0.486	0.000	0.000	1.000
BIG4	0.748	0.434	0.000	1.000	1.000
SECOND_TIER	0.081	0.273	0.000	0.000	0.000
AUTEN	7.649	4.887	4.000	7.000	11.000
AURES	0.035	0.185	0.000	0.000	0.000
AUDIS	0.134	0.341	0.000	0.000	0.000
CEODUAL	0.225	0.418	0.000	0.000	0.000
CFODUAL	0.192	0.394	0.000	0.000	0.000
CFOTEN	2.294	2.391	1.000	1.000	3.000
CEOTEN	4.401	5.825	1.000	1.000	6.000

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TABLE 2 (continued)

Panel B: Pearson Correlation

	CL	*N_CD_CL*	*N_CD_NCL*	*P_CD_CL*	*P_CD_NCL*	*N_CA_CL*	*N_CA_NCL*	*P_CA_CL*	*P_CA_NCL*
N_CD_CL	**0.19**								
N_CD_NCL	0.00	**0.13**							
P_CD_CL	**0.17**	**0.92**	0.00						
P_CD_NCL	**-0.03**	**-0.04**	**0.89**	**-0.09**					
N_CA_CL	**0.06**	**0.11**	**0.02**	**0.14**	**0.04**				
N_CA_NCL	**-0.05**	**-0.02**	**0.14**	0.01	**0.18**	**0.59**			
P_CA_CL	**0.05**	**0.07**	0.00	**0.10**	**0.02**	**0.69**	**0.29**		
P_CA_NCL	**-0.07**	**-0.09**	**0.11**	**-0.07**	**0.15**	**0.29**	**0.66**	**0.29**	
COMP	**0.07**	**0.08**	**0.05**	**0.06**	0.00	0.00	**-0.06**	**-0.02**	**-0.09**
MTB	-0.01	**0.01**	**0.06**	0.01	**0.06**	**0.04**	**0.09**	**0.02**	**0.06**
LOWMTB	**-0.03**	**-0.07**	**-0.06**	**-0.06**	**-0.04**	**-0.04**	**-0.03**	-0.01	**0.02**
ADVERTISING	**0.02**	**0.05**	0.00	**0.04**	**-0.01**	**-0.02**	**-0.03**	**-0.03**	**-0.04**
N_PRESS	**0.16**	**0.47**	**0.32**	**0.34**	**0.16**	**0.11**	**0.03**	**0.07**	**-0.03**
N_ANALYST	**0.12**	**0.32**	**0.31**	**0.25**	**0.19**	**0.14**	**0.10**	**0.10**	**0.05**
HIGH_RETAIL	**0.06**	**0.21**	**0.16**	**0.14**	**0.07**	**0.01**	**-0.03**	0.00	**-0.05**
ICWEAK	**-0.01**	**-0.10**	**-0.09**	**-0.08**	**-0.06**	**-0.03**	**-0.03**	**-0.02**	**-0.03**
RES	**0.04**	0.00	**-0.05**	**0.02**	**-0.04**	-0.01	**-0.05**	0.00	**-0.05**
HIVOL	**-0.08**	**-0.18**	**-0.10**	**-0.13**	**-0.01**	**0.02**	**0.11**	**0.02**	**0.12**
LNAT	**0.17**	**0.47**	**0.45**	**0.35**	**0.25**	**0.05**	**-0.02**	**0.04**	**-0.04**
AGE	**0.05**	**0.26**	**0.21**	**0.12**	**0.04**	**-0.10**	**-0.15**	**-0.08**	**-0.14**
LOSS	**-0.09**	**-0.16**	**-0.06**	**-0.12**	**0.02**	**0.07**	**0.17**	**0.05**	**0.17**
ALTZ	**0.02**	**-0.02**	**-0.04**	-0.01	**-0.03**	0.01	0.00	**-0.01**	**-0.03**
SG	**-0.01**	**-0.06**	**-0.03**	**-0.04**	**0.01**	**0.06**	**0.14**	**0.04**	**0.11**
SEG	**0.06**	**0.16**	**0.07**	**0.11**	0.00	**-0.05**	**-0.11**	**-0.05**	**-0.13**
MA	**-0.01**	**0.03**	**0.16**	0.00	**0.12**	**-0.03**	**-0.02**	**-0.02**	0.00
RESTRUCT	**0.05**	**0.21**	**0.21**	**0.16**	**0.13**	**0.02**	**-0.04**	0.01	**-0.06**
EXTFIN	**-0.05**	**-0.10**	**-0.03**	**-0.08**	**0.03**	**0.03**	**0.13**	**0.01**	**0.12**
LITI	**-0.03**	**-0.05**	0.00	**-0.02**	**0.05**	**0.17**	**0.23**	**0.12**	**0.18**
BIG4	**0.10**	**0.30**	**0.32**	**0.27**	**0.23**	**0.19**	**0.14**	**0.08**	**-0.02**
SECOND_TIER	-0.01	**-0.11**	**-0.14**	**-0.08**	**-0.10**	**-0.08**	**-0.10**	0.00	**-0.02**
AUTEN	0.00	**0.12**	**0.28**	**0.06**	**0.18**	-0.01	**0.02**	**-0.02**	**-0.01**
AURES	**-0.03**	**-0.08**	**-0.10**	**-0.07**	**-0.09**	**-0.04**	**-0.03**	**-0.02**	**0.01**
AUDIS	**-0.02**	**-0.09**	**-0.09**	**-0.08**	**-0.06**	**-0.05**	**-0.05**	**-0.02**	**-0.02**
CEODUAL	**0.11**	**0.29**	**0.13**	**0.21**	**0.03**	**0.01**	**-0.07**	0.01	**-0.10**
CFODUAL	**0.04**	**0.17**	**0.17**	**0.13**	**0.10**	**0.01**	**-0.03**	**-0.01**	**-0.07**
CFOTEN	**0.05**	**0.12**	**0.16**	**0.07**	**0.08**	**-0.03**	**-0.06**	**-0.03**	**-0.08**
CEOTEN	**0.08**	**0.11**	**0.06**	**0.08**	**0.02**	**0.02**	**-0.04**	**0.01**	**-0.07**

Note: This table presents the descriptive statistics (Panel A) and Pearson correlation (Panel B) among variables used in model (1). The bold values indicate significance at the 10% level or below. We winsorize all continuous variables at the 1st and 99th percentiles. All *p*-values are two-tailed. Appendix provides all variable definitions in detail.

TABLE 3

Main Regression Results

	Dependent Variable = CL					
Sample Period: 2004-2020	**Column [1]**			**Column [2]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
Intercept	-3.626	***	(-8.95)	-3.650	***	(-9.05)
N_CD_CL (β1)	0.038	***	(4.04)			
N_CD_NCL (β2)	-0.021	**	(-2.38)			
N_CA_CL (β3)	0.037	***	(3.28)			
N_CA_NCL (β4)	-0.016	***	(-4.03)			
P_CD_CL (β1)				0.303	***	(3.93)
P_CD_NCL (β2)				-0.073		(-1.05)
P_CA_CL (β3)				0.815	***	(2.81)
P_CA_NCL (β4)				-0.542	***	(-4.68)
COMP	1.098	***	(3.98)	1.098	***	(3.98)
MTB	0.001		(0.23)	0.000		(0.20)
LOWMTB	-0.112	***	(-2.96)	-0.110	***	(-2.90)
ADVERTISING	1.312	***	(3.06)	1.358	***	(3.17)
N_PRESS	0.014	***	(4.28)	0.015	***	(4.57)
N_ANALYST	0.003		(1.42)	0.002		(1.25)
HIGH_RETAIL	-0.005		(-0.16)	-0.004		(-0.12)
ICWEAK	0.129	***	(3.60)	0.129	***	(3.59)
RES	0.117	***	(4.12)	0.117	***	(4.12)
HIVOL	0.008		(0.27)	0.006		(0.22)
LNAT	0.197	***	(15.73)	0.198	***	(16.14)
AGE	-0.002	**	(-2.35)	-0.002	**	(-2.24)
LOSS	0.066	**	(2.08)	0.064	**	(2.01)
ALTZ	0.002		(1.07)	0.002		(1.04)
SG	0.036		(1.48)	0.035		(1.42)
SEG	-0.006		(-0.82)	-0.006		(-0.82)
MA	0.004		(0.12)	0.004		(0.15)
RESTRUCT	0.079	***	(2.82)	0.079	***	(2.82)
EXTFIN	0.020		(0.18)	0.016		(0.14)
LITI	-0.005		(-0.12)	-0.003		(-0.06)
BIG4	0.069		(1.50)	0.048		(1.05)
SECOND_TIER	0.173	***	(3.18)	0.162	***	(2.97)
AUTEN	-0.007	**	(-1.98)	-0.008	**	(-2.05)
AURES	-0.072		(-0.99)	-0.070		(-0.96)
AUDIS	0.082	**	(2.14)	0.082	**	(2.14)
CEODUAL	0.035		(1.00)	0.040		(1.14)
CFODUAL	-0.091	**	(-2.36)	-0.094	**	(-2.44)
CFOTEN	0.028	***	(4.48)	0.028	***	(4.42)
CEOTEN	0.008	***	(2.98)	0.007	***	(2.94)
Industry and Year FEs	Yes			Yes		
F-test of *β1>β2*	22.85***			15.82***		
F-test of *β3>β4*	14.37***			16.33***		
Max-rescaled R^2	14.8%			14.8%		
Likelihood Ratio	42.32			42.33		
Pr > Chi^2	< ***.0001***			< ***.0001***		
N	39,834			39,834		

Note: This table reports the main regression results for equation (1) for the sample period 2004 - 2020. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively. We cluster standard errors by firms and years and winsorize all continuous variables at the 1st and 99th percentiles. All *p*-values are two-tailed. T-statistics are in parentheses. The Appendix discusses variable definitions in detail.

TABLE 4

Sensitivity Tests

Panel A: Bivariate probit models with partial observability

Dependent Variable	*Prob (Review)*			*Prob (Review)*			*Prob (Review)*			*Prob (Comment | Review)*			*Prob (Review)*			*Prob (Comment | Review)*		
Sample Period: 2004-2020	**Column [1]**			**Column [2]**			**Column [3]**			**Column [4]**			**Column [5]**			**Column [6]**		
Variables	**Coef.**		***z*-value**	**Coef.**		***z*-value**	**Coef.**		***z*-value**	**Coef.**		***z*-value**	**Coef.**		***z*-value**	**Coef.**		***z*-value**
Intercept	-0.480	***	(-1.03)	-0.906	**	(-2.1)	-0.929	**	(-2.10)	-0.217		(-0.31)	-0.959	**	(-2.20)	-0.308		
RES	0.092	***	(2.62)	0.089	**	(2.53)	0.075	**	(2.08)				0.077	**	(2.15)			
HIVOL	0.106		(2.78)	0.107	***	(2.82)	0.109	***	(2.83)				0.104	***	(2.72)			
HIGHPE	0.012	***	(0.54)	0.013		(0.58)	0.013		(0.56)				0.013		(0.55)			
LARGE	0.147		(6.17)	0.149	***	(6.22)	0.145	***	(6.05)				0.149	***	(6.00)			
SMALL	0.039	***	(1.49)	0.040		(1.49)	0.033		(1.24)				0.033		(1.18)			
N_CD_CL (β1)	0.024	*	(3.77)							0.038	***	(4.16)						
N_CD_NCL (β2)	-0.011	***	(-1.94)							-0.015	*	(-1.88)						
N_CA_CL (β3)	0.023	***	(2.95)							0.020	**	(2.13)						
N_CA_NCL (β4)	-0.009		(-3.76)							-0.010	***	(-3.39)						
P_CD_CL (β1)				0.166	***	(3.09)										0.236	***	(3.38)
P_CD_NCL (β2)				-0.044		(-0.97)										-0.040		(-0.69)
P_CA_CL (β3)				0.505	**	(2.46)										0.489	*	(1.95)
P_CA_NCL (β4)				-0.293	***	(-3.87)										-0.406	***	(-4.39)
Controls	Yes									Yes						Yes		
Industry and Year FEs	Yes									Yes						Yes		
Wald Chi^2 (df)	2,138.93 (173)			2,259.86 (176)						2,508.00 (176)						2,693.35 (176)		
Log Likelihood	-21,196.377			-21,196.03						-21,193.68						-21,193.27		
N (comment letters)	39,834 (11,099)			39,834 (11,099)						39,834 (11,099)						39,834 (11,099)		

(continued next page)

TABLE 4 (continued)

Panel B: Alternative specification of interlocks

	Dependent Variable = CL					
Sample Period: 2004-2020	**Column [1]**			**Column [2]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
N_CF_CL (β1)	0.032	***	(4.04)			
N_CF_NCL (β2)	-0.010	**	(-2.09)			
N_CA_CL (β3)	0.037	***	(3.28)			
N_CA_NCL (β4)	-0.016	***	(-3.97)			
P_CF_CL (β1)				0.139	***	(2.63)
P_CF_NCL (β2)				0.001		(0.02)
P_CA_CL (β3)				0.836	***	(2.89)
P_CA_NCL (β4)				-0.546	***	(-4.72)
Controls	Yes			Yes		
Industry and Year FEs	Yes			Yes		
F-test of *β1>β2*	16.28***			7.97***		
F-test of *β3>β4*	14.30***			16.96***		
Max-rescaled R^2	14.8%			14.8%		
N	39,834			39,834		

Panel C: Including firm fixed effects

	Dependent Variable = CL					
Sample Period: 2004-2020	**Column [1]**			**Column [2]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
N_CD_CL (β1)	0.009	***	(3.05)			
N_CD_NCL (β2)	-0.002		(-0.89)			
N_CA_CL (β3)	0.005	*	(1.74)			
N_CA_NCL (β4)	-0.001		(-0.88)			
P_CD_CL (β1)				0.055	**	(2.55)
P_CD_NCL (β2)				-0.004		(-0.25)
P_CA_CL (β3)				0.045		(0.6)
P_CA_NCL (β4)				-0.016		(-0.56)
Controls	Yes			Yes		
Industry and Year FEs	Yes			Yes		
F-test of *β1>β2*	14.29***			7.90***		
F-test of *β3>β4*	3.24*			0.6		
Adjusted R^2	8.9%			8.9%		
N	39,834			39,834		

(continued next page)

TABLE 4 (continued)

Panel D: Entropy-balanced method

Treatment group	***N_CD_CL* > 0**						***N_CA_CL* > 0**					
	Dependent Variable = CL											
Sample Period: 2004-2020	**Column [1]**			**Column [2]**			**Column [3]**			**Column [4]**		
Variables	**Coef.**		**z-stat.**	**Coef.**		**z-stat.**	**Coef.**		**z-stat.**	**Coef.**		**z-stat.**
N_CD_CL (β1)	0.034	**	(2.42)				0.046	***	(4.17)			
N_CD_NCL (β2)	-0.029	*	(-1.94)				-0.022	**	(-2.02)			
N_CA_CL (β3)	0.051	***	(3.08)				0.024	*	(1.86)			
N_CA_NCL (β4)	-0.024	***	(-3.94)				-0.014	***	(-3.29)			
P_CD_CL (β1)				0.267	**	(2.49)				0.368	***	(4.15)
P_CD_NCL (β2)				-0.133		(-1.21)				-0.094		(-1.14)
P_CA_CL (β3)				1.013	**	(2.16)				0.574	*	(1.71)
P_CA_NCL (β4)				-0.703	***	(-3.38)				-0.500	***	(-3.35)
Controls	Yes			Yes			Yes			Yes		
Industry and Year FEs	Yes			Yes			Yes			Yes		
F-test of *β1>β2*	9.74***			8.27***			20.73***			17.59***		
F-test of *β3>β4*	12.92***			9.12***			5.67**			6.73***		
Max-rescaled R^2	8.7%			8.7%			9.1%			9.1%		
N	39,833			39,833			39,833			39,833		

Panel E: Excluding firm-years that received SEC comment letters in the past three years

	Dependent Variable = CL					
Sample Period: 2004-2020	**Column [1]**			**Column [2]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
N_CD_CL (β1)	0.031	**	(2.10)			
N_CD_NCL (β2)	-0.015		(-1.14)			
N_CA_CL (β3)	0.019		(1.08)			
N_CA_NCL (β4)	-0.005		(-0.89)			
P_CD_CL (β1)				0.255	**	(2.27)
P_CD_NCL (β2)				-0.049		(-0.50)
P_CA_CL (β3)				0.394		(0.89)
P_CA_NCL (β4)				-0.276	*	(-1.68)
Controls	Yes			Yes		
Industry and Year FEs	Yes			Yes		
F-test of *β1>β2*	5.74**			4.87**		
F-test of *β3>β4*	1.24			1.74		
Max-rescaled R^2	10.3%			10.3%		
N	32,914			32,914		

Panel F: Lagging independent variables of interest by one year

	Dependent Variable = CL							
Sample Period: 2004-2020	**Column [1]**				**Column [2]**			
Variables	**Coef.**		***p*-value**	**t-stat.**	**Coef.**		***p*-value**	**t-stat.**
N_CD_CL$_{t-1}$ (β1)	0.049	***		(5.11)				
N_CD_NCL$_{t-1}$ (β2)	-0.024	***		(-2.67)				
N_CA_CL$_{t-1}$ (β3)	0.023	**		(2.07)				
N_CA_NCL$_{t-1}$ (β4)	-0.011	***		(-2.92)				
P_CD_CL$_{t-1}$ (β1)					0.395	***		(4.99)
P_CD_NCL$_{t-1}$ (β2)					-0.084			(-1.21)
P_CA_CL$_{t-1}$ (β3)					0.485			(1.63)
P_CA_NCL$_{t-1}$ (β4)					-0.504	***		(-4.29)
Controls	Yes				Yes			
Industry and Year FEs	Yes				Yes			
F-test of *β1>β2*	5.74**				4.87**			
F-test of *β3>β4*	1.24				1.74			
Max-rescaled R^2	10.3%				10.3%			
N	32,914				32,914			

Note: This table reports sensitivity checks for equation (1) for the sample period 2004 - 2020. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively. We cluster standard errors by firms and years and winsorize all continuous variables at the 1st and 99th percentiles. All p-values are two-tailed. T-statistics (z-statistics) are in parentheses. The Appendix discusses variable definitions in detail.

TABLE 5
Additional Analyses - Topics of SEC comment letters

Panel A: *Number* of connections with CL firms on a specific topic and number of issues related to the same topic in comment letters received by connected firms

Sample Period: 2004-2020	***Dependent Variable = N_TOPIC***																				
TOPIC	***Core Earnings***			***Non-Core Earnings***			***Classification***			***Fair Value***			***Accounting***			***Risk***			***Other Disclosure Issues***			***Non-GAAP***		
Variables	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.
N_CD_CL_TOPIC	0.033	*	(1.82)	0.081	*	(2.54)	0.028	**	(2.07)	0.039	***	(4.14)	0.119	***	(3.32)	0.026	**	(2.22)	0.053	***	(2.89)	0.041	***	(4.42)
N_CD_CL_OTHER	0.002		(0.19)	0.006		(0.24)	0.018	**	(2.41)	-0.003		(-0.54)	-0.005		(-0.12)	-0.003		(-1.17)	-0.021		(-0.81)	-0.009	**	(-2.56)
N_CD_NCL	-0.017	*	(-1.77)	-0.046	***	(-3.28)	-0.005		(-0.89)	-0.010	***	(-2.58)	-0.065	***	(-2.95)	-0.003		(-1.10)	-0.026	**	(-2.07)	-0.004		(-1.20)
N_CA_CL_TOPIC	0.011		(0.58)	-0.032		(-1.12)	0.039	**	(2.51)	0.017	*	(1.76)	0.043		(1.46)	0.047	***	(3.09)	0.025		(1.57)	0.050	***	(4.54)
N_CA_CL_OTHER	-0.004		(-0.27)	0.073	**	(2.56)	-0.005		(-0.74)	-0.001		(-0.22)	-0.002		(-0.03)	-0.001		(-0.16)	0.002		(0.04)	-0.006		(-1.39)
N_CA_NCL	-0.004		(-1.34)	-0.006	*	(-1.68)	-0.002	*	(-1.69)	-0.003	***	(-2.69)	-0.014	***	(-2.59)	-0.002	***	(-2.76)	-0.010	***	(-3.00)	-0.002	*	(-1.83)
Controls	Yes			Yes			Yes			Yes			Yes			Yes			Yes			Yes		
Industry and Year FEs	Yes			Yes			Yes			Yes			Yes			Yes			Yes			Yes		
Adjusted R^2	5.2%			7.9%			4.7%			5.0%			8.2%			2.4%			9.5%			3.0%		
N	19,606			19,606			19,606			19,606			19,606			19,606			19,606			19,606		

Panel B: *Number* of connections with CL firms on a specific topic and presence of issues related to the same topic in comment letters received by connected firms

Sample Period: 2004-2020	***Dependent Variable = D_TOPIC***																				
TOPIC	***Core Earnings***			***Non-Core Earnings***			***Classification***			***Fair Value***			***Accounting***			***Risk***			***Other Disclosure Issues***			***Non-GAAP***		
Variables	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.
N_CD_CL_TOPIC	0.026		(1.14)	0.040	*	(1.80)	0.003		(0.09)	0.050	*	(1.81)	0.032	*	(1.86)	0.133	*	(1.81)	0.031	**	(1.99)	0.169	***	(4.23)
N_CD_CL_OTHER	-0.007		(-0.39)	0.000		(-0.01)	0.036	*	(1.95)	-0.013		(-0.71)	0.002		(0.10)	-0.045	*	(-1.82)	-0.010		(-0.48)	-0.057	***	(-3.05)
N_CD_NCL	-0.021		(-1.27)	-0.032	**	(-2.10)	-0.027		(-1.39)	-0.037	*	(-1.90)	-0.034	**	(-2.45)	-0.038		(-1.20)	-0.026	**	(-1.98)	-0.026		(-1.24)
N_CA_CL_TOPIC	0.026		(1.10)	0.053	**	(2.26)	0.129	***	(3.38)	0.070	**	(2.14)	0.069	***	(4.42)	0.158	*	(1.83)	0.034	**	(2.55)	0.264	***	(5.98)
N_CA_CL_OTHER	-0.006		(-0.28)	0.006		(0.26)	0.044	*	(1.83)	0.044	*	(1.78)	-0.038		(-1.20)	0.030		(0.91)	0.008		(0.18)	-0.028		(-1.05)
N_CA_NCL	-0.006		(-1.11)	-0.017	***	(-3.24)	-0.031	***	(-3.81)	-0.030	***	(-3.82)	-0.016	***	(-3.23)	-0.027	**	(-2.33)	-0.016	***	(-3.48)	-0.027	***	(-3.01)
Controls	Yes			Yes			Yes			Yes			Yes			Yes			Yes			Yes		
Industry and Year FEs	Yes			Yes			Yes			Yes			Yes			Yes			Yes			Yes		
Max-rescaled R^2	12.1%			17.3%			13.3%			15.1%			15.0%			14.2%			16.1%			10.2%		
N	19,606			19,606			19,606			19,606			19,606			19,606			19,606			19,606		

(continued next page)

TABLE 5 (continued)

Panel C: *Percentage* of connections with CL firms on specific topics and *number* of issues related to the same topic in comment letters received by connected firms

Sample Period: 2004-2020	***Dependent Variable = N_TOPIC***																							
TOPIC	***Core Earnings***			***Non-Core Earnings***			***Classification***			***Fair Value***			***Accounting***			***Risk***			***Other Disclosure Issues***			***Non-GAAP***		
Variables	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.
P_CD_CL_TOPIC	0.201		(1.48)	0.558	**	(2.43)	0.181	*	(1.86)	0.311	***	(4.43)	0.757	***	(2.83)	0.176	**	(1.98)	0.443	***	(3.09)	0.323	***	(4.64)
P_CD_CL_OTHER	0.047		(0.48)	0.097		(0.52)	0.098	*	(1.91)	-0.038		(-1.02)	0.014		(0.04)	-0.011		(-0.55)	-0.167		(-0.84)	-0.052	*	(-1.91)
P_CD_NCL	-0.112		(-1.45)	-0.108		(-1.02)	-0.008		(-0.20)	-0.050		(-1.60)	-0.265		(-1.55)	0.001		(0.06)	-0.031		(-0.30)	0.004		(0.13)
P_CA_CL_TOPIC	0.258		(0.59)	0.122		(0.17)	1.085	***	(2.64)	0.424		(1.49)	1.737	**	(2.15)	1.110	***	(2.88)	0.555		(1.37)	0.820	***	(2.93)
P_CA_CL_OTHER	0.113		(0.31)	0.932		(1.42)	-0.049		(-0.32)	0.100		(0.73)	-0.352		(-0.31)	-0.033		(-0.43)	0.788		(0.62)	0.017		(0.14)
P_CA_NCL	-0.132		(-1.60)	-0.286	**	(-2.27)	-0.080	*	(-1.73)	-0.095	**	(-2.38)	-0.468	**	(-2.40)	-0.081	***	(-3.57)	-0.251	**	(-2.28)	-0.045		(-1.31)
Controls	Yes			Yes			Yes			Yes			Yes			Yes			Yes			Yes		
Industry and Year FEs	Yes			Yes			Yes			Yes			Yes			Yes			Yes			Yes		
Adjusted R^2	5.2%			7.8%			4.7%			5.0%			8.1%			2.4%			9.5%			2.8%		
N	19,606			19,606			19,606			19,606			19,606			19,606			19,606			19,606		

Panel D: *Percentage* of connections with CL firms on a specific topic and *presence* of issues related to the same topic in comment letters received by connected firms

Sample Period: 2004-2020	***Dependent Variable = D_TOPIC***																							
TOPIC	***Core Earnings***			***Non-Core Earnings***			***Classification***			***Fair Value***			***Accounting***			***Risk***			***Other Disclosure Issues***			***Non-GAAP***		
Variables	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.	Coef.		t-stat.
P_CD_CL_TOPIC	0.251		(1.37)	0.341	*	(1.93)	0.125		(0.53)	0.541	**	(2.52)	0.245	*	(1.81)	0.611		(1.14)	0.307	**	(2.41)	1.439	***	(4.65)
P_CD_CL_OTHER	-0.021		(-0.15)	0.030		(0.21)	0.225		(1.54)	-0.240	*	(-1.67)	0.036		(0.24)	-0.225		(-1.12)	-0.129		(-0.77)	-0.365	**	(-2.28)
P_CD_NCL	-0.102		(-0.75)	-0.111		(-0.88)	-0.131		(-0.80)	-0.274	*	(-1.72)	-0.191	*	(-1.66)	-0.092		(-0.35)	-0.130		(-1.20)	-0.057		(-0.32)
P_CA_CL_TOPIC	1.403	**	(2.34)	0.454		(0.81)	2.894	***	(3.24)	1.272		(1.54)	1.798	***	-4.500	4.516	**	-2.200	0.815	**	(2.34)	4.001	***	(3.63)
P_CA_CL_OTHER	0.378		-0.600	0.661		(1.06)	1.078	*	(1.86)	1.386	**	(2.36)	0.335		(0.43)	0.765		(0.99)	1.309		(1.01)	-0.126		(-0.18)
P_CA_NCL	-0.079		(-0.43)	-0.510	***	(-2.87)	-0.722	***	(-2.91)	-0.722	***	(-3.12)	-0.402	**	(-2.55)	-0.948	***	(-2.63)	-0.535	***	(-3.60)	-0.592	**	(-2.24)
Controls	Yes			Yes			Yes			Yes			Yes			Yes			Yes			Yes		
Industry and Year FEs	Yes			Yes			Yes			Yes			Yes			Yes			Yes			Yes		
Max-rescaled R^2	12.1%			17.3%			13.3%			15.1%			15.0%			14.2%			16.2%			9.9%		
N	19,606			19,606			19,606			19,606			19,606			19,606			19,606			19,606		

Note: This table examines whether a firm is more likely to receive comment letters on a specific topic when it shares common directors or auditors with firms that receive comment letters on the same topic. The sample period is 2004 – 2020. *TOPIC* denotes the eight topics examined, including (1) core earnings, (2) non-core earnings, (3) classification, (4) fair value, (5) accounting, (6) risk, (7) other disclosure issues, and (8) non-GAAP issues (Cassell et al. 2013; Gietzmann and Pettinicchio 2014). *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively. We cluster standard errors by firms and years and winsorize all continuous variables at the 1st and 99th percentiles. All *p*-values are two-tailed. T-statistics are in parentheses. The Appendix discusses variable definitions in detail.

TABLE 6
Additional Analyses – Comment letter characteristics

Panel A: Common *directors* and same SEC staff and accounting issues

Sample Period: 2004-2020	***Dependent Variable = P_SAMESTAFF***			***Dependent Variable = P_SAMEACC***		
	Column [1]			**Column [2]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
TREAT_CD	0.126	***	(4.29)	0.056	*	(1.93)
Controls	Yes			Yes		
Industry and Year FEs	Yes			Yes		
Adjusted R^2	20.6%			6.1%		
N	431			431		

Panel B: Common *auditors* and same SEC staff and accounting issues

Sample Period: 2004-2020	***Dependent Variable = P_SAMESTAFF***			***Dependent Variable = P_SAMEACC***		
	Column [1]			**Column [2]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
TREAT_CA	0.032	**	(2.03)	0.031	**	(2.15)
Controls	Yes			Yes		
Industry and Year FEs	Yes			Yes		
Adjusted R^2	11.3%			6.4%		
N	1,646			1,646		

(continued next page)

TABLE 6 (continued)

Panel C: Removal of common *directors* with CL firms

	Dependent Variable = CL											
	Full Sample						***Restricted sample (firms with common directors with CL firms in year t-1)***					
Sample Period: 2004-2020	**Column [1]**		**Column [2]**		**Column [3]**		**Column [4]**		**Column [5]**		**Column [6]**	
Variables	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**
N_CD_CL_QUIT	-0.083 **	(-2.06)					-0.061	(-1.34)				
P_CD_CL_QUIT			-0.103 ***	(-3.85)					-0.092 ***	(-3.19)		
D_CD_CL_QUIT					-0.295 ***	(-4.76)					-0.294 ***	(-4.01)
Controls	Yes		Yes		Yes		Yes		Yes		Yes	
Industry and Year FEs	Yes		Yes		Yes		Yes		Yes		Yes	
Max-rescaled R^2	14.7%		14.7%		14.7%		13.5%		13.6%		13.6%	
N	39,834		39,834		39,834		20,962		20,962		20,962	

Panel D: Removal of common *auditors* with CL firms

	Dependent Variable = CL			
	Full Sample		***Restricted sample (firms with common auditors with CL firms in year t-1)***	
Sample Period: 2004-2020	**Column [1]**		**Column [2]**	
Variables	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**
D_CA_CL_QUIT	-0.425 ***	(-3.81)	-0.421 *	(-1.90)
Controls	Yes		Yes	
Industry and Year FEs	Yes		Yes	
Max-rescaled R^2	14.7%		15.5%	
N	39,834		11,194	

Note: This table reports the results of additional analyses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively. We cluster standard errors by firms and years and winsorize all continuous variables at the 1st and 99th percentiles. All *p*-values are two-tailed. T-statistics are in parentheses. The Appendix discusses variable definitions in detail.

TABLE 7
Additional Analyses - Timing differences of SEC comment letters

Panel A: Univariate results – timing differences for firm pairs with/without common directors/auditors

Time difference for firm pairs *with* common *directors*					Time difference for firm pairs *without* common *directors*					Mean and median difference			
Mean	**Std Dev**	**Q1**	**Median**	**Q3**	**Mean**	**Std Dev**	**Q1**	**Median**	**Q3**	**T test**		**Z test**	
123.7	103.9	43	98	182	136.1	107.9	52	115	199	18.07	***	-19.53	***

Time difference for firm pairs *with* common *auditors*					Time difference for firm pairs *without* common *auditors*					Mean and median difference			
Mean	**Std Dev**	**Q1**	**Median**	**Q3**	**Mean**	**Std Dev**	**Q1**	**Median**	**Q3**	**T test**		**Z test**	
122.6	114.5	39	98	181	134.0	115.6	50	110	191	43.93	***	-56.19	***

Panel B: Multivariate results – whether the SEC targets connected firms through common *directors* with similar accounting issues to those of CL firms more quickly

	Dependent Variable = TIM_DIFF_CD															
Sample Period: 2004-2020	**Column [1]**			**Column [2]**			**Column [3]**			**Column [4]**			**Column [5]**		**Column [6]**	
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**
D_CD_CL_ALL	-0.096	***	(-4.36)													
D_CD_CL_CORE				-0.080	***	(-3.81)										
D_CD_CL_NCORE							-0.080	***	(-3.81)							
D_CD_CL_CLASS										-0.062	**	(-2.05)				
D_CD_CL_FV													-0.036	(-1.31)		
D_CD_CL_ACC															-0.053	** (-2.46)
D_CD_CL_RISK																
D_CD_CL_OTHER																
D_CD_CL_NGAAP																
N_CA_CL	-0.001		(-0.13)	-0.002		(-0.17)	-0.002		(-0.17)	-0.002		(-0.21)	-0.002	(-0.20)	-0.002	(-0.17)
N_CA_NCL	-0.006		(-1.43)	-0.006		(-1.44)	-0.006		(-1.44)	-0.006		(-1.43)	-0.006	-1.42)	-0.006	(-1.41)
P_CA_CL																
P_CA_NCL																
Controls	Yes			Yes			Yes			Yes			Yes		Yes	
Industry and Year FEs	Yes			Yes			Yes			Yes			Yes		Yes	
Adjusted R^2	3.0%			2.9%			2.9%			2.9%			2.8%		2.9%	
N	23,909			23,909			23,909			23,909			23,909		23,909	

(continued next page)

TABLE 7 (continued)

	Column [7]		Column [8]		Column [9]		Column [10]		Column [11]		Column [12]	
Variables	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**
D_CD_CL_ ALL							-0.096 ***	(-4.36)				
D_CD_CL_CORE									-0.079 ***	(-3.80)		
D_CD_CL_NCORE											-0.079 ***	(-3.80)
D_CD_CL_CLASS												
D_CD_CL_FV												
D_CD_CL_ACC												
D_CD_CL_RISK	-0.067	(-0.85)										
D_CD_CL_OTHER			-0.084 ***	(-2.98)								
D_CD_CL_NGAAP					-0.028	(-0.64)						
N_CA_CL	-0.002	(-0.20)	-0.002	(-0.19)	-0.002	(-0.21)						
N_CA_NCL	-0.006	(-1.41)	-0.006	(-1.43)	-0.006	(-1.40)						
P_CA_CL							-0.074	(-0.29)	-0.090	(-0.35)	-0.090	(-0.35)
P_CA_NCL							-0.020	(-0.18)	-0.022	(-0.20)	-0.022	(-0.20)
Controls	Yes		Yes		Yes		Yes		Yes		Yes	
Industry and Year FEs	Yes		Yes		Yes		Yes		Yes		Yes	
Adjusted R^2	2.8%		2.9%		2.8%		2.9%		2.9%		2.9%	
N	23,909		23,909		23,909		23,909		23,909		23,909	

	Column [13]		Column [14]		Column [15]		Column [16]		Column [17]		Column [18]	
Variables	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**
D_CD_CL_ ALL												
D_CD_CL_CORE												
D_CD_CL_NCORE												
D_CD_CL_CLASS	-0.061 **	(-2.01)										
D_CD_CL_FV			-0.034	(-1.27)								
D_CD_CL_ACC					-0.053 **	(-2.46)						
D_CD_CL_RISK							-0.065	(-0.82)				
D_CD_CL_OTHER									-0.084 ***	(-2.97)		
D_CD_CL_NGAAP											-0.029	(-0.64)
N_CA_CL												
N_CA_NCL												
P_CA_CL	-0.110	(-0.43)	-0.102	(-0.40)	-0.087	(-0.34)	-0.105	(-0.41)	-0.097	(-0.38)	-0.108	(-0.42)
P_CA_NCL	-0.020	(-0.18)	-0.019	(-0.17)	-0.019	(-0.17)	-0.019	(-0.17)	-0.017	(-0.15)	-0.018	(-0.16)
Controls	Yes		Yes		Yes		Yes		Yes		Yes	

Industry and Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	2.8%	2.8%	2.9%	2.8%	2.9%	2.8%
N	23,909	23,909	23,909	23,909	23,909	23,909

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Panel C: Multivariate results – whether the SEC targets connected firms through common *auditors* with similar accounting issues to those of CL firms more quickly

	Dependent Variable = TIME_DIFF_CA																	
Sample Period: 2004-2020	**Column [1]**			**Column [2]**			**Column [3]**			**Column [4]**			**Column [5]**			**Column [6]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
N_CD_CL	-0.036	***	(-3.20)	-0.036	***	(-3.19)	-0.034	***	(-3.03)	-0.036	***	(-3.20)	-0.036	***	(-3.21)	-0.036	***	(-3.23)
N_CD_NCL	-0.008		(-0.72)	-0.008		(-0.74)	-0.008		(-0.67)	-0.008		(-0.70)	-0.009		(-0.81)	-0.009		(-0.81)
P_CD_CL																		
P_CD_NCL																		
D_CA_CL_ALL	-0.020		(-0.46)															
D_CA_CL_CORE				-0.041		(-1.53)												
D_CA_CL_NCORE							-0.155	***	(-5.41)									
D_CA_CL_CLASS										-0.022		(-0.72)						
D_CA_CL_FV													-0.081	***	(-2.75)			
D_CA_CL_ACC																-0.121	***	(-4.14)
D_CA_CL_RISK																		
D_CACL_OTHER																		
D_CACL_NGAAP																		
Controls	Yes			Yes			Yes			Yes			Yes			Yes		
Industry and Year FEs	Yes			Yes			Yes			Yes			Yes			Yes		
Adjusted R^2	5.0%			5.0%			5.4%			5.0%			5.1%			5.2%		
N	8,785			8,785			8,785			8,785			8,785			8,785		

	Column [7]			**Column [8]**			**Column [9]**			**Column [10]**			**Column [11]**			**Column [12]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
N_CD_CL	-0.036	***	(-3.23)	-0.036	***	(-3.24)	-0.036	***	(-3.23)									
N_CD_NCL	-0.008		(-0.74)	-0.008		(-0.72)	-0.008		(-0.70)									
P_CD_CL																		
P_CD_NCL																		
P_CD_CL										-0.416	***	(-4.63)	-0.415	***	(-4.61)	-0.404	***	(-4.50)
P_CD_NCL										-0.148	*	(-1.67)	-0.149	*	(-1.69)	-0.146	*	(-1.65)
D_CA_CL_ALL										-0.019		(-0.44)						
D_CA_CL_CORE													-0.040		(-1.50)			
D_CA_CL_NCORE																-0.155	***	(-5.43)

D_CA_CL_CLASS																
D_CA_CL_FV																
D_CA_CL_ACC																
D_CA_CL_RISK	-0.106	***	(-2.76)													
D_CA_CL_OTHER				-0.124	***	-4.11)										
D_CA_CL_NGAAP							-0.070	**	(-2.31)							
Controls		Yes			Yes			Yes			Yes			Yes		
Industry and Year FEs		Yes			Yes			Yes			Yes			Yes		
Adjusted R^2		5.1%			5.2%			5.0%			5.1%			5.2%		
N		8,785			8,785			8,785			8,785			8,785		

	Column [13]			**Column [14]**			**Column [15]**			**Column [16]**			**Column [17]**			**Column [18]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
N_CD_CL																		
N_CD_NCL																		
P_CD_CL	-0.416	***	(-4.63)	-0.418	***	(-4.66)	-0.418	***	(-4.64)	-0.415	***	(-4.62)	-0.419	***	(-4.66)	-0.419	***	(-4.67)
P_CD_NCL	-0.146	*	(-1.65)	-0.157	*	(-1.77)	-0.156	*	(-1.76)	-0.147	*	(-1.67)	-0.149	*	(-1.69)	-0.147	*	(-1.66)
D_CA_CL_ALL																		
D_CA_CL_CORE																		
D_CA_CL_NCORE																		
D_CA_CL_CLASS	-0.021		(-0.71)															
D_CA_CL_FV				-0.083	***	(-2.80)												
D_CA_CL_ACC							-0.121	***	(-4.15)									
D_CA_CL_RISK										-0.103	***	(-2.68)						
D_CA_CL_OTHER													-0.124	***	(-4.13)			
D_CA_CL_NGAAP																-0.072	**	(-2.36)
Controls		Yes			Yes			Yes			Yes			Yes			Yes	
Industry and Year FEs		Yes			Yes			Yes			Yes			Yes			Yes	
Adjusted R^2		5.1%			5.2%			5.3%			5.2%			5.3%			5.2%	
N		8,785			8,785			8,785			8,785			8,785			8,785	

Note: This table reports the results of additional analyses on time difference of SEC comment letters. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively. We cluster standard errors by firms and years and winsorize all continuous variables at the 1st and 99th percentiles. All *p*-values are two-tailed. T-statistics are in parentheses. The Appendix discusses variable definitions in detail.

TABLE 8
Director characteristics

Panel A: Audit committee membership

	Dependent Variable = CL					
Sample Period: 2004-2020	**Column [1]**			**Column [2]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
N_ACD_CL (β1)	0.038	**	(2.40)			
N_NACD_CL (β2)	0.053	***	(3.60)			
N_ACD_NCL (β3)	-0.037	***	(-3.12)			
N_NACD_NCL (β4)	-0.006		(-0.49)			
N_CA_CL	0.037	***	(3.28)			
N_CA_NCL	-0.016	***	(-3.98)			
P_ACD_CL (β1)				0.246	**	(2.15)
P_NACD_CL (β2)				0.539	***	(4.27)
P_ACD_NCL (β3)				-0.147	*	(-1.78)
P_NACD_NCL (β4)				0.035		(0.34)
P_CA_CL				0.818	***	(2.82)
P_CA_NCL				-0.541	***	(-4.67)
Controls	Yes			Yes		
Industry and Year FEs	Yes			Yes		
F-test of *β1>β2*	0.47			2.94*		
F-test of *β3>β4*	3.56*			2.38		
Max-rescaled R^2	14.8%			14.8%		
N	39,834			39,834		

Panel B: Director independence

	Dependent Variable = CL					
Sample Period: 2004-2020	**Column [1]**			**Column [2]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
N_INDCD_CL (β1)	0.050	***	(3.61)			
N_NINDCD_CL (β2)	0.087	*	(1.91)			
N_INDCD_NCL (β3)	-0.024	***	(-2.67)			
N_NINDCD_NCL (β4)	0.007		(0.33)			
N_CA_CL	0.037	***	(3.29)			
N_CA_NCL	-0.016	***	(-3.97)			
P_INDCD_CL (β1)				0.336	***	(3.16)
P_NINDCD_CL (β2)				0.942	***	(2.65)
P_INDCD_NCL (β3)				-0.080		(-1.14)
P_NINDCD_NCL (β4)				0.070		(0.45)
P_CA_CL				0.821	***	(2.83)
P_CA_NCL				-0.538	***	(-4.65)
Controls	Yes			Yes		
Industry and Year FEs	Yes			Yes		
F-test of *β1>β2*	0.57			2.65		
F-test of *β3>β4*	2.72*			1.14		
Max-rescaled R^2	14.8%			14.8%		
N	39,834			39,834		

(continued next page)

TABLE 8 (continued)

Panel C: Director tenure

	Dependent Variable = CL					
Sample Period: 2004-2020	**Column [1]**			**Column [2]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
N_SCD_CL (β1)	0.050	**	(2.13)			
N_LCD_CL (β2)	0.034	***	(3.20)			
N_SCD_NCL (β3)	-0.013		(-0.80)			
N_LCD_NCL (β4)	-0.021	**	(-2.15)			
N_CA_CL	0.037	***	(3.27)			
N_CA_NCL	-0.016	***	(-4.03)			
P_SCD_CL (β1)				0.396	**	(2.16)
P_LCD_CL (β2)				0.268	***	(3.14)
P_SCD_NCL (β3)				0.030		(0.24)
P_LCD_NCL (β4)				-0.079		(-1.03)
P_CA_CL				0.811	***	(2.80)
P_CA_NCL				-0.544	***	(-4.70)
Controls	Yes			Yes		
Industry and Year FEs	Yes			Yes		
F-test of *β1>β2*	0.40			0.42		
F-test of *β3>β4*	0.18			0.66		
Max-rescaled R^2	14.8%			14.8%		
N	39,834			39,834		

Panel D: Director power

	Dependent Variable = CL					
Sample Period: 2004-2020	**Column [1]**			**Column [2]**		
Variables	**Coef.**		**t-stat.**	**Coef.**		**t-stat.**
N_PCD_CL (β1)	0.040	***	(3.78)			
N_NPCD_CL (β2)	0.031	**	(2.57)			
N_PCD_NCL (β3)	-0.026	***	(-2.62)			
N_NPCD_NCL (β4)	-0.014		(-1.29)			
N_CA_CL	0.037	***	(3.27)			
N_CA_NCL	-0.016	***	(-4.03)			
P_PCD_CL (β1)				0.282	***	(3.31)
P_NPCD_CL (β2)				0.292	***	(2.79)
P_PCD_NCL (β3)				-0.113		(-1.50)
P_NPCD_NCL (β4)				0.023		(0.24)
P_CA_CL				0.811	***	(2.80)
P_CA_NCL				-0.542	***	(-4.69)
Controls	Yes			Yes		
Industry and Year FEs	Yes			Yes		
F-test of *β1>β2*	0.58			0.01		
F-test of *β3>β4*	1.16			2.14		
Max-rescaled R^2	14.8%			14.8%		
N	39,834			39,834		

Note: This table reports the results of additional tests. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively. We cluster standard errors by firms and years and winsorize all continuous variables at the 1st and 99th percentiles. All *p*-values are two-tailed. T-statistics are in parentheses. The Appendix discusses variable definitions in detail.

TABLE 9
Auditor characteristics and institutional ownership

Panel A: Big 4 auditors

Group	Big 4			Non-Big 4			Difference	
Variable	Coef.		t-stat.	Coef.		t-stat.		
Dependent Variable = *CL* (N =29,783 versus N =10,051)								
N_CD_CL	0.041	***	(4.11)	0.019		(0.57)	0.02	
N_CD_NCL	-0.022	**	(-2.31)	0.008		(0.29)	-0.03	
N_CA_CL	0.039	***	(3.34)	-0.022		(-0.44)	0.06	
N_CA_NCL	-0.017	***	(-4.18)	0.000		(-0.01)	-0.02	
Dependent Variable = *CL* (N =29,783 versus N =10,051)								
P_CD_CL	0.296	***	(3.48)	0.240		(1.21)	0.06	
P_CD_NCL	-0.129		(-1.64)	0.175		(1.10)	-0.30	**
P_CA_CL	0.895	***	(2.72)	0.279		(0.44)	0.62	
P_CA_NCL	-0.672	***	(-4.95)	-0.118		(-0.52)	-0.55	**
Controls, year FE, and industry FE are included.								

Panel B: Auditor industry specialization

Group	Industry Specialist			Non-Industry Specialist			Difference	
Variable	Coef.		t-stat.	Coef.		t-stat.		
Dependent Variable = *CL* (N =3,320 versus N =36,029)								
N_CD_CL	0.038		(0.63)	0.041	***	(4.20)	0.00	
N_CD_NCL	-0.089	*	(-1.79)	-0.017	*	(-1.87)	-0.07	*
N_CA_CL	0.017		(0.23)	0.037	***	(3.28)	-0.02	
N_CA_NCL	0.010		(0.55)	-0.017	***	(-4.27)	0.03	*
Dependent Variable = *CL* (N =3,320 versus N =36,029)								
P_CD_CL	0.499		(1.39)	0.309	***	(3.87)	0.19	
P_CD_NCL	-0.233		(-0.81)	-0.051		(-0.7)	-0.18	
P_CA_CL	0.554		(0.59)	0.789	***	(2.57)	-0.23	
P_CA_NCL	0.049		(0.15)	-0.626	***	(-5.01)	0.67	**
Controls, year FE, and industry FE are included.								

Panel C: Auditor tenure

Group	>=Median			<Median			Difference	
Variable	Coef.		t-stat.	Coef.		t-stat.		
Dependent Variable = *CL* (N =19,948 versus N =19,886)								
N_CD_CL	0.034	***	(2.74)	0.042	***	(2.80)	-0.01	
N_CD_NCL	-0.012		(-1.00)	-0.034	**	(-2.50)	0.02	
N_CA_CL	0.047	***	(3.10)	0.024		(1.44)	0.02	
N_CA_NCL	-0.021	***	(-3.87)	-0.010	*	(-1.84)	-0.01	*
Dependent Variable = *CL* (N =19,948 versus N =19,886)								
P_CD_CL	0.268	**	(2.46)	0.321	***	(2.89)	-0.05	
P_CD_NCL	-0.020		(-0.20)	-0.139		(-1.41)	0.12	
P_CA_CL	1.008	**	(2.52)	0.650		(1.53)	0.36	
P_CA_NCL	-0.726	***	(-4.34)	-0.364	**	(-2.26)	-0.36	*
Controls, year FE, and industry FE are included.								

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TABLE 9 (continued)

Panel D: Auditor changes

Group	Continuing Engagements			Initial Engagements			Difference	
Variable	Coef.		t-stat.	Coef.		t-stat.		
Dependent Variable = *CL* (N =33,337 versus N =6,497)								
N_CD_CL	0.041	***	(4.07)	0.016		(0.57)	0.02	
N_CD_NCL	-0.021	**	(-2.16)	-0.019		(-0.72)	0.00	
N_CA_CL	0.043	***	(3.61)	-0.016		(-0.48)	0.06	***
N_CA_NCL	-0.018	***	(-4.23)	0.000		(-0.02)	-0.02	***
Dependent Variable = *CL* (N =33,337 versus N =6,497)								
P_CD_CL	0.329	***	(3.93)	0.131		(0.62)	0.20	*
P_CD_NCL	-0.071		(-0.92)	-0.011		(-0.06)	-0.06	
P_CA_CL	0.798	**	(2.53)	0.695		(0.92)	0.10	
P_CA_NCL	-0.524	***	(-4.15)	-0.608	**	(-2.05)	0.08	
Controls, year FE, and industry FE are included.								

Panel E: Institutional ownership

Group	>=Median			<Median			Difference	
Variable	Coef.		t-stat.	Coef.		t-stat.		
Dependent Variable = *CL* (N =15,127 versus N =15,127)								
N_CD_CL	0.011		(0.74)	0.054	***	(3.37)	-0.04	**
N_CD_NCL	0.007		(0.49)	-0.030	**	(-2.05)	0.04	**
N_CA_CL	0.012		(0.71)	0.032		(1.60)	-0.02	
N_CA_NCL	-0.013	**	(-2.38)	-0.020	***	(-2.7)	0.01	
Dependent Variable = *CL* (N =15,127 versus N =15,127)								
P_CD_CL	0.060		(0.48)	0.421	***	(3.24)	-0.36	**
P_CD_NCL	0.048		(0.43)	-0.121		(-1.03)	0.17	
P_CA_CL	-0.096		(-0.21)	1.016	**	(2.11)	-1.11	**
P_CA_NCL	-0.374	**	(-1.96)	-0.710	***	(-3.71)	0.34	
Controls, year FE, and industry FE are included.								

Note: This table reports the results of cross-sectional analyses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively. We cluster standard errors by firms and years and winsorize all continuous variables at the 1st and 99th percentiles. All *p*-values are two-tailed. T-statistics are in parentheses. The Appendix discusses variable definitions in detail.

TABLE 10
Restating filings

Sample Period: 2004-2020	**Dependent Variable = *RES_10K***				**Dependent Variable = *RES***			
	Column [1]		**Column [2]**		**Column [3]**		**Column [4]**	
Variables	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**	**Coef.**	**t-stat.**
N_CD_CL	0.077 ***	(3.90)			-0.003	(-0.22)		
N_CD_NCL	-0.052 ***	(-2.67)			-0.042 ***	(-3.83)		
N_CA_CL	0.021	(0.83)			0.046 ***	(3.30)		
N_CA_NCL	-0.019 **	(-2.07)			-0.023 ***	(-4.74)		
P_CD_CL			0.623 ***	(3.74)			0.130	(1.34)
P_CD_NCL			-0.295 *	(-1.91)			-0.207 **	(-2.46)
P_CA_CL			1.024	(1.58)			0.736 **	(2.05)
P_CA_NCL			-0.536 **	(-2.05)			-0.392 ***	(-2.86)
Controls	Yes		Yes		Yes		Yes	
Industry and Year FEs	Yes		Yes		Yes		Yes	
Max-rescaled R^2	7.3%		7.2%		11.6%		11.6%	
N	39,834		39,834		39,834		39,834	

Note: This table reports the regression results of the association between board interlocks, common auditors and the likelihood of restating 10-K filings. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively. We cluster standard errors by firms and years and winsorize all continuous variables at the 1st and 99th percentiles. All *p*-values are two-tailed. T-statistics are in parentheses. The Appendix discusses variable definitions in detail.