

**Caught with their pants down:
How do regulators respond to scandalous reputation shocks?**

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Abstract

We examine the investigative intensity of SEC regional offices in the aftermath of a professionalism scandal where dozens of SEC employees were sanctioned for repeatedly accessing internet pornography on work devices. We find that when the scandal was made public, the offices implicated in the scandal ramped up investigative intensity, perhaps to repair their reputation. We similarly observe that the SEC headquarters office also instigated more investigations after the scandal was publicized, but only in regions where offices were implicated in the scandal, in line with increased oversight and less confidence in scandal-implicated regional offices. These spikes in investigative intensity were short-lived, but scandal-implicated offices also handed down more AAERs in the scandal's aftermath, which suggests that the reputation repair efforts of scandal-implicated regional offices were not just window dressing, but actually led to significant increases in enforcement activities.

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1. Introduction

A sizable literature in accounting and finance examines the importance of reputation in financial markets. For example, after accounting frauds, firms tend to lose investors, lenders, and customers on the basis of reputation concerns (Alexander 1999; Chava, Huang, and Johnson 2018; Cianci, Clor-Proell, and Kaplan 2019; Huang and Kim 2023; Johnson, Xie, and Yi 2014). These losses are considerable, as sometimes more than half of the negative abnormal returns that accompany fraud revelation is tied to reputational penalties (e.g., Armour, Mayer, and Polo 2017; Beneish 1999; Karpoff, Lee, and Martin 2008; Karpoff and Lott 1993). Firms understandably try to repair their reputations after these events, often by improving internal controls and strengthening governance protections (Chakravarthy, deHaan, and Rajgopal 2014; Cianci et al. 2019; Farber 2005).

Similarly, executives' reputations take a hit during accounting frauds, which often leads to their replacement (Fich and Shivdasani 2007). Like firms, executives also try to repair their reputation, by joining the boards of nonprofit organizations, for example (Lungeanu, Paruchuri, and Tsai 2018). Beyond firms and executives, the broad literature on reputation in financial markets also highlights the importance of reputation for analysts (Lee and Lo 2016), venture capitalists (Tian, Udell, and Yu 2016), auditors (Barton 2005; Chen, Chen, Han, and Yuan 2022; Skinner and Srinivasan 2012; Weber, Willenborg, and Zhang 2008), and board members (e.g., Srinivasan 2005; Fich and Shivdasani 2007; Gao, Kim, Tsang, and Wu 2017). This literature is silent, however, on the whether the reputation of financial regulatory agencies has meaningful effects. This knowledge gap is perhaps understandable, given that data restrictions largely preclude identifiable variation in regulator reputation.

We investigate this open question by exploiting a setting with sharp and significant within-regulator changes in reputation at the regional office level, and in doing so we examine whether, like firms and executives, embarrassed regulators try to recover in ways that can have important consequences. Our setting involves a 2010-2011 scandal at the Securities and Exchange Commission (SEC), wherein dozens of employees across six (of 11) SEC regional offices were identified as regularly accessing internet pornography on their workplace computers (Grocer 2010; Vuong 2011). While this behavior would be a troubling display of unprofessionalism within any regulatory agency, this was an especially significant event for the SEC, which emphasizes ethical staff behavior and states that its employees should “maintain unusually high standards of honesty, integrity, impartiality, and conduct” (SEC 2010).¹ Unsurprisingly, the scandal was widely covered in the press, and it resulted in very public condemnation from several members of Congress who made sensational claims about the SEC being more concerned with internet pornography than staving off the 2008 financial meltdown (Hiltzik 2010). *The Atlantic* went as far as publishing an article titled “Did Porn Cause the Financial Crisis?” (Indiviglio 2010).

This scandal was uncovered by the SEC’s Office of Inspector General (OIG), which conducted an internal investigation into these matters that led to a March 2010 memo (Wagner 2010).² The original press coverage of the scandal over the next few months, while widespread, did not specify many details on the offending employees or the regional offices involved. A lawsuit demanding further public disclosure of the scandal followed, and in March 2011 a judge

¹ We do not make claims about the ethical implications of viewing pornography, which is a broader and widely debated topic (e.g., Macleod 2021; Mecham, Lewis-Western, and Wood 2021; Rose 2013). Instead, we suggest that SEC employees viewing porn at work is certainly unprofessional, and that, ethics aside, this unprofessionalism is potentially enough to impair the reputation of and shake the SEC leadership’s faith in the implicated offices.

² The *Washington Post* made a summary of the OIG memo public (SEC OIG 2010). See <https://www.washingtonpost.com/wp-srv/politics/documents/SECPornSummary.pdf>.

subsequently ordered that the SEC release the offenders' offices, but not names. The SEC then disclosed that the offending employees, who were sanctioned or fired, worked out of the SEC regional offices in Atlanta, Boston, Chicago, Denver, Fort Worth, and Los Angeles (in addition to the SEC headquarters in Washington, DC).

We design our tests to exploit these two event dates, with a focus on identifying potential changes in the investigative intensity of the six SEC regional offices that were named in the March 2011 release (relative to the offices that were not implicated in the scandal). We do not have a strong directional prediction about the response of these offices, which are charged with policing the firms in their defined regions. First, it is possible that, given the professionalism, organizational structure, and incentives of SEC offices, office-level investigative intensity is unaffected by the scandal. The largest estimate of SEC employees implicated in the scandal is only 33, which in an agency with a workforce of about 4,000 is perhaps easy to dismiss as a problem of a few bad apples (SEC 2009). If this scandal is easy to dismiss or not meaningful enough to change the SEC's investigation incentives or priorities, then we would expect to see no change in investigative intensity for the scandal-implicated offices following the scandal's revelation.

However, given the media and political attention paid to the scandal (and the relative seniority of many of the implicated employees) (Vuong 2011), it is possible that the affected SEC offices perceived reputational damage that they attempted to mitigate through changes in investigative intensity. One possibility is that the named offices could have viewed the scandal as lessening their political capital, which subsequently could have spurred the scandalized offices to cut back on their investigative intensity, with an eye towards avoiding future embarrassment

from pursuing marginal cases.³ Such a reaction would be similar to the way auditors, trial judges, and central bankers become more conservative when reputation concerns are high and avoiding a misstep is particularly important (e.g., Cohen, Klement, and Neeman 2015; Guo, Kubick, and Masli 2018; Hansen, McMahon, and Prat 2018). Conversely, perhaps the regional offices implicated in the scandal ramp up their investigations, with the goal of redeeming their reputation by delivering high performance, or at least giving the impression of delivering high performance (similar to how firms and executives try to rehabilitate themselves after major accounting restatements by becoming more trustworthy) (e.g., Chakravarthy, deHaan, and Rajgopal 2014; Fich and Shivdasani 2007).

We test these conflicting predictions in an event study setting, where we model the number of new investigations started by each SEC regional office per quarter using SEC investigations data from a Freedom of Information Act (FOIA) request made by Blackburne, Kepler, Quinn, and Taylor (2021). We utilize a difference-in-differences design with two-way fixed effects (for regional office and quarter), which allows us to cleanly isolate the effects of the scandal events on SEC investigations at the office level. If the offices implicated in the scandal become more conservative in an effort to avoid further embarrassment, then we will likely observe that they initiate relatively fewer new investigations following the scandal. On the contrary, the offices impacted by the scandal may ramp up new investigations in an attempt to rehabilitate their reputation through high performance (or by engaging in window dressing that is perhaps perceived as high performance).

³ This reaction would be consistent with psychological research on shame, which shows that entities that experience public shame actively avoid the prospect of future shame (e.g., Sznycer et al. 2016). For the SEC, even if there is some cost to foregoing investigations, the incentives to avoid future shame may outweigh any incentives to not forego cases because foregoing a given case is unlikely to lead to public shame given the confidential nature of the investigation process.

We find that this latter effect dominates. After the SEC OIG completed its internal investigation (in 2010) and after the public disclosure of the scandal-implicated offices (in 2011), the offices implicated in the scandal initiate almost double the number of new investigations into nearby public firms in the quarters following the scandal's disclosure. At the mean and median, this suggests that instead of starting two new investigations per quarter, the typical regional office implicated in the scandal initiates four new investigations in the quarters immediately following the scandal becoming public. Note that since our data only involves investigations into public companies, this surge in investigative intensity likely represents the lower-bound of the true effect size (i.e., we cannot observe how the intensity of investigations into other entities changed around the scandal).

Beyond regional office-led investigations, the SEC headquarters office in Washington, DC sometimes initiates and heads investigations into firms that would otherwise fall under the purview of a regional office. We see that these headquarters office-led investigations also ramp up immediately following the scandal quarters, but only for firms located in the jurisdictions of the offices implicated in the scandal. This is suggestive of the scandal, and the associated media attention, weakening the trust that SEC leadership has in the implicated regional offices, which leads to higher levels of headquarters office oversight for the firms in the affected regions.

We find that both of these spikes in investigative intensity are short-lived.⁴ Specifically, the relative increases in public company scrutiny are limited to the quarter immediately following both events. This short-lived change in regulatory scrutiny could suggest that the SEC

⁴ We note that our primary result is unlikely to be explained by improvements in SEC personnel quality because the SEC did not fire any of the implicated employees (Vuong 2011). Further, it is unlikely that the result is attributable to increases in productivity by the implicated staffers because (1) only 33 employees (or less than one percent of the SEC) were part of the scandal, and (2) the effects we observe were short-lived. Although we acknowledge that we cannot fully rule out these alternative explanations, the observed increase in headquarters office-led investigations in these regions cannot be attributable to potential changes for regional office staffers because different SEC employees work within the SEC's headquarters office.

offices implicated in the scandal engaged in window dressing via short-run surges in enforcement to repair their reputation. To shed light on this possibility, we examine whether the incidence of SEC enforcement actions (i.e., Accounting and Auditing Enforcement Releases (AAERs)) changes following the two scandal events. Only the most egregious and serious investigations lead to AAERs, so if the SEC's response to the porn scandal was merely superficial, it is unlikely that this increase in investigations coincides with more enforcement actions. However, we find that in the quarter of the scandal being disclosed and in the quarter following the disclosure of the implicated offices, these offices hand down more AAERs than expected, which we view as inconsistent with the SEC's response being window dressing (though the surge on the first date is only marginally significant).

Overall, our findings point to reputation-impairing scandals spurring securities regulators to work harder, likely in an attempt to redeem their reputations. Our pattern of results suggests that the scandal-implicated offices are concerned about reputational penalties from scrutiny from both SEC leadership and the public, given that implicated offices ramp up investigations both when only SEC leadership (and Congress) knew which offices were implicated (Q2 2010) and later in Q2 2011 when the implicated offices became publicly known (which occurred *well after* SEC leadership was made aware of the scandal and sanctioned the employees involved).⁵

Our evidence of such a reaction by the SEC has important implications for regulators and capital market participants, especially those who criticize the SEC's (perceived lack of) response to its staffers' misconduct (Brian 2011). The speed of this response is also notable, as financial commentators often complain about the SEC's sluggishness (e.g., by describing the regulator as

⁵ That is, in Q2 2011, all that happens is *public* disclosure of which offices were involved in a scandal that had been well known for a year. That the implicated offices ramped up investigations after this date suggests that SEC enforcement staff is sensitive to public scrutiny, given that SEC leadership was well aware of the scandal for a year (or more) and had already punished the offenders (by Q2 2011).

a “slow bureaucracy,” see Chon 2021). Our findings, by contrast, suggest that reputational concerns for securities regulators can spur changes in investigative and enforcement activity that have almost immediate consequences.

Additionally, our results contribute to the academic literature in several dimensions. We are the first study (to our knowledge) to examine the regulatory implications of the SEC’s porn scandal. Consequently, our findings relate to a new vein of finance research which highlights the fallout of firm-level sex scandals (e.g., Borelli-Kjaer, Moehl Schack, and Nielsson 2021; Cline, Walkling, and Yore 2018). We add to this literature by documenting that sex-related scandals in regulators’ offices similarly lead to meaningful changes to regulatory outcomes. Second, to the broader literature on trust and reputation repair in financial markets (e.g., Chakravarthy, deHaan, and Rajgopal 2014; Cianci, Clor-Proell, and Kaplan 2019), we add perhaps the first empirical evidence that financial regulators are subject to (and respond to) the same pressures that impact individuals and private sector organizations (in being sensitive to scandal and engaging in reputation repair post-scandal). Both of these extensions are relatively straightforward steps in the associated literatures, but are perhaps notable given the lack of evidence on this particular scandal and on the impacts of regulators’ office-level reputation shocks on regulatory outcomes that can be quite meaningful for targeted firms (e.g., Blackburne and Quinn 2023; Karpoff et al. 2008).

More broadly, our evidence that personal scandals impact regulatory outcomes adds to the literature revealing systematic differences in regulatory enforcement, which generally focuses on differences in institutional design (e.g., Agarwal, Lucca, Seru, and Trebbi 2014; Duro, Heese, and Ormazabal 2019; Jackson and Roe 2009; Kedia and Rajgopal 2011; Kleymenova and Tomy 2022; Silvers 2020). By doing so, we also contribute to the relatively

new but growing literature focusing on the determinants and consequences of SEC investigations (Blackburne and Quinn 2023; Blackburne, Bozanic, Johnson, and Roulstone 2020; Blackburne, Kepler, Quinn, and Taylor 2021; Holzman, Marshall, and Schmidt 2022).

We believe our results also have policy implications, especially relating to the SEC's goal of supporting capital formation. A long literature in international economics and finance documents that consistent, predictable regulatory enforcement is a key driver of economic development, as arbitrariness in the regulatory environment injects uncertainty that discourages investment (e.g., Baker and Raskolnikov 2017; Campos, Lien, and Pradhan 1999; Christensen, Hail, and Leuz 2016; Fabrizio 2013; Mahoney 2009; Wei 1997).⁶ Our results indicate that professionalism scandals at the SEC can lead to reputation-repair efforts that spur potentially arbitrary spikes in enforcement intensity, which this literature suggests can have far-reaching consequences that hinder economic growth. Accordingly, our findings (1) highlight the importance of regulators maintaining high standards of professionalism, and accordingly suggest that (2) practices that help regulators avoid ethically tinged scandals, like ethics codes and ethics training, may be more than superficial policies, but could actually play a role in boosting regulators' institutional quality and, subsequently, economic development. Finally, given the occurrence of similar scandals at other regulators, such as the recent sexual harassment scandal at the FDIC (e.g., Ballhaus 2023; Thaler 2023), our study could inform market participants concerned with these entities.

2. Institutional details

We investigate whether and how the SEC responded to the scandal that followed the discovery that a handful of SEC staffers regularly spent time watching internet pornography

⁶ The SEC understands the importance of and aims to provide regulatory consistency, as evidenced by remarks from SEC Commissioners (Piwowar 2014, 2015). See Baugh, Kim, and Lee (2022) for a related discussion.

during work hours on SEC computers. We expect that this discovery may have tainted the regulator's reputation with both the public and U.S. Congress, and that any potential response by SEC staffers could have meaningful consequences to U.S. firms and investors, given the risks and expense of being subject to an SEC investigation. In this section, we describe the SEC's enforcement processes, the related academic literature, and the focal scandal.

The SEC is an independent federal agency charged with, among other tasks, regulating U.S. public securities. In doing so, the SEC's mission is to "protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation" (SEC OIG 2023). The SEC's Division of Enforcement (DoE) is the agency's largest and most visible division, and it focuses on investigating and prosecuting potential securities violations (SEC OIG 2023). The following steps occur in a typical SEC investigation.⁷ First, the SEC receives a lead, which can originate from whistleblowers, other regulatory agencies, other SEC divisions/offices, or other sources. After a relatively brief assessment, the SEC's DoE staffers then decide whether a lead should progress to become a matter under inquiry. A matter under inquiry can be opened with somewhat limited evidence of violations, but DoE staffers spend up to two months evaluating a case more thoroughly before deciding whether to convert a matter under inquiry into an investigation. If there is sufficient evidence, the DoE opens an investigation. Investigations are much more thorough than assessments of matters under inquiry and often take several years to complete. At the conclusion of an investigation, DoE staffers produce a memorandum that describes the facts and legal arguments around the violation at hand, which usually involves input from the accused entity, and then recommends a course of action to the SEC Commissioners. The SEC Commissioners largely follow the DoE recommendations and either drop the case or bring an

⁷ This discussion is informed by the SEC's Enforcement Manual (SEC 2017) and related literature (e.g., Blackburne and Quinn 2023; Blackburne et al. 2020; Blackburne et al. 2021; Holzman et al. 2022).

enforcement action, which could involve agreeing to a proposed settlement (arrived at in consultation with the entity under investigation) or bringing criminal or civil charges in federal or administrative court.⁸

The DoE conducts approximately three-quarters of its investigations from its 11 regional offices in Atlanta, Boston, Chicago, Denver, Fort Worth, Los Angeles, Miami, New York, Philadelphia, Salt Lake City, and San Francisco (Blackburne et al. 2021). Prior research suggests that office-level characteristics of these offices can impact enforcement outcomes. Kedia and Rajgopal (2011), for example, find that the SEC is more likely to issue enforcement actions against firms that are headquartered relatively close to an SEC regional office and that these firms are less likely to restate their financial statements, consistent with the regulator prioritizing less costly enforcement activities and impacting public company behavior. Relatedly, Defond, Francis, and Hallman (2018) document that auditors located near SEC offices issue more going concern opinions, reinforcing the impacts of regional office location on entities overseen by the SEC. More recently, two studies highlight the impact of SEC regional offices on the SEC's investigations using the confidential investigations data from Blackburne et al. (2021) that we also exploit.⁹ Bonsall, Holzman, and Miller (2023) establish that busy SEC regional offices (i.e., offices with abnormally high case backlog) are less likely to initiate new investigations, and Blann (2023) finds that SEC regional offices led by regional directors with financial experience open more new investigations.

The SEC's Office of Inspector General (OIG) is an independent office within the SEC charged with "conducting independent and objective audits, evaluations, and other reviews of

⁸ We focus on investigations and enforcement actions because data on leads and inquiries are not publicly available.

⁹ Historically, data on SEC investigations has been confidential, but Blackburne et al. (2021) obtained the data for academic purposes with FOIA requests. We use these data in our analyses.

SEC programs and operations” (SEC OIG 2023). In 2008, the OIG began an investigation into SEC employees misusing government computers to view explicit videos and images in response to a request from Senator Charles Grassley, leading to a final memo on March 8, 2010 (Wagner 2010). The memo summarized that the OIG investigation uncovered evidence of 33 SEC employees regularly accessing pornographic images via SEC computers during official work hours. Among these individuals, over half of them were relatively senior SEC employees (i.e., making approximately \$100,000 or more). The memo outlined several egregious violations. For instance, one regional office staff accountant “received over 16,000 access denials for Internet websites classified by the Commission’s internet filter as either ‘Sex’ or ‘Pornography’ in a one-month period.” Additionally, “the hard drive of this employee’s SEC laptop contained numerous sexually suggestive and inappropriate images” (SEC OIG 2010).

We posit that this scandal may have been a salient shock to the SEC’s reputation. The reactions from Congress and the media support this conjecture. Senator Grassley, whose request launched the OIG investigation, condemned the employees’ actions as “unethical” and “in [his] opinion immoral.” He further stated that such acts should not be done on “taxpayers’ time.” U.S. Representative Darrell Issa, then the ranking member of the House Committee on Oversight and Government Reform, stated that “high-ranking officials within the SEC were spending more time looking at porn than taking action to help stave off the events that put our nation’s economy on the brink of collapse” (Hiltzik 2010).

Similarly, several news sources suggested that the SEC pornography scandal may have exacerbated the financial crisis (e.g., Indiviglio 2010; Milian 2010). Additionally, certain news outlets explicitly characterized the event as a major blow to the SEC’s reputation (e.g., Haq 2010). Finally, even the SEC’s own commentary supports the notion of the regulator incurring

reputational damage. Its public statement on the scandal acknowledged that the “transgressions of the very few...bring discredit to their thousands of hardworking colleagues” (Hines 2010). Given this widespread and vigorous criticism in the press and halls of government, we view it as feasible that this scandal may have imposed meaningful reputational harm to the SEC. However, whether and how the SEC responded to this possible reputation shock is an open empirical question, and we design our empirical tests to investigate whether investigative intensity was influenced by the fallout of the scandal.

3. Data and Research Design

To examine whether SEC investigations activity ramped up or tamped down in the aftermath of the SEC porn scandal, we estimate three models at the SEC region-quarter level.¹⁰ The three models predict new regional office-led investigations, new headquarters office-led investigations (of firms within the focal regional office’s jurisdiction), and the number of AAERs issued in each office’s jurisdiction.

If the porn scandal impaired the reputational capital of implicated SEC regional offices, then investigations staff in these affected offices may shrink from marginal investigations out of fear of further embarrassment stemming from unsuccessful investigations (similar to how central bankers, audit firms, and trial judges are more conservative when reputational risks are high, see Cohen et al. 2015; Guo et al. 2018; Hansen et al. 2018). If this pressure dominates, then we would expect to see fewer new office-led investigations initiated in implicated offices after the scandal is revealed. Conversely, if implicated offices ramp up investigatory effort in the

¹⁰ Although the SEC’s fiscal year spans October 1 to September 30, we refer to quarters based on calendar years for simplicity. For instance, our discussion of Q2 2010 and Q2 2011 refers to calendar-year Q2 (i.e., April through June) rather than the SEC’s Q2 (i.e., January through March).

aftermath of the scandal in an attempt to repair their reputation, then we would expect more new investigations to be launched out of implicated offices.

To test these conflicting predictions, we estimate a count model that predicts the number of new regional office-led investigations per quarter (Model 1). In our event study framework, our variables of interest are indicators for the quarters immediately following the scandal revelation. We focus on two different revelation events: the April 2010 public revelation of the scandal (after the OIG's report to Congress in March 2010) and the March 2011 public disclosure (ordered by a federal judge) of the specific offices involved (that were previously only known internally at the SEC and by Congress).

Our first model (where r indexes regional office and q indexes year-quarter) takes the following form:

$$\# \text{ New Regional Office-Led Investigations}_{r,q} = \text{Implicated Regional Office}_r \times \text{Year-quarter Indicators}_q + \Sigma \text{Controls}_{r,q} \quad (1)$$

If the scandal does affect the investigative intensity of implicated offices, we would expect to see spikes (either upward or downward) after the scandal was revealed (second quarter of 2010) and in the second quarter of 2011 after a lawsuit spurred the public disclosure of the implicated offices.¹¹ However, we acknowledge that it is possible that only the latter date induces a response, as the specific offices implicated in the scandal were not widely known when the scandal first came to light in 2010.

¹¹ We focus on the quarters after the two events because we are interested in the SEC's reactions to the scandal, which are unlikely to be immediate. Further, the OIG report was completed in March 2010, and the implicated offices were disclosed in March 2011, suggesting that any reactions are unlikely to be discernable by the end of Q1 of either year. Finally, although the OIG report was released in March 2010, the widespread media coverage of the scandal began in April 2010, suggesting that the SEC may not have perceived a damaged reputation until Q2. Nonetheless, we note that our results are similar if we exclude Q1 2010 and/or Q1 2011 from our analyses (untabulated).

Besides these regional office-led investigations, we also expect that the scandal may have weakened the trust that SEC leadership placed in the implicated regional offices. If so, then it may follow that the SEC headquarters office ramps up oversight of the implicated regional offices in the quarters after the scandal revelation. To test this conjecture, we estimate a second model that predicts the number of new SEC headquarters office investigations on a per-region, per-quarter basis, where more headquarters office investigations into firms in a region could signal that SEC leadership is concerned with the diligence and ability of the regional office (and accordingly exercises more oversight over the scandal-implicated offices' jurisdictions).

This second model (where r indexes SEC office regions and q indexes year-quarter) takes the following form:

$$\# \text{ New Head Office-Led Investigations}_{r,q} = \text{Implicated Regional Office}_r \times \text{Year-quarter Indicators}_q + \Sigma \text{Controls}_{r,q} \quad (2)$$

Finally, we estimate a third model to examine whether office-level responses to the scandal actually have meaningful implications in terms of enforcement activity (and not just investigations). It is possible that any uptick in investigations, for example, is just window dressing, and the implicated offices do not actually ramp up the frequency with which meaningful penalties are imposed. We explore this possibility by predicting the number of AAERs issued on a per region-quarter basis, using the following model:

$$\# \text{ AAERS Issued}_{r,q} = \text{Implicated Regional Office}_r \times \text{Year-quarter Indicators}_q + \Sigma \text{Controls}_{r,q} \quad (3)$$

In estimating models of new investigations launched and AAERs issued per office-quarter, we control for region and Year-quarter fixed effects, to adjust for time trends and static, region-level differences. Accordingly, our models identify variation within-region over time (around the Q2 2010 and Q2 2011 scandal revelations). We begin our sample period in 2008 and

end in 2013, so that we have at least two years' worth (eight quarters) of data in the pre- and post-periods around our treatment dates. This six-year sample period, in conjunction with our 11 regional offices, gives us a sample of 264 region-quarter observations for our analysis (11 office regions x 6 years x 4 quarters per year).

Beyond fixed effects, we also control for the riskiness of public firms in each regional office's jurisdiction (per quarter) to adjust for the fact that risky firms likely command more investigations and receive more AAERs. We control for the riskiness of firms per region-quarter using the natural log of the number of stock price crashes of firms in the jurisdiction (stock price drops more than 25% over the quarter) ($\# \text{ Stock Price Crashes}_{r, q}$) and the average CAPM beta decile of the firms per region-quarter ($\text{Average Firm-level Beta Decile}_{r, q}$). We construct both of these control variables using the CRSP Daily Stock file.

In addition to controlling for the risk of public firms in a region, we also control for the overall size of every SEC region per region-quarter, as larger jurisdictions presumably lead to more investigations from financial regulators like the SEC. We define the size of the region-quarter jurisdiction by controlling for the total number of publicly traded firms in a region ($\# \text{ Public Firms}_{r, q}$) and the number of finance industry workers (full-time equivalent) ($\# \text{ Finance Industry Workers}_{r, q}$) per region (both using natural logs). The former variable controls for the overall number of public firms in each regional offices' jurisdiction, and the latter variable controls for the size of the finance industry, much of which is also (partially) under the purview of the SEC. We draw data on the number of publicly traded firms per region from CRSP, and we draw the regional finance industry employment data from the U.S. Census Bureau's Quarterly Census of Earnings and Wages (QCEW).

Following Bonsall et al. (2023), we also control for the number of active, ongoing investigations in the prior regional office-quarter, as offices with significant backlogs may be slow to launch new investigations and more likely to issue AAERs (as more investigations are ongoing that could lead to AAERs). We draw this backlog control variable (*# Regional Office Investigations_{r, q-1}*), along with our primary dependent variables related to new investigations, from the data collected and publicly disseminated by Blackburne et al. (2021). This data includes information on when SEC investigations are opened and closed into public firms, and which office leads the investigation.¹²

We estimate our models using Poisson pseudo-likelihood count regressions (Correia, Guimarães, and Zylkin 2020, 2021), which are appropriate for our count-type dependent variables, permit the inclusion of clustering (by SEC regional office region, in our case) and high-dimensional fixed effects, and avoid the problems inherent in using log-transformed count-type variables as dependent variables in OLS regressions (Cohn, Liu, and Wardlaw 2022). Helpfully, indicator variable coefficients in Poisson pseudo-likelihood count models are easily interpreted as the percent change in the dependent variable that is predicted by the indicator variable shifting from zero to one.

4. Empirical Results

4.1 Descriptive Statistics

We first present summary statistics in Table 1. These descriptive statistics suggest that the average SEC regional office has about 35 ongoing investigations at a time and begins about two new investigations per quarter. Similarly, the average region sees about 20 public firms

¹² Specifically, we obtain raw data on all closed SEC investigations between January 1, 2000 and August 2, 2017 from Blackburne et al. (2021) for these variables. Additionally, data for AAERs is obtained from the USC School of Accounting (Dechow, Ge, Larson, and Sloan 2011).

under investigation from the SEC headquarters office at a time, and the SEC headquarters office launches about one new investigation per region per quarter. The average region has about 400 public firms and sees about 48 AAERs handed down per quarter (20% to public firms, 80% to individuals and other entities like corporate executives, investment professionals, accounting professionals, audit firms, and private firms).¹³

4.2 Impact of Scandal Revelation on New Regional Office Investigations

Next, we focus on the regional office investigation data to estimate our first model that explores whether regional offices shifted their investigative intensity up or down after being implicated in the scandal. We do so in an event study (dynamic differences-in-differences) setting, where our primary time periods of interest are immediately after the scandal breaks.¹⁴

Table 2 reports three models of this type. Column 1 is a baseline regression that only includes our control variables, Column 2 excludes the controls and only includes the event study indicators, and Column 3 reports a fully specified model with our treatment indicators and controls. In Column 1, we find that most of our predictive power emits from our fixed effects, but also that SEC regional offices open more investigations when regional firms are riskier (i.e., as *Average Firm-level Beta Decile_{r, q}* increases).¹⁵

¹³ We focus here on the number of parties affected by AAERs handed down per region-quarter. For example, in a case where the SEC hands down one AAER that implicates a firm, the CEO, and the audit firm, we count this as three different AAERs enforcement events in our data (as the SEC engaged in regulatory enforcement against three entities). That said, our AAER-related results are consistent if we treat each AAER as a single enforcement event, regardless of the number of entities impacted, though only for the latter of the two event dates in the Table 4 analysis.

¹⁴ We set Q1 2011 as our excluded category in this event study, as this is the period immediately before the treatment event we expect to be most salient (i.e., the quarter when the implicated offices are publicly revealed). We note that our results are qualitatively similar if we instead set Q1 2010 as our excluded category (untabulated).

¹⁵ We note that a significant portion of the variation in new investigations opened is explained by the regional office fixed effects. Because of this, it is unsurprising that several of our control variables with little variation within each region (e.g., the number of firms) are insignificant in our estimations.

In both Column 2 and Column 3, and in Figure 1 that plots the Column 3 result, we see that regional offices implicated in the scandal initiate significantly more new investigations in both the quarter when the scandal was revealed (Q2 2010) and in the quarter when the implicated offices were publicly disclosed (Q2 2011). In both of these quarters, the implicated regional offices are likely under heavy scrutiny from SEC leadership (in Q2 2010, before the offices are publicly disclosed) and SEC leadership, the press, and lawmakers (in Q2 2011, when the implicated offices are made public). In response, we see that these offices increase the number of new investigations by about 90%. Given that the average regional office starts 2.2 new investigations per quarter, this 90% increase suggests that offices involved in the scandal initiate about two more new investigations than expected in the quarters when the scandal is revealed and the perpetrating offices are identified.

Additionally, Table 2 and Figure 1 reveal that there do not appear to be significant differences in pre-treatment changes in investigation rates across the implicated offices and the non-implicated offices. Specifically, the coefficients for *Implicated Regional Office_r x Pre-2010* and *Implicated Regional Office_r x Q1 2010* are (1) not indicative of a trend and (2) economically and statistically insignificant ($p > 0.60$ for each). Accordingly, these estimates provide some comfort that the parallel trends assumption, necessary for valid difference-in-differences analyses, holds in our setting.

Broadly, this Table 2 result is consistent with the scandal-implicated offices attempting to repair their reputations by being particularly diligent and hardworking (or to at least giving the impression of being diligent and hardworking). Given the costs for target firms of coming under SEC investigation, however, this reputation repair-induced increase in regulatory investigations likely has meaningful consequences for target firms (e.g., Karpoff et al. 2008 find that the

median abnormal return to firms issuing press releases disclosing being subject to an SEC investigation is about -10%).

4.3 Impact of Scandal Revelation on New Headquarters Office Investigations

We next examine whether the investigative intensity of the SEC headquarters office also changes in response to the scandal. Our prediction here is that SEC leadership may question the aptitude and professionalism of the scandal-implicated offices, which may lead the SEC headquarters office to subsequently launch more head office-led investigations into firms in the jurisdictions of the scandal implicated regional offices. We test for this pattern of results using Model 2, which is similar to Model 1 in using an event study setting and identifying differences in new SEC investigations by region-quarter. Model 2 and the associated Table 3 analysis are different from the Table 2 tests, however, in that the Table 3 analysis focuses on investigations led by the SEC headquarters office (and not regional offices).

This Table 3 analysis, and the accompanying Figure 2 (which plots Column 3 of Table 3), indicates that the SEC headquarters office does launch more investigations into public firms under the jurisdiction of scandal-implicated offices both in Q2 2010 (after the scandal is made public) and in Q2 2011 (after the specific offices implicated in the scandal are disclosed).¹⁶ Both of these jumps are on the order of 100%, which maps to about one more head office investigation per quarter (as the SEC head office launches about 0.84 new investigations per region per quarter), though only the Q2 2010 jump in investigative intensity is statistically significant (the Q2 2011 is marginally insignificant, with a one-tailed p-value = 0.08). Overall, this analysis of

¹⁶ The sample size for the Table 3 analysis drops to 240 region-quarter observations (from 264 in Table 2). This is because the head office does not launch any investigations into Utah firms over the six-year course of our sample. This is not unusual, as Utah is the smallest SEC region and has by far the fewest number of public firms under its jurisdiction. The Poisson pseudo-likelihood count regressions we estimate, like logit models, drop observations that are perfectly predicted by a fixed effect (Correia, Guimarães, and Zylkin 2020, 2021).

SEC head office investigations confirms our conjecture that SEC leadership loses some faith in the offices implicated by the porn scandal and accordingly engages in more oversight of the firms under the jurisdiction of scandal implicated offices after the scandal is revealed.

4.4 Impact of Scandal Revelation on AAERs

Finally, we examine whether more AAERs are handed down in the jurisdiction of scandal-implicated offices, post-scandal. While we see these offices launch more investigations (in Table 2), only serious securities violations lead to formal penalties as severe AAERs, which are costly for target firms and require a higher standard of evidence than an investigation.

We estimate our AAER models (Model 3) in Table 4 using an event study analysis similar to that employed in our prior tests predicting regional and head office investigations per region-quarter. The fully specified Model 3, which is reported in Column 3 of Table 4 and in Figure 3, indicates that the number of AAERs issued in the jurisdiction of scandal-implicated offices jumps by about 7% (or 3.2 AAERs, on average) in Q2 2010, which is the quarter the scandal is disclosed, and 13% (or 6.4 AAERs, on average) in Q3 2011, which is the quarter *after* we observe investigation rates rising because of implicated offices being publicly disclosed. That is, firms policed by offices implicated in the scandal see a 7% jump in serious regulatory enforcement decisions in the quarter the scandal is made public, but only SEC and government leaders are aware of the individual offices (though this result is only marginally significant, with a one-tailed p-value = 0.11), followed by a 13% jump in the quarter *after* the SEC office overseeing their region is publicly linked to the SEC porn scandal.

We do not believe that this jump in AAERs is a mechanical result of the increased investigations documented in Tables 2 and 3. AAERs tend to be the end result of investigations that typically last several years (an average of 50 months in Karpoff et al. 2008). Accordingly, a

jump in AAERs in Q2 2010 or Q3 2011 is unlikely to directly stem from the spike in investigations accompanying the scandal being revealed in Q2 2010 and Q2 2011. Rather, any change in AAERs in the short window after the scandal revelation is likely a result of SEC offices being more severe in levying punishments in investigations that were already ongoing when the scandal broke. We view this result as consistent with SEC regional offices implicated in the scandal ramping up their enforcement severity, and not just investigative intensity (i.e., Table 2), in an effort to repair their reputation in the aftermath of an embarrassing scandal.

4.5 Randomization Inference Robustness Checks

As a final test, we investigate how sensitive our results are to our method of clustering standard errors. As our treatment (a regional office being implicated in an office-level scandal) is at the regional office level, we cluster standard errors by SEC region ($n = 11$), which follows the guidance from Abadie, Athey, Imbens, and Wooldridge (2023). However, Cameron, Gelbach, and Miller (2011) and Cameron and Miller (2015), among others, suggest that clustered standard errors can sometimes be biased and unreliable when the number of clusters is below a few dozen.

MacKinnon and Webb (2020) find that randomization inference (i.e., Monte Carlo simulation, placebo testing) is a solution to this conundrum. Briefly, randomization inference repeatedly shuffles treatment across the actual data and re-estimates the treatment effect, then compares how often the actual treatment effect is as large as that generated from the randomly generated placebo treatment effects. Importantly, this type of test avoids issues of standard errors altogether and instead focuses on coefficient size (Heß 2017).

In our data, six of 11 SEC regional offices are implicated in the porn scandal. We compare our actual treatment effects from Column 3 (the fully specified model) from our Table 2 (predicting new SEC Regional Office investigations), Table 3 (SEC head office investigations),

and Table 4 (AAERs) to the distribution of treatment effects generated from the universe of different potential selections of six placebo treated offices. All told, 462 unique combinations of treated offices can be generated from drawing six random offices from a group of 11 offices, so we compare our treatment effects from the one actual distribution of treatment to the treatment effects from the 461 placebo distributions of treatment.¹⁷ The percentage rank of our actual treatment effects in this distribution of 462 potential treatment effects is referred to as the Fisher p-value (from Fisher 1935), which measures how likely a result as sizable as the one we identify in the actual data emits from random chance (White and Webb 2021).

We report the event study coefficients from the main model (Column 3) results from Table 2 (predicting new SEC Regional Office investigations), Table 3 (SEC head office investigations), and Table 4 (AAERs) in Columns 1, 2, and 3, respectively, of Table 5. In parentheses below these treatment effects coefficients, we report the one-tailed Fisher p-values. For example, the (0.05) below the *Implicated Regional Office_r x Q2 2010 (Scandal disclosed, offices not named)* coefficient of 0.9067 suggests that of the 462 potential coefficients for *Implicated Regional Office_r x Q2 2010 (Scandal disclosed, offices not named)*, only 5% are as large or larger than the 0.9067 coefficient we observe in our actual data (which suggests a 90.67% jump in new investigations launched by scandal-implicated regional offices in the quarter the scandal is disclosed).

We see that Fisher p-values are significant in the scandal revelation quarters in Column 1 (predicting new SEC Regional Office investigations) and marginally significant in Column 2 (predicting new SEC head office investigations). In Column 3, our AAER result is also robust to

¹⁷ The number of unique combinations (without replacement, where order does not matter) of six observations drawn from a sample of 11 observations can be represented as: $C(11,6) = 11! / (6!(11-6)!) = 11! / (6! \times 5!) = 462$

randomization inference, as the *Implicated Regional Office_r x Q2 2010* coefficient and the *Implicated Regional Office_r x Q3 2011* coefficient each map to a 0.09 Fisher p-value (suggesting that for scandal-implicated offices, the 7% jump in AAERs in the scandal disclosure quarter and the 13% jump in AAERs in the quarter *after* the implicated offices are disclosed are both unlikely to emit from random chance).

Overall, we view these randomization inference tests in Table 5 as confirming our findings, which indicates that the potential bias induced by having too few clusters is not unduly influencing our main results (e.g., Cameron et al. 2011; Cameron and Miller 2015; MacKinnon and Webb 2020; White and Webb 2021).

4.6 Other Robustness Checks

Given our that we find that scandal-implicated offices launch more investigations when the scandal is revealed, and that these offices hand down more severe punishments during these scandal revelation quarters, it is a straightforward extension to investigate whether the investigations launched in the scandal revelation quarters by scandal-implicated offices *also* were more (or less) likely to lead to an enforcement action. We estimate models exploring this question (untabulated), but we find no compelling results either way. Only about 10% of SEC investigations ultimately lead to an enforcement action, so our models are not very powerful in examining this question (as most of our office-quarters see no new investigations launched that ultimately resulted in an enforcement action). We note that it is an interesting potential extension, however, that could be worth investigating in a more conducive setting.

5. Conclusion

We examine how SEC enforcement changed around the revelation of a workplace scandal wherein a handful of SEC employees were found to be regularly viewing pornography

on workplace computers. These employees worked across six of the 11 SEC regional offices, and our tests identify upward spikes in enforcement behavior within these offices after the discovery of this scandal and the disclosure of the exact offices involved. We find similar evidence that SEC leadership engages in more oversight of regions where an SEC regional office is implicated in the scandal.

Additionally, we observe a significant upward spike in AAERs issued in regions where the regional office is implicated in the scandal, in both the quarter the scandal is revealed and one quarter after these scandal-implicated offices are publicly disclosed. This AAER result suggests that, for marginal cases, SEC staffers push for an AAER versus a less severe penalty when (typically lengthy) investigations conclude in periods when office-level reputation is weak (indicative of regulators becoming stricter in an effort to bolster a damaged reputation). Collectively, we view these results as consistent with the idea that regulators engage in reputation repair in the aftermath of a scandal, perhaps with the goal of impressing SEC leadership, the public, the press, and members of Congress charged with supervising of the SEC.

To the literature on the importance of reputation in financial markets, our result provides a straightforward contribution. Like firms, executives, analysts, auditors, and bankers, financial market regulators have reputational concerns, and shocks to regulators' reputations can lead to reputation repair efforts. For firms targeted by SEC offices with a reputation-repair chip on their shoulder, the potential downside costs are high, as the losses (primarily due to firm-level reputation penalties) of SEC enforcement actions are in excess of \$100 million for the average firm (Karpoff et al. 2008).

Further adding to this literature on reputation in financial markets, our setting allows us to infer that SEC regional offices are concerned about their reputation with both government

leaders *and* the public. Our staggered dates, where the scandal-implicated offices are revealed to government leaders first (in Q2 2010) and then later to the public (Q2 2011) allows for this insight, in that we see the regulatory intensity of implicated offices ramp up in both quarters. This would suggest that the scandal-implicated offices are sensitive to both government leaders knowing of their professionalism failure (in Q2 2010) and the public learning of this failure (in Q2 2011). This is a unique contribution, in that most of the literature on reputation in financial markets focuses on reputation broadly, whereas our results point to who exactly our treated entities are concerned about preserving their reputation with.

Our contribution to policy is, in our view, more nuanced. Regulator reputation is important, as constituents are more willing to interact with high-reputation regulators (e.g., Dantas Cabral, Peci, and Van Ryzin 2022; Heredia-González, Fondevila, and Massa 2022). Moreover, the SEC has limited resources and relies strongly on deterrence (i.e., curbing misconduct by making would-be offenders aware of potential consequences). Damaged regulatory reputation likely casts doubt on the diligence of the SEC and the SEC’s ability to competently punish future misconduct (e.g., Davidson and Pirinsky 2022; Douthit, Millar, and White 2021; Shimshack and Ward 2005). Accordingly, it is perhaps in the public interest to allow regulators avenues to improve their reputations, especially in the aftermath of scandals. However, regulatory enforcement varying unexpectedly can lead to deadweight losses that slow economic growth (e.g., Baker and Raskolnikov 2017; Campos, Lien, and Pradhan 1999; Fabrizio 2013; Wei 1997), so situations in which the enforcement intensity of SEC regional offices swings widely are likely not conducive to the SEC’s mission to “protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation” (SEC OIG 2023).

The simple solution to these problems is, of course, for regulatory agencies to avoid scandals that would damage their institutional reputation. This is clearly a goal of the SEC, as the commission's code of ethics charges employees to "maintain unusually high standards of honesty, integrity, impartiality, and conduct" (SEC 2010). Our results underscore the importance of this charge and, more broadly, the importance of strong institutions in furthering high quality markets (e.g., La Porta, Lopez-de-Silanes, Shleifer, and Vishny 1998).

Finally, although we focus on reputation damage from unprofessional behavior within the SEC, other events have caused critics to question the SEC's effectiveness several times over the past two decades (e.g., the Enron fraud, the Bernie Madoff Ponzi scheme, the Financial Crisis). Future research could perhaps evaluate whether and how these events damaged the SEC's reputation and any related oversight implications.

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Figure 1: Impact of Scandal Revelation on New Investigations at the Regional Office-Quarter Level

This figure reports the treatment effects of a dynamic difference-in-differences model that examines whether offices implicated in the scandal initiate more or fewer investigations on a quarter-by-quarter basis. Bars represent 90% confidence intervals around point estimates.

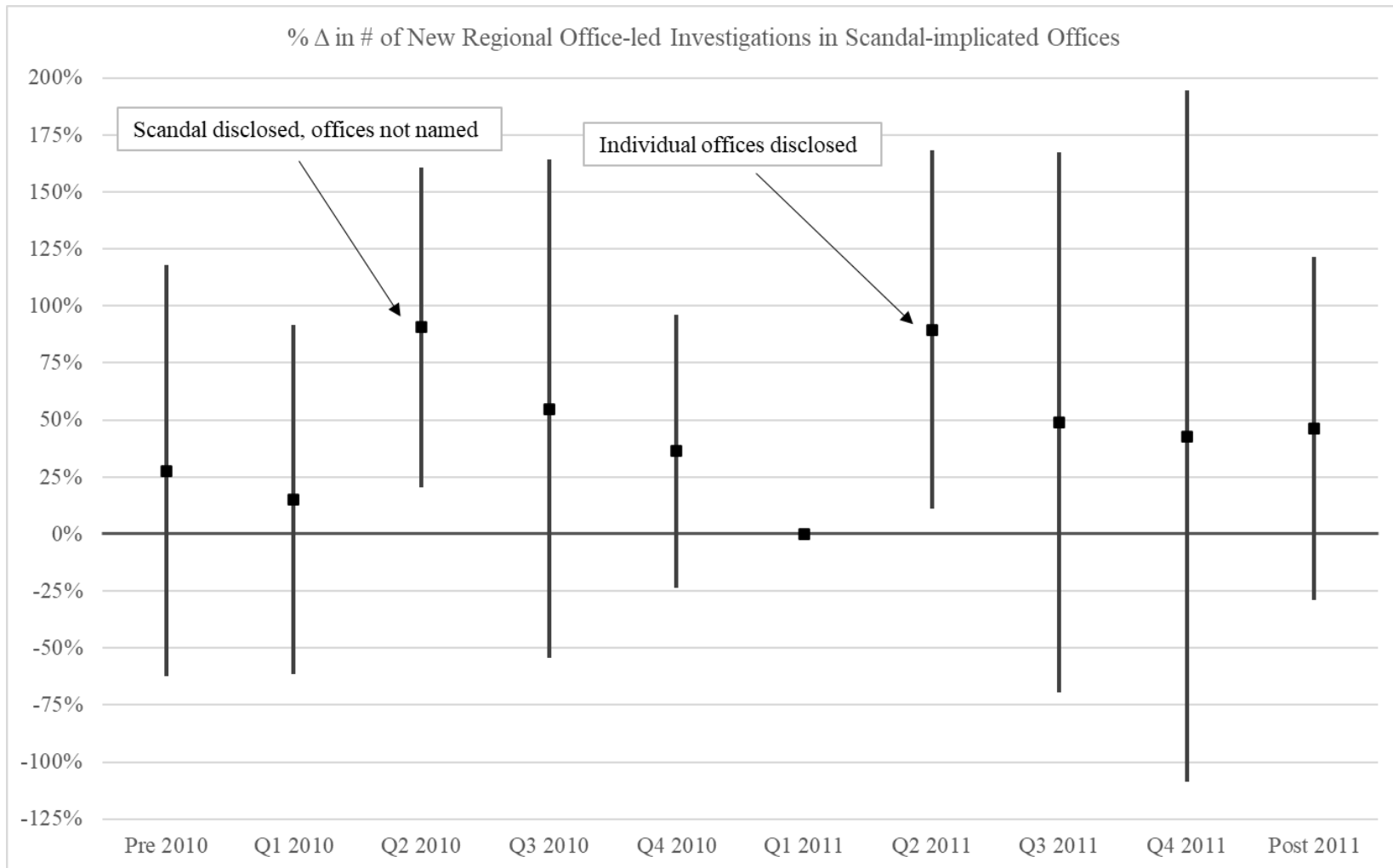


Figure 2: Impact of Scandal Revelation on New Investigations by the SEC Head Office at the Region-Quarter Level

This figure reports the treatment effects of a dynamic difference-in-differences model that examines whether the SEC head office initiates more or fewer investigations, on a quarter-by-quarter basis, in regions where the regional office was implicated in the scandal. Bars represent 90% confidence intervals around point estimates.

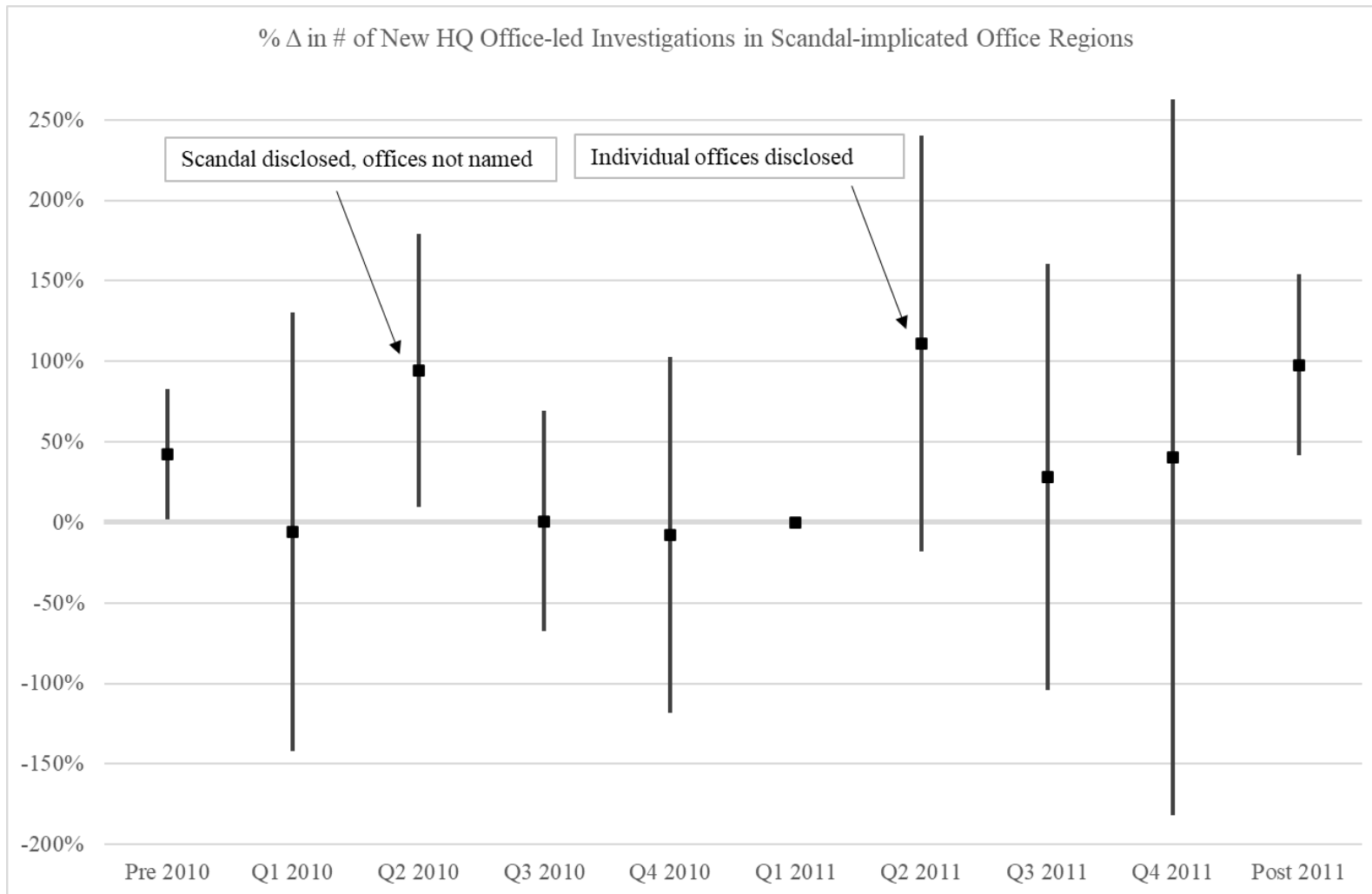


Figure 3: Impact of Scandal Revelation on AAERs at the Region-Quarter Level

This figure reports the treatment effects of a dynamic difference-in-differences model that examines whether more or fewer firm-quarters are subject to SEC AAERs in the post-scandal period, on a quarter-by-quarter basis, in regions where the regional office was implicated in the scandal. Bars represent 90% confidence intervals around point estimates.

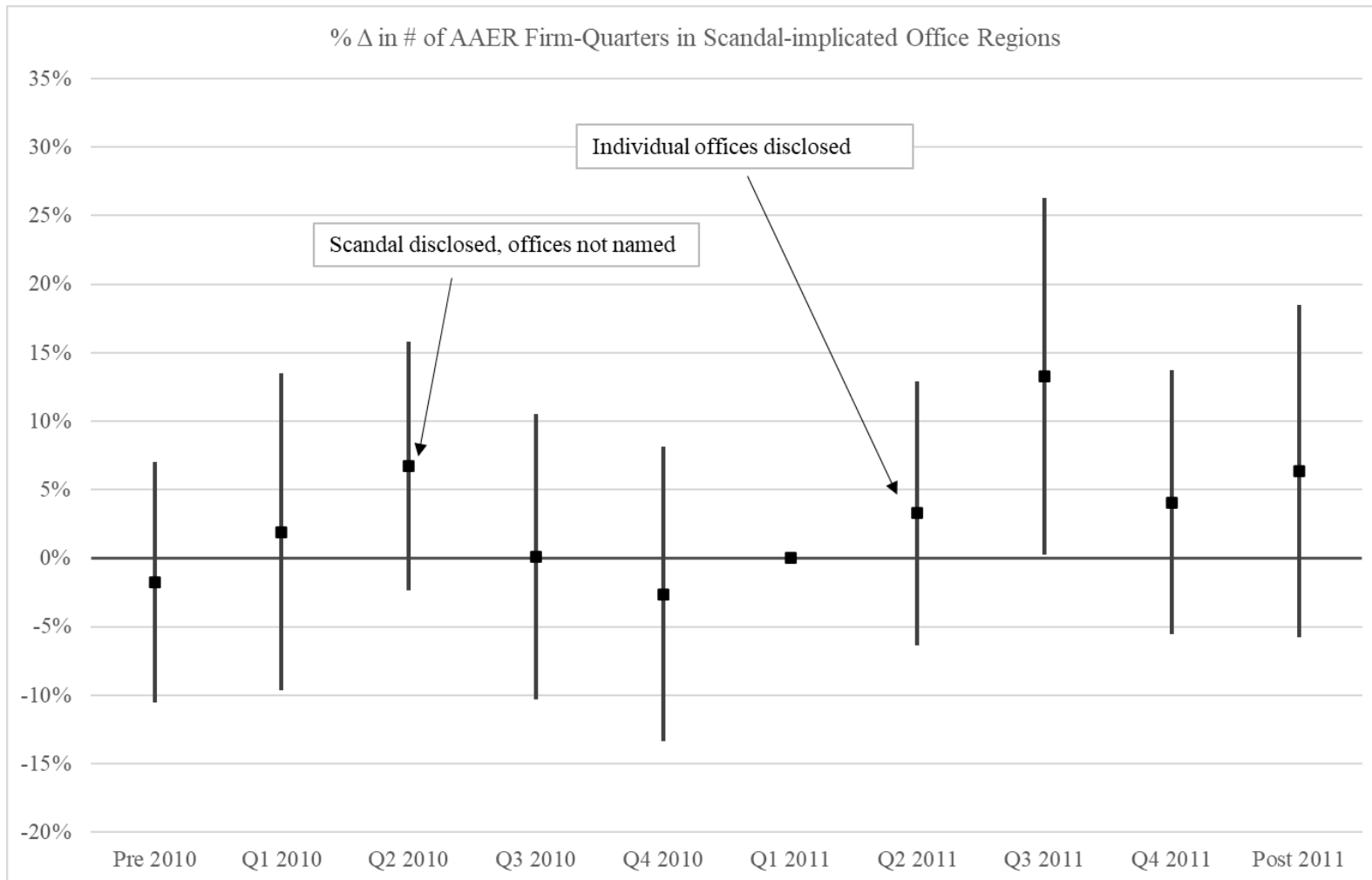


Table 1: Summary Statistics

This table reports descriptive statistics for our dependent and independent variables at the SEC Regional Office ($n = 11$) x Year-Quarter level ($n = 24$, 2008-2013). Subscript r denotes SEC regional office region, and subscript q denotes year-quarter. Of note, data on the number of investigations is limited to investigations into public firms. # *AAERs Issued* $_{r,q}$, however, includes AAERs issued to public firms, private firms, and individuals.

Variable	n	Mean	Std. Dev.	Minimum	1st Quartile	Median	3rd Quartile	Maximum
# New Regional Office Investigations $_{r,q}$	264	2.23	1.92	0.00	1.00	2.00	3.00	9.00
# Regional Office Investigations $_{r,q}$	264	34.94	25.56	1.00	17.00	32.00	45.00	137.00
# New Head Office Investigations $_{r,q}$	264	0.83	1.13	0.00	0.00	1.00	1.00	7.00
# Head Office Investigations $_{r,q}$	264	22.25	16.59	0.00	10.00	20.00	31.00	67.00
# AAERs Issued $_{r,q}$	264	47.82	42.58	0.00	10.50	38.50	70.00	222.00
# Public Firms $_{r,q}$	264	405.39	226.67	26.00	223.50	409.50	489.50	910.00
Average Firm-level Beta Decile $_{r,q}$	264	5.42	0.53	4.43	5.03	5.48	5.83	6.59
# Stock Price Crashes $_{r,q}$	264	36.70	49.34	0.00	8.00	15.50	45.00	302.00
# Finance Industry Workers $_{r,q}$	264	74,747.60	60,537.04	4,926.00	46,627.50	59,741.50	78,093.50	263,461.00

Table 2: Predicting # Investigations Started by Regional Office (per year-quarter)

This table reports Poisson pseudo-likelihood count regressions that model the number of new investigations started per SEC regional office per quarter. Standard errors are in brackets beneath coefficients. Two-tailed statistical significance at the $p < 0.01$, $p < 0.05$, and $p < 0.10$ level is denoted by ***, **, and *, respectively.

# Investigations Started by Regional Office _{r, q} = Implicated Regional Office _r x Quarter-Year Indicators _q + Σ Controls _{r, q}	[1]	[2]	[3]
Implicated Regional Office _r x Pre-2010		0.1494 [0.5103]	0.2779 [0.5493]
Implicated Regional Office _r x Q1 2010		0.1123 [0.4599]	0.1515 [0.4654]
Implicated Regional Office _r x Q2 2010 (Scandal disclosed, offices not named)		0.8855* [0.4630]	0.9067** [0.4259]
Implicated Regional Office _r x Q3 2010		0.5407 [0.6375]	0.5493 [0.6641]
Implicated Regional Office _r x Q4 2010		0.3355 [0.3679]	0.3628 [0.3639]
Implicated Regional Office _r x Q2 2011 (Individual Offices Disclosed)		0.9163* [0.4757]	0.8959* [0.4772]
Implicated Regional Office _r x Q3 2011		0.5237 [0.7215]	0.4892 [0.7189]
Implicated Regional Office _r x Q4 2011		0.4437 [0.9452]	0.428 [0.9219]
Implicated Regional Office _r x Post 2011		0.5807 [0.4839]	0.4616 [0.4580]
Ln(1 + Stock Price Crashes) _{r, q}	0.0855 [0.0819]		0.0713 [0.0812]
Average Firm-level Beta Decile _{r, q}	0.2784** [0.1311]		0.2536 [0.1728]
Ln(1 + Public Firms) _{r, q}	2.5709 [1.5806]		2.1622 [1.6242]
Ln(1 + Finance Industry Workers) _{r, q}	2.1601 [1.4372]		1.9374 [1.8161]
Ln(1 + Regional Office Investigations) _{r, q-1}	-0.0533 [0.2338]		-0.0341 [0.2395]
Region Fixed Effects	Yes	Yes	Yes
Year-Quarter Fixed Effects	Yes	Yes	Yes
Observations	264	264	264
Pseudo R ²	0.185	0.183	0.189

Table 3: Predicting # Investigations Started by Head Office (per region-quarter)

This table reports Poisson pseudo-likelihood count regressions that model the number of new investigations started by the SEC head office per region per quarter. Standard errors are in brackets beneath coefficients. Two-tailed statistical significance at the $p < 0.01$, $p < 0.05$, and $p < 0.10$ level is denoted by ***, **, and *, respectively.

# Investigations Started by SEC Head Office _{r, q} = Implicated Regional Office _r x Quarter-Year Indicators _q + Σ Controls _{r, q}	[1]	[2]	[3]
Implicated Regional Office _r x Pre-2010		-0.0413 [0.3345]	0.4260* [0.2464]
Implicated Regional Office _r x Q1 2010		-0.3102 [0.9885]	-0.0596 [0.8284]
Implicated Regional Office _r x Q2 2010 (Scandal disclosed, offices not named)		0.7885 [0.5779]	0.9439* [0.5169]
Implicated Regional Office _r x Q3 2010		-0.0588 [0.4718]	0.0086 [0.4174]
Implicated Regional Office _r x Q4 2010		-0.2614 [0.7421]	-0.0751 [0.6719]
Implicated Regional Office _r x Q2 2011 (Individual Offices Disclosed)		1.0116 [0.7495]	1.1111 [0.7869]
Implicated Regional Office _r x Q3 2011		0.0953 [0.7495]	0.283 [0.8057]
Implicated Regional Office _r x Q4 2011		0.0953 [1.4235]	0.406 [1.3511]
Implicated Regional Office _r x Post 2011		0.5961 [0.3881]	0.9787*** [0.3416]
Ln(1 + Stock Price Crashes) _{r, q}	0.0426 [0.1970]		-0.0755 [0.2118]
Average Firm-level Beta Decile _{r, q}	-0.3258 [0.3603]		-0.3926 [0.2976]
Ln(1 + Public Firms) _{r, q}	10.2823*** [2.9759]		10.5971*** [2.7585]
Ln(1 + Finance Industry Workers) _{r, q}	-1.0607 [1.6011]		-1.9928 [1.7202]
Ln(1 + Head Office Investigations) _{r, q-1}	-0.9495** [0.4263]		-1.3584*** [0.2787]
Region Fixed Effects	Yes	Yes	Yes
Year-Quarter Fixed Effects	Yes	Yes	Yes
Observations	240	240	240
Pseudo R ²	0.226	0.217	0.237

Table 4: Predicting # AAERs per region-quarter

This table reports Poisson pseudo-likelihood count regressions that model the number of AAERs issued by the SEC against public firms per region per quarter. Standard errors are in brackets beneath coefficients. Two-tailed statistical significance at the $p < 0.01$, $p < 0.05$, and $p < 0.10$ level is denoted by ***, **, and *, respectively.

	# AAERs Issued _{r, q} = Implicated Regional Office _r x Quarter-Year Indicators _q + Σ Controls _{r, q}		
	[1]	[2]	[3]
Implicated Regional Office _r x Pre-2010		-0.0277 [0.0974]	-0.0176 [0.0535]
Implicated Regional Office _r x Q1 2010		-0.0004 [0.0667]	0.0191 [0.0704]
Implicated Regional Office _r x Q2 2010 (Scandal disclosed, offices not named)		0.0681 [0.0736]	0.0672 [0.0553]
Implicated Regional Office _r x Q3 2010		0.0469 [0.0564]	0.0009 [0.0634]
Implicated Regional Office _r x Q4 2010		0.0043 [0.0475]	-0.0264 [0.0653]
Implicated Regional Office _r x Q2 2011 (Individual Offices Disclosed)		0.0319 [0.0468]	0.0327 [0.0587]
Implicated Regional Office _r x Q3 2011		0.1529** [0.0601]	0.1325* [0.0791]
Implicated Regional Office _r x Q4 2011		0.1386*** [0.0529]	0.0407 [0.0585]
Implicated Regional Office _r x Post 2011		0.1886** [0.0887]	0.0637 [0.0737]
Ln(1 + Stock Price Crashes) _{r, q}	0.0141 [0.0241]		0.008 [0.0220]
Average Firm-level Beta Decile _{r, q}	0.008 [0.0249]		-0.0066 [0.0334]
Ln(1 + Public Firms) _{r, q}	0.2871 [0.3046]		0.0237 [0.2955]
Ln(1 + Finance Industry Workers) _{r, q}	0.1095 [0.4187]		-0.0539 [0.5144]
Ln(1 + AAERs Issued) _{r, q-1}	0.7119*** [0.0439]		0.6977*** [0.0571]
Region Fixed Effects	Yes	Yes	Yes
Year-Quarter Fixed Effects	Yes	Yes	Yes
Observations	264	264	264
Pseudo R ²	0.882	0.872	0.882

Table 5: Randomization Inference Robustness Check

This table reports Fisher p-values emitting from randomization inference tests for our event study treatment effect variables estimated in line with the Column 3 Poisson pseudo-likelihood count regressions (i.e., our fully specified models) from Table 2, Table 3, and Table 4. One-tailed Fisher p-values are in parentheses beneath coefficients. Statistical significance at the $p < 0.01$, $p < 0.05$, and $p < 0.10$ level is denoted by ***, **, and *, respectively.

Dependent Variable:	# Investigations Started by Regional Office _{r, q}	# Investigations Started by SEC Head Office _{r, q}	# AAERs Issued _{r, q}
	[1]	[2]	[3]
Implicated Regional Office _r x Pre-2010	0.2779 (0.33)	0.4260** (0.04)	-0.0176 (0.61)
Implicated Regional Office _r x Q1 2010	0.1515 (0.39)	-0.0596 (0.48)	0.0191 (0.40)
Implicated Regional Office _r x Q2 2010 (Scandal disclosed, offices not named)	0.9067** (0.05)	0.9439 (0.11)	0.0672* (0.09)
Implicated Regional Office _r x Q3 2010	0.5493 (0.21)	0.0086 (0.48)	0.0009 (0.49)
Implicated Regional Office _r x Q4 2010	0.3628 (0.21)	-0.0751 (0.53)	-0.0264 (0.63)
Implicated Regional Office _r x Q2 2011 (Individual Offices Disclosed)	0.8959* (0.09)	1.1111 (0.14)	0.0327 (0.32)
Implicated Regional Office _r x Q3 2011	0.4892 (0.27)	0.283 (0.36)	0.1325* (0.09)
Implicated Regional Office _r x Q4 2011	0.428 (0.31)	0.406 (0.16)	0.0407 (0.27)
Implicated Regional Office _r x Post 2011	0.4616 (0.18)	0.9787** (0.04)	0.0637 (0.24)
Control Variables Included	Yes	Yes	Yes
Region Fixed Effects	Yes	Yes	Yes
Year-Quarter Fixed Effects	Yes	Yes	Yes
Observations	264	240	264
Pseudo R ²	0.189	0.237	0.882