The Impact of SEC Comment Letter Releases: Short Window Evidence on Information Content and Changes in Information Asymmetry

DISSERTATION

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By

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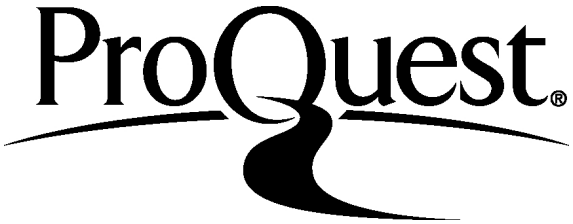

Abstract

In June 2004, the SEC made a policy decision to publicly release comment letter correspondence following its filing reviews. Comment letter correspondence represents a dialogue between the SEC staff and public companies' managers regarding their disclosure decisions. The release of comment letter correspondence could provide investors with greater context and detail underlying firms' financial reports. Leading up to the policy, there was an increase in the number of Freedom of Information Act ("FOIA") requests for comment letter correspondence, which suggests that it was perceived to have informational value. However, there is limited empirical evidence on whether investors respond to its release. I specifically examine whether comment letter releases (1) provide investors with incremental information beyond companies' existing financial reports and (2) influence information asymmetry among investors. I do not find strong evidence of investor responses absent a concurrent filing, and I find mixed evidence on whether information asymmetry increases immediately following comment letter releases. Further, the increases in information asymmetry are exacerbated for releases with a high level of comment letter attention by sophisticated investors. Overall, these results suggest that comment letter releases are not informative to investors in the absence of a concurrent or future information release and that information asymmetry is mitigated by non-sophisticated investor attention to the releases.

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Chapter 1: Introduction

In June 2004, the SEC made a policy decision to publicly release comment letter correspondence following its filing reviews (hereafter, the "CL policy").[1] This policy created a new quasi-disclosure requirement for companies that receive comment letters. After the completion of each comment letter review, the correspondence exchanged between the regulator and the company is released on the SEC's EDGAR website.[2] Comment letter releases represent the public dissemination of a dialogue between the SEC staff and the company's management regarding its financial reports. The public availability of comment letter correspondence provides a window into judgments made by managers in arriving at their financial reporting and disclosure decisions. These judgments include assumptions underlying accounting measurements, sensitivity analyses, materiality assessments and choices on levels of disclosure.[3]

The SEC press release that announced the CL policy cited an increase in the number of Freedom of Information Act ("FOIA") requests for comment letter correspondence (SEC, 2004a). There were also reports that investment research firms and other private organizations were profiting from their select access to the correspondence under FOIA by making it available on a subscription-only basis. These

[1] See SEC Release 2004-89 at http://www.sec.gov/news/press/2004-89.htm.
[2] Note that not all filing reviews result in the SEC issuing comments. I refer to a filing review where at least one comment letter is issued as a "comment letter review."
[3] The dialogue revealed in comment letter releases can be compared to discussions between auditors and managers about accounting judgments underlying the audited financial statements and related disclosures.

prior activities of submitting FOIA requests and selling access to the correspondence suggest that it was perceived to have informational value. Comment letters also increased in frequency following the Sarbanes Oxley Act of 2002 ("SOX"). Section 408 of SOX requires the SEC to review every public company at least once every three years. By the end of the first three-year review cycle, which closely coincided with the effectiveness date of the CL policy in May 2005, there was a significant increase in the number of comment letter reviews. One constituent, commenting on the SEC's proposed policy to publicly release the correspondence, stated, "We believe it represents one of the most meaningful increases in public company disclosure since corporate filings first became widely available to investors on EDGAR….As a result, this proposal is sure to have profound and lasting impacts on capital markets" (SEC, 2004b).

In this study I examine whether comment letter releases (1) provide investors with incremental information beyond companies' existing financial reports and (2) influence information asymmetry among investors. These two research questions are related to the SEC's mission to protect investors. The SEC presumably believed that the public availability of comment letter correspondence would be informative to investors, yet there is limited empirical evidence on whether there is a significant investor reaction to its release (see, for example, Dechow et al., 2014; Ryans, 2014). If comment letter correspondence provides new information to investors, then its release would be expected to have a significant investor response in terms of movement in the stock price and trading volume. On the other hand, investors may not immediately respond to comment letter releases if the dialogue revealed in the release does not provide incremental information beyond existing disclosures or if the contextual information is only useful in

conjunction with a future information release, such as an earnings announcement, as studied by Johnston and Petacchi (2013).

Although many SEC initiatives seek to level the playing field for all investors, a newly mandated information release could either decrease or increase information asymmetry. If a comment letter release reveals information to non-sophisticated investors that sophisticated investors previously possessed, then information asymmetry would be expected to decline. This would be the case if sophisticated investors already understood much of the contextual information revealed in the release. However, if the release provides sophisticated investors with an opportunity to exploit their processing advantages, both in terms of speed and understanding the implications of the disclosures, then information asymmetry would be expected to increase.[4] In addition, there may be no immediate change in information asymmetry at the comment letter release date, but later when disclosure revisions to the filings reviewed are released as studied by Bozanic et al. (2015). To address these questions, I investigate short window evidence of information content and changes in information asymmetry associated with comment letter releases.

The first research question investigates whether comment letter correspondence provides investors with new information. I examine investor responses to comment letter releases using short window market reactions. Although I find statistically significant price and volume reactions to the releases, suggestive of information content, these results largely go away after excluding comment letter releases that coincide with

[4] I use the term "sophisticated investors" to denote traders with a relatively high level of available resources (e.g. time, means, access, etc.) to exploit potential informational advantages over individual or retail investors. Kim and Verrecchia (1994) use the term "market experts".

concurrent filings, such as an 8-K. In the cases where there is a significant market reaction, the abnormal returns, volume, or volatility may be due to characteristics of the company that led to its selection for review and comment by the SEC. I use two approaches to address this selection issue. I first compare the comment letter firms to a propensity score matched control sample based on the determinants of receiving a comment letter documented in Cassell et al. (2013). In addition, I use a subsample of firms that are likely reviewed every year: large accelerated filers. In both of these analyses, I find significant market reactions, however, they become weaker or non-existent after removing comment letter releases with concurrent filings. Overall, the results suggest that there is limited investor response to comment letter releases.

To assess the magnitude of the limited market reactions, I use an analysis of the relative information content similar to the model in Beyer et al. (2010) and find evidence that suggests the average price reaction to a comment letter release is approximately three times the reaction to the filing of a Form 10-K or 10-Q and about one-sixth of an earnings announcement. These results suggest that when investors respond to comment letter releases, the price movement is comparable to that of other mandated SEC disclosures.

I then provide evidence on factors that influence the informativeness of comment letter releases where there is a market reaction. If comment letter correspondence provides contextual information on the variability or sensitivity of reported financial results, then I predict the informativeness to be greater for companies with more uncertain operating environments. I classify companies with high economic uncertainty as young public companies with volatile revenues and high analyst forecast dispersion. I find very weak evidence that comment letter releases for companies with high economic

uncertainty lead to a differential investor response. Besides firm characteristics, another factor that could influence the informativeness of the releases is the complexity of the comment letter review. I predict that comment letter reviews with more SEC comments, rounds of correspondence, filings referenced, and outside advisors involved to be associated with a stronger market reaction. However, I do not find evidence that comment letter complexity is positively associated with the investor responses in most cases. In summary, I find almost no evidence that characteristics associated with the companies' economic uncertainty and comment letter complexity are related to the magnitude of investor responses to comment letter releases.

To supplement the short window focus of this study and to assess whether comment letter releases are informative in conjunction with future information releases, I employ an earnings response coefficient (ERC) test based on Johnston and Petacchi (2013). The prior study finds that ERCs become stronger following the completion of a comment letter review, which suggests that earnings become more credible. However, the study does not test to what extent this effect comes from the release of comment letter correspondence. I extend this inquiry by comparing the ERC improvements between the pre and post CL policy regimes. Although I only find significant ERC improvements during the post CL policy regime, which is the period when comment letters are publicly released, I do not find a significant difference between the two periods. Accordingly, I cannot conclude that comment letter releases contribute to stronger ERCs.

The second research question assesses whether comment letter releases influence information asymmetry among investors. To examine this question, I use abnormal bid-ask spreads and abnormal depth as proxies for short window changes in information

asymmetry among investors. As discussed by Lee et al. (1993), an increase in spreads and a decrease in depth are both indicative of increased information asymmetry. Liquidity suppliers can protect themselves from differentially informed traders by either increasing the cost of a trade (i.e. widening spreads) and/or limiting the quantity available at a given price level (i.e. tightening depth). I find a significant decrease in depth following comment letter releases, which suggests that information asymmetry increases when comment letter correspondence is released, however the average increase in bid-ask spreads is not statistically significant. Further, when comment letter releases with a concurrent filing are excluded, the change in bid-ask spreads becomes significant and negative. This result suggests a decrease in information asymmetry, although the change in depth remains significantly negative, which is suggestive of an increase. Overall, these results provide mixed evidence on whether informational differences among investors are heightened in the short window following comment letter releases.

Finally, I examine how investor attention to comment letter releases by different classes of investors influences the changes in information asymmetry. Even though the CL policy made the correspondence freely available to all investors, there may be differences in the amount of attention paid to the releases between sophisticated and non-sophisticated investors. If sophisticated investors retain an advantage in terms of actual access to the correspondence immediately following the release due to the lack of attention by other investors, this effect could at least partially explain the increases in information asymmetry. To test whether information asymmetry is influenced by the type of investor attention, I obtain the IP addresses of individuals who access comment letter correspondence on EDGAR during the immediate release window and classify

those addresses by the level of investor sophistication consistent with Drake et al. (2014). I find a positive (negative) association between increased information asymmetry and the level of sophisticated (non-sophisticated) investor access to the correspondence on EDGAR.[5] While I cannot observe differential processing effort or ability among classes of investors, these results are consistent with increases in information asymmetry stemming from advantages of sophisticated investors in terms of both access and processing.

As further evidence that the increases in information asymmetry are being driven by differential access rather than differential processing abilities, the comment letter complexity variables, included as controls, are generally not associated with the changes in information asymmetry. Only the number of copied parties is associated with a decrease in depth. However, the number of comments, rounds, and filings reviewed are not associated with the changes in spreads or depth, which is inconsistent with an information processing explanation.

In supplemental analyses I examine how the proportion of EDGAR access to comment letter correspondence by sophisticated investors changes over the years following the CL policy. I find that the proportion of the release window access to comment letter correspondence attributed to sophisticated investors is much higher than that of a 10-K filing in the initial years after the CL policy, but that this difference gradually dissipates over my sample period following the CL policy. These results suggest that the short window increases in information asymmetry following comment

[5] In additional analyses, I find evidence that suggests the association between investor access and changes in depth may not be related to comment letter releases, although the association with changes in bid-ask spreads is robust.

letter releases become less pronounced as more non-sophisticated investors pay attention to them.

Collectively, these results suggest that there is little reaction to comment letter releases by investors in the short-term, and I find mixed evidence on whether the releases lead to increased information asymmetry. This study complements two studies: Johnston and Petacchi (2013) which finds evidence of stronger earnings response coefficients following a comment letter review, suggestive of the correspondence being informative in conjunction with a future information release and Bozanic et al. (2015) which finds a decrease in information asymmetry associated with future disclosure revisions coinciding with a comment letter review. Although there is a large accounting literature on capital market effects of financial reports, there is relatively less research on the effects of disclosing details related to managerial judgments underlying the financial reports. SEC comment letter correspondence provides a window into companies' financial reporting and disclosure decisions by making the dialogue between the SEC staff and company management publicly available. I contribute to the disclosure regulation literature by providing short window evidence on the informativeness of comment letter releases and their impact on information asymmetry among investors.

Chapter 2: Background and Related Literature

2.1 *Overview of the SEC Comment Letter Process*

To provide context for the CL policy, I provide a general overview of the SEC comment letter process.[6] Soon after the creation of the SEC, the Division of Corporation Finance was established to oversee compliance with accounting and disclosure requirements of public companies. This role is primarily carried out via a proactive filing review process where disclosure filings are selectively reviewed, and when potential areas for improvement in the disclosure or non-compliance are identified, the SEC staff issues a comment letter to the company detailing the disclosure issues identified in the review. The company's management then responds to each comment with supplemental information on the facts and circumstances they considered in arriving at their disclosure decisions, which may result in additional comments or revision requests. The back and forth correspondence continues until all issues are resolved.

There are two classes of disclosure filings reviewed: registration statements and periodic reports. Registration statements are filed under the Securities Act of 1933 and pertain to transactional filings such as initial or secondary offerings. Periodic reports, which include 10-Ks, 10-Qs, 8-Ks, and proxy statements, are filed under the Securities Exchange Act of 1934 and represent the ongoing disclosure obligations of public

[6] Also see the description of the filing review process on the SEC website: http://www.sec.gov/corpfin/Article/filing-review-process---corp-fin.html.

companies.[7] A review may include more than one filing type. For example, securities being registered for a newly merged company on Form S-4 may incorporate by reference a 10-K of one or both of the entities involved in the business combination. Even in the case where a 10-K is the primary filing being reviewed, all subsequent 10-Qs, 8-Ks, and proxy statements are also reviewed.[8] Other available public information, such as corporate websites and press releases, is also taken into consideration as part of the reviews.

Registration statements are typically reviewed within the first 30 days of their initial filing date. As they pertain to an ongoing business transaction (e.g. IPO, spin-off, etc.), these reviews have traditionally taken precedence over periodic filing reviews. However, 10-K reviews have increased in frequency and importance due to the SOX 408 mandate that the SEC review the periodic reports "including reports filed on Form 10-K" at least once every three years. By the end of the first three-year review cycle under SOX 408 in 2005, which coincided with the effectiveness of the CL policy, there was an increase in the number of reviews and comment letters being issued.[9] Correspondence relating to periodic 10-K reviews is the most likely source of information regarding a company's ongoing financial reporting and disclosure decisions. Accordingly, I focus on 10-K reviews in this study.

[7] I refer to public companies as those that have securities registered with the SEC with current periodic reporting obligations regardless of whether they are publicly traded on a national exchange. SEC reporting companies are often referred to as 'registrants'.
[8] The 8-K itself may be the primary filing reviewed if it relates to a change in auditors (Item 4.01) or a restatement (Item 4.02). In addition, the SEC staff may focus on proxy statement disclosure reviews targeting compensation disclosures or other issues.
[9] The percentage of SEC reporting companies reviewed each fiscal year is disclosed in the SEC annual reports, which are available at http://www.sec.gov/about/annrep.shtml.

The timeline in Appendix A illustrates a typical 10-K review. Unlike a registration statement review, 10-Ks are scheduled for review anytime throughout the year after they are filed. A 10-K review is generally not initiated after the end of the company's fiscal year end while management is preparing its new 10-K, however, if an ongoing review is not completed by the time the new 10-K is filed, the new 10-K disclosures are incorporated into the extant review. If the SEC staff determines that comments are warranted, an initial letter is sent to the company's management requesting a response within 10 business days or to provide an alternative timeframe. The back-and-forth correspondence continues until all comments are resolved, upon which time, the SEC staff sends the company a "Completion of Review" letter. Per the CL policy, there is a minimum 45 day waiting period (reduced to 20 business days after 2011) before the SEC comment letters (form type "UPLOAD") and manager response letters (form type "CORRESP") are publicly released by the SEC staff on EDGAR. This delay allows the staff time to ensure that non-public information associated with the review, such as internal SEC examination reports, supplemental or confidential registrant information, or other documentation, is not erroneously released on EDGAR. Once posted, the correspondence appears as if it were filed with its original dates. The release date is the event date of interest in this study.

Prior to the CL policy, investors or other interested parties could gain select access to comment letter correspondence via a FOIA request. The SEC press release announcing the CL policy noted an increase in the number of FOIA requests (SEC, 2004a). After the CL policy, a FOIA request is only necessary for portions of comment letter correspondence that are withheld from public dissemination under a confidential

treatment request. During the comment letter process, if managers do not agree with the disclosure revisions requested by the staff, they may appeal for reconsideration of the issue by higher levels of authority within the SEC. Auditors and other advisors may assist management in responding to SEC comments. The possible outcomes of a comment letter review include (i) an amendment to a filing under review, (ii) disclosure revisions to a future filing, or (iii) supplemental information provided in the response letter to satisfy the staff's concerns. These outcomes are not mutually exclusive for each comment letter review. Also, note that if the filing review does not result in a comment letter being issued, the company is not informed that a review occurred. The complexity of the issues discussed in a comment letter review may vary with the number of comments issued, rounds of correspondence exchanged, filings reviewed, and external advisors involved.

2.1.1 *Background on the CL Policy*

On June 24, 2004 the SEC announced the CL policy. Although not considered a formal standard setting initiative, the SEC did solicit comments on the proposed policy. Many of the constituents who commented on the CL policy believed that it would provide significant benefits for investors. Phil Brown, CEO of Global Securities Information Inc., commented, "These staff comments and issuer responses, previously unavailable online with a single search interface, afford an unprecedented view of the many interactions between the Commission and the reporting community" (SEC, 2004b). John Gavin, President of SEC Insight Inc., characterized the comment letter correspondence as "analytically rich" and "an important and helpful supplement to some of the more formal disclosure and communication mechanisms" (SEC, 2004b). Other

parties commented that they believed the CL policy would inhibit the exchange of information between the SEC and managers or lead to "misguided reliance" or "mischaracterizations and misunderstandings of portions of the letters" (SEC, 2004b). A recent Wall Street Journal article refers to the filing review process as "the stock market's punctuation police."[10] The article highlights comment letter correspondence discussing minor issues related to grammar, font sizes, and writing styles. The views expressed in the article are consistent with comment letter releases not having a significant capital market impact.

Despite the informal nature of the issuance of the CL policy, there was some coverage of the announcement in the business press. A June 25, 2004 PR Newswire press release echoed some of the constituent comments on the proposed policy, "making comment letters more freely available will fundamentally and dramatically improve the quality of information available to investors."[11] A July 7, 2004 Dow Jones press bulletin stated "Comment letters, the Holy Grail of Freedom of Information Act requests to the Securities and Exchange Commission, will soon be laid bare on the agency's Web site for all to see."[12] Company advisors, such as external counsel and audit firms, began offering guidance to help minimize potential costs associated with the publicity of the comment letter correspondence. One corporate counsel firm commented on the "tremendous amount of time and resources of management teams" devoted to responding to comment

[10] See the September 12, 2014 WSJ article "To Be Clear, SEC Reviewers Want Filings in Plain English, Period" by Theo Francis at http://www.wsj.com/articles/to-be-clear-sec-reviewers-want-filings-in-plain-english-period-1410555347.
[11] See the article at http://www.prnewswire.com/news-releases/sec-insight-inc-applauds-sec-plans-to-post-comment-letters-75156202.html.
[12] This July 7, 2004 article was accessed on Factiva under Dow Jones News Service entitled "Comment Letter Access May Aid Lawyers More Than Investors" by Tiffany Kary.

letters, and now with the added public dissemination, managers must "choose [their] words wisely."[13]

There were several reports that private entities were profiting from select access to comment letter correspondence prior to the CL policy decision. A Business Law Today article referred to the practice of gaining access to comment letter correspondence via a FOIA request and then selling the information on a subscription basis as becoming a "cottage industry."[14] The CL policy became effective for reviews of disclosure filings made after August 1, 2004, and the SEC began releasing the comment letter correspondence on May 12, 2005.

2.1.2 *Comment Letter Release Anecdote*

To illustrate the potential capital market impact of a comment letter release, I include an example in Appendix B. On November 24, 2006, the correspondence relating to the SEC's review of the Ford Motor Company's 2005 10-K was publicly released. On that day, there were several articles in the business press discussing the details revealed in the comment letter release. The press articles highlight an issue raised by the SEC in a comment letter dated July 5, 2006 asking for more disclosure on Ford Motor Company's operations in countries identified as sponsoring terrorism, including Syria, Iran, and Sudan, as referenced on their corporate website. Ford's management provided a response letter two weeks later with information on their business operations and relationships in the referenced countries along with a materiality assessment of why they believed that no

[13] Anecdotal evidence that the CL policy created disclosure costs to companies is evident in articles such as http://www.lexology.com/library/detail.aspx?g=ad97145c-6518-4d2f-913a-e869bdd94338 and http://www.bryancave.com/files/Publication/6390da1b-7509-42f4-9742-a2b18b8d635a/Presentation/PublicationAttachment/276034c2-7579-4058-8a07-a3f7840690e7/SECCommentLetterAlert7-2-2004.pdf.

[14] See http://friedfrank.com/siteFiles/Publications/876F08E6DB33CF7A3D62959FDF7EEA88.pdf.

additional disclosure should be warranted. The SEC staff issued several follow-up comments in a letter dated July 26, 2006. Ford's management responded again three weeks later providing additional clarifying information on their foreign operations and further justification for their determination that additional disclosure would not be material to their investors. On August 23, 2006 the SEC closed their review and notified the Company that they had no further comments. The entire set of correspondence was released by the SEC on its EDGAR website on November 24, 2006, which was the first time the comment letter correspondence was publicly accessible. The release was accompanied by a negative 3.6% two-day cumulative abnormal return, which is approximately the lowest decile of the sample price reactions. See Appendix B for the chronology of comment letter correspondence and media mentions of the release.

2.2 *Literature on SEC Comment Letters*

Due to the availability of data following the CL policy, there have been several academic studies on various aspects of the SEC comment letter process; however, there has been little research on the impact of publicly releasing the comment letter correspondence. Bozanic et al. (2015) and Johnston and Petacchi (2013) examine the impact of 10-K disclosure changes coinciding with a comment letter review on companies' information environments. Specifically, Bozanic et al. (2015) compare measures of qualitative disclosure in the 10-K that was subject to a comment letter review to the 10-K subsequent to the review. The paper finds significant qualitative disclosure enhancements along several dimensions aligned with the SEC's intention to improve the transparency of the disclosures, but that these improvements are smaller or not significant for companies that negotiate with the SEC staff or make a confidential treatment request.

Finally, the study finds the extent of 10-K disclosure improvements is associated with decreased information asymmetry, increased analyst following, and reduced litigation risk.

Johnston and Petacchi (2013) examine earnings announcements in the eight quarters following a comment letter review and find decreased trading volume and improved analyst forecast accuracy in the post-review period, which suggests that the 10-K disclosure improvements have a positive long-term effect on the information environment for investors. The study also documents stronger earnings response coefficients (ERCs) in the post-review period, however, it does not assess the extent to which publicly releasing the comment letter correspondence contributes to this effect.

Gietzmann and Isidro (2013) find evidence that long-term institutional investors respond to SEC comment letter releases by reducing their holdings, particularly for IFRS firms. The study provides evidence that the comment letter releases serve as a negative signal of financial reporting quality and that stock holdings by low-turnover institutional investors are subsequently reduced. Although the study's results are attributed to comment letter reviews, it does not distinguish between possible sources of the long-term reactions to the release of the correspondence, the disclosure changes in the filings reviewed, or other concurrent events.

Three recent working papers have begun to examine short window effects of releasing comment letter correspondence. Ryans (2014), takes a trading strategy perspective in examining the informativeness of comment letter releases. Utilizing naïve Bayesian textual analysis, the study identifies "important" comment letters classified as those with the most negative market reactions. In another concurrent paper, Kubick et al.

(2014) examine tax-related comment letters and find evidence that firms and their peers decrease their tax avoidance behavior following the receipt of the comment letter. The study further shows that investors assign a lower valuation of the firm's tax avoidance in the years following the comment letter release, which is suggestive of an investor reaction to the tax-related comment letter content. Finally, Dechow et al. (2014) provide evidence of a significant market reaction to the release of comment letters focusing on revenue recognition. As the focus of the paper is on insider trading surrounding the comment letter releases, it does not address explanations for the observed market reactions or examine the informativeness of the correspondence beyond the subset of reviews focusing on revenue recognition. The study finds evidence of abnormal insider trading both before and after the comment letter releases. My study builds on this literature by examining the impact of comment letter releases on the capital markets in terms of information content and changes in information asymmetry immediately following the release.

2.3 *Disclosure Regulation Literature*

Several academic surveys have called for more empirical research on disclosure regulation. Healy and Palepu (2001) call for more recent evidence on the effectiveness of disclosure regulation. Leuz and Wysocki (2008) call for a greater understanding of the dynamics and process by which corporate disclosures are regulated. Beyer et al. (2010) specifically call for more research on the effect of disclosure regulation on different stakeholders with varying levels of sophistication. I contribute to this broad literature by providing evidence on the impact of one specific regulatory policy.

In addition to the general disclosure regulation literature, my study relates to the academic literatures on the SEC's creation of EDGAR in the 1990s and the adoption of Regulation FD in 2000. Asthana and Balsam (2001) examine 10-K filing reactions after the mandate to file periodic reports electronically on EDGAR as compared to the pre-EDGAR era. They find a significant market reaction to the 10-K filings only after the increased accessibility on EDGAR. Qi et al. (2000) and Griffin (2003) provide supporting evidence. Two studies also provide evidence that information asymmetry among investors declined after the electronic EDGAR mandate. Christensen et al. (2013) find evidence that a broader set of market participants use 10-K filing data in the post-EDGAR period including individual investors in addition to financial analysts who previously incurred the cost of accessing the information before it was accessible electronically. Asthana et al. (2004) likewise find increases in the volume of small trades in the post-EDGAR era, which is suggestive of the EDGAR policy leveling the playing field for all investors. Prior literature on the effectiveness of Regulation FD generally finds a decrease in information asymmetry after it disallowed selective private disclosures (e.g. Bushee et al., 2003; Eleswarapu et al., 2004; and Gintschel and Markov, 2004). Although related, my inquiry is distinct from these two literature streams as the CL policy mandated the public dissemination of the dialogue between the regulator (SEC) and company managers regarding the firms' financial reports.

Chapter 3: Hypothesis Development

Consistent with event study literature, I examine short window market reactions to make inferences on the information content of comment letter releases. If comment letter correspondence provides investors with new information, then the releases would be expected to generate significant market reactions. The increasing number of FOIA requests for comment letter correspondence leading up to the CL policy, and its offering on a subscription basis by investment research firms is indicative of perceived informational qualities of comment letter correspondence. The SEC believed that comment letter releases would provide useful information for investors based on its policy decision. On the other hand, investors may not immediately respond to comment letter releases if the dialogue revealed in the releases does not provide incremental information beyond existing disclosures or if the contextual information is only useful in conjunction with a future information release. Comment letter releases effectively providing information to investors implies the following hypothesis:

H1A: Comment letter releases are associated with a significant immediate investor response.

If the information content in comment letter correspondence is related to the variability or sensitivity of companies' reported financial results, then I would expect the informativeness to be greater for companies with more economic uncertainty. The contextual information revealed in a comment letter release may be associated with a

stronger investor response for companies whose reported financial results are more volatile or uncertain, such as a young public company. On the other hand, investors may rely less on information related to historical financial disclosures for these types of companies, instead relying on alternative information sources to assess the companies' prospects. In addition to firm characteristics, comment letter characteristics related to the complexity of the issues discussed in the review may also influence the informativeness of the release to investors. Comment letter correspondence with more comments, rounds, filings reviewed, and external advisors involved would be expected to generate a stronger investor response. On the other hand, comment letter complexity may not be associated with the investor responses if the informativeness of the release is primarily related to investors learning of the existence of the comment letter review rather than the nature and extent of the issues discussed. I state this joint hypothesis as follows:

H1B: Investor responses to comment letter releases are associated with the companies' economic uncertainty and comment letter complexity.

Comment letter releases may either increase or decrease information asymmetry among investors. On one hand, the content of comment letter correspondence could reduce informational differences between sophisticated and non-sophisticated investors. This would be the case if sophisticated investors already understood much of the contextual information revealed in the release. On the other hand, comment letter releases may exacerbate informational advantages of certain investors due to their ability to notice or process comment letter correspondence. I state this hypothesis as follows:

H2A: Comment letter releases are associated with a short window change in information asymmetry among investors.

One factor that could influence the change in information asymmetry is varying levels of attention paid to comment letter releases by sophisticated and non-sophisticated investors. Even though the CL policy made the correspondence freely available to all investors, there may be differences in the amount of attention paid to the releases by different classes of investors. If sophisticated investors retain an advantage in terms of actual access to the correspondence immediately following its release due to the lack of attention by other investors, this could explain the source of their information advantage, as it would manifest in the same way on information asymmetry. I predict a positive (negative) association between changes in information asymmetry and the level of sophisticated (non-sophisticated) investor access. This implies the following hypothesis:

H2B: The change in information asymmetry following comment letter releases is associated with the relative level of access between sophisticated and non-sophisticated investors.

Chapter 4: Data and Methodology

4.1 *Data Sources and Empirical Proxies*

I use Audit Analytics to obtain the details of all comment letter releases publicly available since the CL policy took effect in 2005 through 2012 related to 10-K reviews.[15] I use CRSP to obtain market reaction data and bid-ask spreads, TAQ for depth, and Compustat, I/B/E/S, and Thomson Reuters for control variables. Finally, I obtain details of investor access to comment letter correspondence during my sample period from SEC EDGAR log files obtained via a FOIA request. The construction of my sample is described in Table 1.

To assess how investors respond to comment letter releases, I use four short window market reaction variables commonly used in the literature: signed and unsigned cumulative abnormal returns (*CAR* and *absCAR*), abnormal volume (*AVOL*), and abnormal return volatility (*AVAR*). *CAR* is the cumulative abnormal return in the two trading days beginning on the comment letter release date (0,+1) and is calculated as the difference between the cumulative raw return and the value-weighted market return in the event window. I take the absolute value to calculate *absCAR* for the unsigned price reaction. To calculate *AVOL*, I divide the average daily volume in the event window (0,+1) by the average daily volume in the prior 60-day estimation window and then

[15] The comment letter release date is referred to as the 'file dissemination date' in Audit Analytics and is extracted from the header information on the comment letter correspondence in EDGAR.

subtract 1. Finally, I calculate *AVAR* as the ratio of the return volatility (standard deviation of daily returns) in the event window to that in the prior 60-day estimation window.

Note that due to the construction of the unsigned abnormal returns (*absCAR*) using the absolute values, its expectation is not zero like *CAR* and *AVOL*. To construct an unsigned price reaction measure with a zero expectation, I first calculate a benchmark *absCAR* as the average of 1,000 random draws of a pseudo date within the year prior to each comment letter release. I then calculate the abnormal unsigned returns, *AabsCAR*, as the event date *absCAR* less the benchmark. Also note that due to its construction, *AVAR* has an expectation of one.

To test H1B I use several characteristics of companies' economic uncertainty and comment letter complexity to assess whether they are associated with a stronger investor response. I proxy for companies with uncertain operating environments as young public companies (*Young_Company*), with volatile revenues (*Revenue_Volatility*) and high analyst forecast dispersion (*Analyst_Dispersion*). *Young_Company* is an indicator for the lowest decile of number of years listed on CRSP. *Revenue_Volatility* (*Analyst_Dispersion*) is an indicator for the highest decile of the four-year standard deviation of quarterly revenue (the standard deviation of outstanding forecasts as of the comment letter release date). The calculation of these last two variables requires data for at least two prior quarters of revenue and at least two analysts following the firm, which results in the reduction of available observations of 8% and 22%, respectively.

I use four variables to assess the complexity of each comment letter review. The number of comments issued by the SEC during the review (*Comments*) is estimated as

the total number of accounting comments as coded by Audit Analytics.[16] The number of comment letter rounds (*Rounds*) is calculated as the total number of SEC comment letters issued during the review excluding the "Completion of Review" letter. In Cassell et al. (2013), the number of rounds in a comment letter review is used as a proxy for the cost of remediation. The number of filings reviewed (*Filings_Reviewed*) is the number of unique filings referenced in the comment letters. Finally, the number of individual parties copied on the correspondence (*Copied_Parties*) measures the extent to which external advisors, such as auditors or legal counsel, are involved in the comment letter review.

To assess the change in information asymmetry in conjunction with comment letter releases, I use two proxies for information asymmetry: abnormal bid-ask spread (*ABAS*) and abnormal depth (*ADEPTH*). Consistent with Blankespoor et al. (2014), *ABAS* is calculated as the average daily percent spread from CRSP during the two-day event window (0,+1) less the average daily percent spread from the prior 60-day estimation window (-60,-1). Daily percent spread is calculated as the daily closing spread quoted in CRSP (offer price – bid price/midpoint*100). Similarly, *ADEPTH* is calculated as the average daily logged depth from TAQ in the two-day event window less that of the prior 60-day estimation window.

To analyze classes of investors who access comment letter correspondence on EDGAR, I use the SEC server log files, obtained via a FOIA request. The EDGAR log files are available for all but the last nine months of my sample period. These data

[16] Note that SEC comments may be classified under more than one code in the Audit Analytics issues taxonomy, so the total number of accounting comments ("Accounting Rule and Accounting Disclosure") is used as an approximation of the total number of comments.

contain details on the timing and user identity (IP address) of each EDGAR request for a piece of comment letter correspondence. Consistent with Drake et al. (2014), I classify IP addresses owned by entities such as investment banks, asset managers, brokerages, and insurance companies as sophisticated investors. I classify IP addresses associated with an internet service provider ("ISP") as non-sophisticated investors. I exclude IP addresses owned by data aggregators, universities, government agencies, and unidentified IP addresses. I focus initially on requests made during the immediate two-day release window and then check the robustness of the investor access results to alternative windows and alternative classifications of sophisticated investors. While I acknowledge that there is noise inherent in using IP addresses to classify types of investors, this analysis is intended to provide insights into the impact of actual users of the comment letter correspondence.

4.2 *Research Design*

To make inferences on the investor responses and changes in information asymmetry associated with comment letter releases (H1A and H2A), I first use univariate t-tests. I evaluate the univariate significance of the short window market reaction variables (*CAR*, *AabsCAR*, *AVOL*, and *AVAR*) to test whether investors respond to the information contained in comment letter releases. I test whether the releases are associated with a change in information asymmetry by evaluating the univariate significance of the information asymmetry proxies (*ABAS* and *ADEPTH*). As these two variables measure how abnormal the bid-ask spreads and depth are in the immediate window following the release, I interpret their direction and significance as the change in information asymmetry.

I then move to a multivariate framework to test the remaining hypotheses. I employ the following empirical models for the cross-sectional tests. The regression model to test H1B is as follows:

$$Market\ Reaction = \beta_0 + \boldsymbol{\beta_1\ Economic\ Uncertainty} + \boldsymbol{\beta_2\ CL\ Complexity} + \beta_3\ Concurrent\_Filing + \beta_4\ LogSize + \beta_5\ BTM + \beta_6\ ROA + \beta_7\ Analysts + \beta_8\ IO + \varepsilon \quad \textbf{Eq. 1}$$

where *Market Reaction* = { *absCAR*, *AabsCAR*, or *AVOL*}, *Economic Uncertainty* = {*Young_Company*, *Revenue_Volatility*, and *Analyst_Dispersion*}, and *CL Complexity* = {*Comments*, *Rounds*, *Filings_Reviewed*, and *Copied_Parties*} as defined in Section 4.1 and in Appendix C. *Concurrent_Filing* is an indicator for any concurrent filing within the comment letter release window and controls for confounding events. I also control for traditional determinants of filing reactions in Eq. 1. I calculate *LogSize* as the natural log of the company's market value of equity as of the most recent reporting period prior to the comment letter release date. *BTM* is the book-to-market ratio and *ROA* is the return on assets. I also control for the number of analysts following the company (*Analysts*) and the institutional ownership percentage (*IO*) as of the comment letter release date.

The regression model to test H2B is as follows:

$$Information\ Asymmetry = \beta_0 + \boldsymbol{\beta_1\ Log\_Soph\_Requests} + \boldsymbol{\beta_2\ Log\_Non\_Soph\_Requests} + \beta_3\ Economic\ Uncertainty + \beta_4\ CL\ Complexity + \beta_5\ Concurrent\_Filing + \beta_6\ LogSize + \beta_7\ Price + \beta_8\ Turnover + \beta_9\ Volatility + \beta_{10}\ IO + \varepsilon \quad \textbf{Eq. 2}$$

where *Information Asymmetry* = {*ABAS* or *ADEPTH*}. The test variables of interest in Eq. 2 measure the level of access to the comment letter correspondence by sophisticated and non-sophisticated investors. *Log_Soph_Requests* is the natural log of the number of

requests on EDGAR for comment letter correspondence during the two-day release window by sophisticated investors (classified by the ownership of the IP address generating the request). Similarly, *Log_Non_Soph_Requests* is the logged number of release window requests by non-sophisticated investors (i.e. those generated by IP addresses associated with an ISP). I also present the results of this test using the percentage of the total requests made by sophisticated investors: *Soph%*. Consistent with Eq. 1, I include the variables related to companies' economic uncertainty and comment letter complexity to control for the significance of the comment letter review. *Concurrent_Filing* controls for other potential confounding information events. I also control for the determinants of bid-ask spreads and depth consistent with Blankespoor et al. (2014). In Eq. 2, *LogSize* controls for inventory risk. *Price* is the average daily price in the event window and controls for the market makers' processing costs. *Turnover* is the prior quarter average daily turnover and controls for the inventory holding costs, which is affected by the liquidity of the company's shares. *Volatility* is the prior quarter average return volatility and also controls for inventory risk. Finally, *IO* controls for institutional ownership (type of investor following). All variables are described in detail in Appendix C.

Chapter 5: Empirical Results

5.1 *Descriptive Statistics*

I present descriptive statistics in Table 2 for the market reaction and information asymmetry test variables as well as the conditioning and control variables used in the empirical models. The average cumulative abnormal return (*CAR*) is a positive one half of one percent. The price reaction is several times greater in the absolute sense (*absCAR*), suggesting that there may be an offsetting effect of good and bad news revealed in the comment letter correspondence. Abnormal trading volume (*AVOL*) is about 7% higher than the benchmark estimation period at the mean. Abnormal bid-ask-spread (abnormal depth) is positive (negative) on average, suggesting an increase in information asymmetry.

The three firm-characteristics related to economic uncertainty, *Young_Company*, *Revenue_Volatility*, and *Analyst_Dispersion*, are based on deciles calculated on the total observations before restricting the sample for available control variables, which is why the mean of these variables is not exactly 0.10. The average number of accounting comments (*Comments*) issued by the SEC during a comment letter review is 2.9. The average number of rounds (*Rounds*) is 1.7, suggesting that each comment letter release contains about two SEC comment letters and two management response letters in addition to the "Completion of Review" letter. There are an average of 2.1 filings

included in each comment letter review (*Filings_Reviewed*), suggesting that comments on a company's 10-K are most often accompanied by comments on other disclosure filings. There is less than one (0.3) individual copied on the correspondence (*Copied_Parties*), on average, suggesting that external legal counsel and auditors are not frequently copied on the correspondence explicitly. The average number of release window EDGAR requests for comment letter correspondence by sophisticated investors (*Soph_Requests*) is 9.6 and 25.2 for non-sophisticated investors (*Non_Soph_Requests*). The percentage of total release window requests made by sophisticated investors is 32.1%. Pairwise correlations are presented in Table 3.

5.2 *Investor Response Results*

I first present the baseline univariate results for the investor responses in Table 4. As shown in Panel A, the signed cumulative abnormal return (*CAR*) is not significantly different from zero, which is consistent with prior literature. Since the expectation of *absCAR* is not zero, I construct a benchmarked unsigned abnormal returns measure (*AabsCAR*) based on pseudo dates. Comparing *absCAR* for the comment letter release date to the average *absCAR* for pseudo dates based on 1,000 draws of a random date within the year prior to the release, I find that the event date *absCAR* is significantly higher than that of the pseudo dates. Abnormal volume (*AVOL*) is also positive and significant, suggesting an increase in trading activity associated with the comment letter releases. Finally, *AVAR*, which is the ratio of the return volatility in the event period to the return volatility in the estimation period, is significantly higher than its expectation of one. As three of the four market reaction variables are significant, this evidence suggests that comment letter releases are informative to investors, however, these results largely

go away after excluding cases with concurrent filings. In Panel B, I exclude comment letter releases that coincide with another information release, such as the filing of an 8-K, within the release window to draw cleaner inferences without potential confounding events. *AabsCAR* becomes insignificant and *AVOL* and *AVAR* become weaker in magnitude and significance.

To address the selection issue of types of companies that receive comment letters, I use two approaches. I first use a propensity score matched control sample based on the determinants of receiving a comment letter documented in Cassell et al. (2013). Specifically, I match one-to-one using the nearest neighbor on the dimensions of size, return volatility, age, bankruptcy rank, external financing, restatements, losses, mergers and acquisitions, and auditor class. As shown in Panel C of Table 4, I find significantly stronger price (*absCAR*) and volume (*AVOL*) reactions for the firms with a comment letter release (*CL*) compared to the matched control firms. However, as tabulated in Panel D, after excluding releases with concurrent filings these two market reaction variables are only marginally different from the control sample, and *CAR* and *AVAR* continue to be insignificant.

To further address the selection issue, I restrict the sample to companies that are likely reviewed every year. As the SEC does not publicly disclose the market capitalization threshold that triggers an annual review frequency, I use the threshold for large accelerated filers: $700 million. As shown in Panel E of Table 4, the investor response results are significant for this subsample of large accelerated filers. In comparison with Panel A of Table 4, the t-statistics in Panel E are of similar or greater magnitudes despite the smaller number of observations and smaller means. This implies

that the standard deviation of the market reactions for the large accelerated filers is smaller than that of the overall sample. However, as shown in Panel F of Table 4, after excluding the cases with concurrent filings, the market reactions for the large accelerated filers are not significant with the exception of a significantly negative signed price reaction (*CAR*). Overall, I do not find much support for H1A. These univariate results imply that on average there is little investor response to comment letter releases in the absence of a concurrent filing.

To provide evidence on the relative economic magnitude of the information content, if any, in comment letter releases, I employ a model similar to that of Beyer et al. (2010). Panel A of Table 5 represents a decomposition of firm-quarter return variance of several mandatory and voluntary disclosures for all firm-quarters available on CRSP for my sample period (2005 through 2012). This is done by regressing the total firm-quarter log abnormal return (*CAR_TotQ*) on the short window (-1,+1) log abnormal return surrounding the following information releases during the quarter: SEC comment letter correspondence (*SEC_CL*), SEC Forms 10-K, 10-Q, and other filings (*SEC_10KQ and SEC_Other*), earnings announcements (*EA*), pre-announcements (*Pre-EA*) and management forecasts (*MF*), and analyst forecasts (*AF*). This methodology is used to determine the relative contribution of each information source on the total information reflected in stock price. If there are no such releases in any given quarter, it is coded as zero. If an earnings announcement is concurrent with another information release, it is coded as an earnings announcement. Note that SEC comment letter releases were not separately considered as an information source in the Beyer et al. study.[17]

[17] Note that although the primary sample for my study only includes 10-K review comment letter releases, the test in Table 5 includes all comment letter correspondence released in any given quarter.

The total R-squared and partial R-squared for each variable reported in Panel A of Table 5 are consistent with Beyer et al., with one exception. In my sample the earnings announcements (the combination of pre-announcements and management forecasts) represent about 60% (5%), whereas in the Beyer et al. sample the relative contribution of these two sources is flipped. One possible reason for this difference between sample periods is that management forecasts were more frequent and less bundled with earnings announcements in the earlier portion of the Beyer et al. sample, which spans 1994-2007, as compared to my sample period of 2005-2012, when comment letter correspondence became available. The analysis suggests that the relative information content of comment letter correspondence is approximately one-third the information content of a Form 10-K or 10-Q and only one-sixtieth of an earnings announcement, as shown in Panel A. However, this approach may bias down the relative magnitude of the comment letter releases given their infrequency as compared to other information sources included in the model. To address this concern, I exclude firm quarters that do not include a comment letter release. The results of this specification are presented in Panel B of Table 5. Within the non-zero comment letter release quarters, the relative information content is approximately three times that of a 10-K or 10-Q and about one-sixth of an earnings announcement. Finally, in Panel C of Table 5, I only include mandatory information releases. This is to put the comment letter releases on an equal footing with releases that happen every quarter as opposed to voluntary releases such as management or analyst forecasts, which may not occur every quarter. These results are consistent with those in Panel B. In summary, the results in Table 5 suggest that when investors respond to comment letter releases, the price movement is comparable to that of other mandated

SEC disclosures. This implies that even though there is limited evidence of an 'on average' investor response to comment letter releases (H1A), the relative information content of the releases can be significant in certain cases.

The results of estimating Eq. 1 are presented in Table 6 representing the investor response cross-sectional results on the effect of economic uncertainty and comment letter complexity. The first three bolded variables (*Young_Company*, *Revenue_Volatility*, and *Analyst_Dispersion*) represent firm characteristics associated with the uncertainty of the companies' operating environments. In Column 1, I find a significant positive association between each of the economic uncertainty variables and *absCAR* providing initial evidence that these characteristics are associated with a stronger unsigned price reaction. However, to address the concern that the Column 1 results are due to a spurious relation between the firm characteristics and unsigned abnormal returns unrelated to comment letter releases, I use an alternative dependent variable in Column 2: abnormal unsigned returns (*AabsCAR*). As in Panel B of Table 2, *AabsCAR* is calculated as the event period *absCAR* less the average *absCAR* for 1,000 draws of a random date within the year prior to each comment letter release date. As shown in Column 2 of Table 6, this specification results in an insignificant association between the abnormal unsigned returns and *Revenue_Volatility* and *Analyst_Dispersion*. Only *Young_Company* is robust to this alternative specification. In addition, only one of the uncertainty characteristics (*Analyst_Dispersion*) is significantly associated with *AVOL* in Column 3. Overall, these results do not provide consistent evidence that investor responses to comment letter releases are related to companies' economic uncertainty (H1B).

The other bolded variables in Table 6 (*Comments*, *Rounds*, *Filings_Reviewed*, and *Copied_Parties*) represent comment letter characteristics associated with the complexity of the reviews. In Column 1 each of the four comment letter complexity variables is positively associated with *absCAR* with the exception of *Rounds*. However in Column 2, *Filings_Reviewed* is no longer associated with the unsigned returns using *AabsCAR* as the dependent variable and *Rounds* goes in the opposite direction. In the *AVOL* regression (Column 3), *Comments* is positive and significant, but the association with *Rounds* remains negative. One potential explanation for the number of rounds being associated with a smaller market reaction, is that could be indicative of the company negotiating with the SEC to provide fewer disclosures (see Bozanic et al., 2015). As in the economic uncertainty tests, the comment letter complexity results provide very little evidence in support of H1B.

5.3 *Pre/ Post CL Policy Changes in Earnings Response Coefficients*

To supplement the short window focus of this study and to assess whether comment letter releases are informative in conjunction with future information releases, I employ an earnings response coefficient (ERC) test based on Johnston and Petacchi (2013). The authors find stronger ERCs in the eight quarters following a 10-K comment letter review as compared with the eight quarters preceding the review for their sample years (2004-2006). The stronger price-earnings relationship suggests that the earnings reports become more informative or credible following the SEC review. However, the prior study does not test to what extent this effect comes from publicly releasing the comment letter correspondence. I extend this research by comparing the ERC improvements between the pre and post CL policy regimes.

I obtain the dates of all comment letter reviews between 2001 and 2004 via an SEC FOIA request. In addition to the review dates, I originally requested the content (actual letters) of the pre period reviews via a FOIA request, but was unable to obtain the pre period comment letter correspondence from the SEC. The reviews for filings after August, 1, 2004 were publicly released, so I exclude these from the pre CL policy regime data. Due to difficulty in identifying 10-K reviews in the pre period data, as opposed to other types of filing reviews, I assume the majority of comment letter reviews include the 10-K, consistent with the post period.

As detailed in the footnote to Table 7, the Johnston and Petacchi (2013) model compares the ERCs in the eight quarters following each comment letter review (*Post*) with the eight quarters preceding the review. Table 7 presents the results of estimating the ERC model for the pre CL policy regime in Column 1 and the post CL policy regime in Column 2. In Column 2 the coefficient on the interaction of *Post* and *SUE* is positive and significant, which replicates the prior study's finding in the expanded sample period (2005-2012), providing further evidence that ERCs become stronger following a 10-K comment letter review in the post CL policy regime. I do not find evidence of significant ERC improvements in the pre CL policy regime (Column 1) when the correspondence was not publicly available; however, the coefficients are not significantly different between the two regimes.[18] Accordingly, I cannot conclude that comment letter releases contribute to stronger ERCs.

[18] Note that the coefficient on *SUE* is also not significantly different across the two columns. Even though the Table 7 results are presented as separate regressions for the pre and post CL Policy regimes, I use a pooled, fully interacted regression model to test whether the coefficients are statistically different across regimes.

5.4 *Information Asymmetry Results*

I present univariate results on the changes in information asymmetry in Table 8. As shown in Panel A, average *ABAS* is positive, and *ADEPTH* is negative, both suggesting an increase in information asymmetry, however, only *ADEPTH* is statistically significant. These results provide initial evidence on H2A. However, when I exclude comment letter releases with concurrent filings in Panel B of Table 8, the change in bid-ask-spreads becomes negative and significant, suggesting a decrease in information asymmetry even though the change in depth remains significantly negative, suggesting an increase. Overall, these results provide mixed evidence on whether there is an increase in information asymmetry immediately following comment letter releases.

I then present the cross-sectional information asymmetry results. The results of estimating Eq. 2 are presented in Panel A of Table 9. I consistently find a positive (negative) association between increased information asymmetry and the level of sophisticated (non-sophisticated) investor access to the correspondence on EDGAR. The more release window requests coming from sophisticated investors (*Log_Soph_Requests*), the more information asymmetry is exacerbated (i.e. higher abnormal bid-ask spreads and lower abnormal depth in Columns 1 and 3). Also, the more EDGAR requests coming from non-sophisticated investors (*Log_Non_Soph_Requests*), the more information asymmetry is mitigated. These results also hold for the proportion of total EDGAR requests coming from sophisticated investors (*Soph%*) in Columns 2 and 4. These results provide consistent evidence in support of H2B. These results suggest that at least part of the changes in information asymmetry comes from differences in actual access to the correspondence by

sophisticated and non-sophisticated investors. The results are also consistent with the processing advantage explanation insofar as the intensity of access is correlated with unobservable processing ability or effort. Furthermore, if the increases in information asymmetry are being driven by information processing advantages, then these advantages would be more apparent in cases of high comment letter complexity. However, out of the four comment letter complexity control variables in Panel A of Table 9, only the number of copied parties is associated with a decrease in depth. None of the other complexity variables (number of comments, rounds, and filings reviewed) is associated with the changes in spreads or depth, which is inconsistent with an information processing explanation. This lends support to the differential access explanation for the increased information asymmetry following comment letter releases. Another implication of these results is that attention to the comment letter correspondence by non-sophisticated investors attenuates information asymmetry, suggesting that investor education and awareness may help remedy this effect.

I next perform robustness tests on the information asymmetry results in Panel A of Table 9 to provide evidence on whether the effect of investor access is specifically related to comment letter releases. First, I construct a pseudo date measure of abnormal spreads (*ABAS_pseudo*) and abnormal depth (*ADEPTH_pseudo*) using a random date within the year prior to each comment letter release date. I do not expect to find an association between the release window requests for comment letter correspondence and the pseudo date changes in information asymmetry. Although using *ABAS_pseudo* as the alternative dependent variable generates the expected no relation in Panel B of Table 9, I continue to find a significant association between *ADEPTH_pseudo* and the investor

access variables with similar magnitudes as in Panel A. The F-tests in Panel B confirm that the bolded coefficients in the ADEPTH regressions in Panels A and B are not significantly different. This falsification test suggests that the previous change in depth (*ADEPTH*) result is unrelated to the comment letter releases. I next investigate whether the Panel A results are being driven by types of investors following the firm rather than specific comment letter correspondence requests on EDGAR. I calculate the three investor access variables based on the number of requests for a 10-K on a random date within the year prior to the comment letter release date (*Log_Soph_Requests_10K*, *Log_Non_Soph_Requests_10K*, and *Soph%_10K*). Drake et al. (2015) document that Form 10-K is the most requested filing on EDGAR. I use prior 10-K requests to proxy for the general level of investor following. As shown in Panel C of Table 9, I do not find the associations between the pseudo date investor access variables and the event date changes in information asymmetry, and all the bolded coefficients are significantly different between Panels A and C. Note the positive coefficient on *Log_Soph_Requests_10K* in the *ADEPTH* regression is in the opposite direction, so the pseudo date 10-K requests cannot explain the previous result. Finally, the results in Panel A hold even after controlling for institutional ownership. In summary, among these robustness tests, the *ADEPTH_pseudo* results in Panel B provide the only evidence that is inconsistent with H2B.

Chapter 6: Supplemental Analyses

6.1 *Information Asymmetry Trends Following the CL Policy*

Figure 1 illustrates the number of release window EDGAR requests for comment letter correspondence by types of investors, as classified by their IP address, over the years following the CL policy. Panel A demonstrates an increasing trend in the average number of requests for both sophisticated and non-sophisticated investors; this trend tapers off in 2011. Panel B of Figure 1 presents the percentage of total release window EDGAR requests for comment letter correspondence coming from sophisticated investors over the years following the CL policy. The percentage of 10-K requests from sophisticated investors is presented as a benchmark. Relative to 10-K EDGAR requests, a higher percentage of the comment letter requests comes from sophisticated investors in the early years following the CL policy, but this difference declines over my sample period.[19]

Combining the results in Panel A of Table 9 and the trends observed in Figure 1 raises the question of whether information asymmetry associated with comment letter releases has dissipated over the years following the CL policy as the proportion of sophisticated to non-sophisticated investor access has declined. To test whether short window increases in information asymmetry following comment letter releases have

[19] Note that these data are subject to the caveat that investors may access comment letter correspondence via services other than EDGAR such as Audit Analytics or Morningstar.

declined over time, I replace the investor access variables in Eq. 2 with an indicator variable for the last half of my sample period (*Post_2008*). The results of this test are tabulated in Table 10. The significantly negative (positive) coefficient on *Post_2008* in Column 1 (2) suggests that the short window changes in bid-ask spreads (depth) are attenuated for comment letter releases after 2008. This implies that information asymmetry associated with comment letter releases is less in the years 2009-2012 as compared to the first four years after the CL policy took effect, which corresponds with the increases in non-sophisticated investor attention.

6.2 *Comment Letter Releases and Analyst Forecast Revisions*

I examine potential explanations for the price reactions to comment letter correspondence, whether it could be related to a change in estimated future cash flows (numerator effect), or alternatively a change in the discount rate applied (denominator effect). If the information in a comment letter release revises investors' beliefs about projected future cash flows, then their valuation (pricing) of the company could be affected. An example where this could be the case is when the SEC solicits additional disclosures on potential dividend restrictions. On the other hand, the price reactions could be due to a discount rate effect as investors learn about the sensitivity or precision of the prior disclosed results.

To provide evidence on whether the price reactions are associated with a change in investors' beliefs about the companies' future cash flows I examine analyst forecast revisions. If analyst revisions following a comment letter release are positively associated with the sign and magnitude of the price reactions to release, this would be consistent with a numerator effect.

In Panel A of Table 11, I first present results on the change in analyst forecast revision frequency following a comment letter release. I calculate abnormal analyst revisions (*AAR*) as the average daily number of revisions in the 30 trading day period following the comment letter release less the average daily number of revisions during the 30 trading days preceding the release. Since analysts frequently revise their forecasts around earnings announcements, I exclude the observations where an earnings announcement falls within the pre or post 30 trading day windows. The univariate results suggest that comment letter releases are not associated with an increase in analyst revision frequency.

In Panel B of Table 11, I present results on the association between comment letter release price reactions and analysts' forecast revisions. For this analysis, I require that an EPS forecast be present in both the pre and post 30 trading day periods made by the same analyst for the same forecasting period. *Analyst_Revision* is the change in the value of the analyst forecast compared to the prior forecast preceding the comment letter release. As I do not find a significant association between the price reaction to the comment letter release (*CAR*) and analyst revisions, the results are not consistent with a numerator effect explanation (change in estimated future cash flows).

Chapter 7: Conclusion

The SEC's June 2004 policy decision to publicly release comment letter correspondence following its filing reviews represents a new quasi-disclosure requirement for companies that receive comment letters. Comment letter releases represent the public dissemination of a dialogue between the SEC staff and company management regarding its financial reports, which could provide investors with insights into managerial judgments underlying reporting and disclosure decisions. Despite increases in FOIA requests for comment letter correspondence leading up to the CL policy and investment research firms selling the information to their subscribers, there is limited empirical evidence on whether comment letter releases have an impact on the capital markets. I examine whether comment letter releases (1) provide investors with incremental information beyond companies' existing financial reports and (2) influence information asymmetry among investors.

Based on short window market reaction tests, I find weak evidence of investor responses to comment letter releases absent a concurrent filing. In the cross-section, I find almost no evidence that characteristics associated with companies' economic uncertainty and comment letter complexity are associated with the magnitude of the investor responses. These results imply that comment letter releases provide little informational value for investors in the short-term.

Even though the CL policy increased the accessibility of comment letter correspondence, I find mixed evidence on whether comment letter releases lead to a decrease in information asymmetry. The increases in information asymmetry are exacerbated (mitigated) for releases with a high level of attention by sophisticated (non-sophisticated) investors in terms of their access to the correspondence on EDGAR. Further, I find that the percentage of total release window EDGAR requests made by sophisticated investors has gradually declined over time following the CL policy. The corresponding increases in information asymmetry related to comment letter releases have dissipated in the later years after the CL policy as more non-sophisticated investors pay attention to them.

I contribute to the disclosure regulation literature by assessing the informativeness of comment letter releases and their impact on information asymmetry among investors. While the results of this study provide short window evidence that the informativeness of comment letter correspondence is limited and mixed evidence on whether the releases lead to increases in information asymmetry, I have not considered potential long-term effects of the CL policy. I leave to future research examining potential long-term costs and benefits of the CL policy such as how managers may have changed the way they respond to the SEC after their responses went on the public record.

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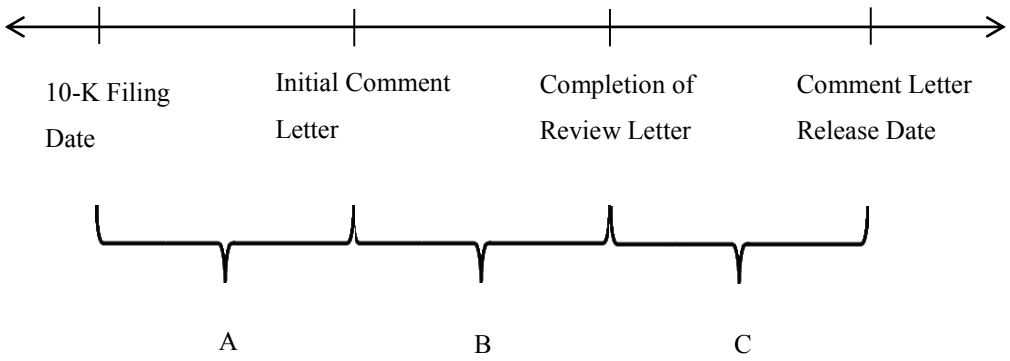
Appendix A: Timeline



A – 10-K filings are selected for review within the year after they are filed. A 10-K review for a given fiscal year is generally not initiated after the end of the next fiscal year while the company is preparing its new 10-K. This ongoing periodic filing review policy is distinct from that of registration statements (transactional filings), which are initially reviewed within the first 30 days after their filing.

B – The comment letter period begins with the initial comment letter from the SEC staff to the company being reviewed. It requests the company's management to respond to the comments within 10 business days or provide an alternative timeframe. The back-and-forth correspondence continues until all comments are resolved, upon which time, the SEC staff informs the company that the review is complete.

C – The waiting period between the completion of the comment letter review and the public release of the correspondence is a minimum of 45 days (20 days after 2011). Once the SEC comment letters (form type "UPLOAD") and company response letters (form type "CORRESP") are released on EDGAR, they appear with their original dates. The release date is the event date of interest in this study.

Appendix B: Ford Motor Company's 2005 10-K Review Comment Letter Release

July 5, 2006 SEC Comment Letter Excerpt

4. It appears from your website and published news reports that you have operations in Sudan and Syria, and your subsidiary Mazda has operations in Iran and Syria. Your annual report does not include any information about these operations. Iran, Sudan, and Syria are identified as state sponsors of terrorism by the State Department, and are subject to economic sanctions and/or controls administered by the U.S. Treasury Department's Office of Foreign Assets Control and the U.S. Commerce Department's Bureau of Industry and Security. Please describe for us your past, current, and anticipated operations in or contacts with each of these countries, whether through subsidiaries, affiliates, joint ventures, or other direct or indirect arrangements. Include in your response a description of the products and services you sell, and the nature and extent of your business operations in each country. Advise us also whether any of the distributorships through which your products are sold into these countries are owned or controlled by the governments of these countries, or whether the governments of these countries otherwise have a financial interest in the sale of your products to customers in these countries.

5. Please discuss the materiality of your contacts with Iran, Sudan, and Syria in light of these countries' status as state sponsors of terrorism. Discuss also whether your contacts, per individual country or in the aggregate, constitute a material investment risk for your security holders. You should address materiality in quantitative terms, including the dollar amounts of associated revenues, assets, and liabilities. Please also address materiality in terms of qualitative factors that a reasonable investor would deem important in making an investment decision, including the potential impact of corporate activities upon a corporation's reputation and share value. We note, for example, that Arizona and Louisiana have adopted legislation requiring their state retirement systems to prepare reports regarding state pension fund assets invested in, and/or permitting divestment of state pension fund assets from, companies that conduct business with countries identified as state sponsors of terrorism. The Pennsylvania legislature has adopted a resolution directing its Legislative Budget and Finance Committee to report annually to the General Assembly regarding state funds invested in companies that have ties to terrorist-sponsoring countries. The Missouri Investment Trust has established an equity fund for the investment of certain state-held monies that screens out stocks of companies that do business with U.S.-designated state sponsors of terrorism. Illinois, Maine, New Jersey, and Oregon have adopted, and other states are considering, legislation prohibiting the investment of certain state assets in, and/or requiring the divestment of certain state assets from, companies that conduct business with Sudan. Finally, Brown University, Harvard University, Stanford University, Yale University, the University of California system, and other educational institutions have adopted policies prohibiting investment in, and/or requiring divestment from, companies that conduct business with Sudan. Your materiality analysis should address the potential impact of the investor sentiment evidenced by these actions directed toward companies operating in Iran, Sudan, and Syria.

July 18, 2006 Response Letter Excerpt

4. Ford and its majority-owned subsidiaries do not directly or indirectly conduct business in Sudan or Iran, except that our Land Rover subsidiary has a contractual relationship with a distributor in the United Kingdom that sells Land Rover models into various markets, including Sudan.

As described below, we have authorized dealerships in Syria. The laws administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") and the U.S. Commerce Department's Bureau of Industry and Security ("BIS") permit Ford to sell products into Syria that contain only *de minimis* amounts of U.S.-origin content (i.e., less than 10%), and permit any U.S. persons (e.g., Ford) to do business with Syrian nationals who are not government officials.

Specifically, we have one authorized Ford-brand dealership in Syria. This dealership, Griwati Auto, opened for business in May 2006. The grand opening was attended by several U.S. government officials, including the Charge d'Affaires and State Department representatives from the U.S. Embassy in Damascus. Ford screened Griwati Auto and its shareholders against the OFAC, BIS and other similar lists of Specially Designated Nationals and Denied Parties and Entities, and all screenings came back compliant.

Griwati Auto is authorized to sell Ford-brand vehicles that are manufactured in Brazil, Europe and Thailand. These include the Fiesta, Fiesta Courier, Focus, Mondeo, Ecosport and Ranger models. None of these vehicles contains more than *de minimis* amounts of U.S. content. The shareholders of Griwati Auto are not government officials, the dealership is not controlled by Syrian government officials, and the Syrian government has no financial interest in the sale of Ford products to customers in Syria.

In addition, our non-U.S. subsidiaries Volvo, Land Rover and Jaguar each have an authorized dealership in Syria. These companies sell only products with less than 10% U.S. content to their authorized dealerships. Our Aston Martin subsidiary does not do business in Syria at all.

Mazda Motor Corporation ("Mazda"), a Japanese corporation, is not a subsidiary of Ford. Ford owns approximately 33.4% of Mazda. Although the two companies share a relationship of strategic cooperation, Mazda is a separate legal entity with a majority of board members independent of Ford, and our equity interest in Mazda does not meet the requirements for consolidation under ARB 51 or FIN 46-R. However, as indicated on Mazda's public website, we are aware that Mazda distributes its products in Iran and Syria through distributors located in those countries.

5. We do not believe that the activities of Ford and its subsidiaries described above should be considered material from a quantitative standpoint, since the amount of revenue generated by these activities - in 2005, about $50 million compared with Ford's global revenues of about $177 billion - is not significant. Additionally, Ford's activity comports with all applicable U.S. laws. As a result, we do not believe that a reasonable investor would deem this lawful activity material from a qualitative standpoint. Mazda's activities should not be material to a reasonable investor in Ford, since we do not consolidate Mazda.

July 26, 2006 SEC Follow-up Comment Letter Excerpt

1. You state in your response to prior comment 4 that you do not believe a reasonable investor would find your contacts with Iran, Sudan and Syria to be material from a qualitative standpoint because your activity in those countries comports with all applicable U.S. laws. Please expand your materiality analysis to discuss the possibility that, notwithstanding the legality of your direct and indirect contacts with those countries, your reputation and share value may be negatively impacted by the fact that you do business in these countries that have been identified as terrorist-sponsoring states.

2. Please address the potential impact upon your reputation and share value of the fact that Mazda, a company with which you are affiliated, does business in Iran and Syria. We note, in this regard, that your website home page includes a link to "mazdausa.com," among links to other vehicle brand websites, under the heading "Great Products - our family of brands."
Please also address the potential impact of Mazda's contacts with Iran and Syria upon the value of your 33.4% ownership interest in Mazda.

3. You discuss in your response to prior comment 4 the fact that the shareholders of Griwati Auto are not Syrian government officials, Griwati Auto is not controlled by Syrian government officials, and the Syrian government has no financial interest in the sale of Ford products to customers in Syria. Please advise us whether the Syrian government or government officials have an ownership interest in, or control, the authorized dealerships that sell products of your non-U.S. subsidiaries in Syria. Advise us also whether Griwati Auto or the other referenced dealerships sell your products or products of your non-U.S. subsidiaries to the Syrian government or entities owned or controlled by the Syrian government. If the dealerships make such sales, describe the products sold, and the uses made of those products by the Syrian government or government-owned or controlled entities.

4. You note in your response to prior comment 4 that your Land Rover subsidiary has a contractual relationship with a distributor in the United Kingdom that sells Land Rover models into Sudan. Please advise us whether that distributor sells Land Rover products to the government of Sudan or entities owned or controlled by the Sudanese government. If the dealership makes such sales, describe the products sold, and the uses made of those products by the Sudanese government and government-owned or controlled entities.

5. You state in your response to prior comment 4 that the amount of revenue generated by your activities and those of your non-U.S. subsidiaries described in the response was approximately $50 million, compared with global revenues of about $177 billion. Please provide us with the same information for fiscal 2003 and fiscal 2004, or confirm to us that the dollar amounts / ratios in those years did not differ significantly from those in 2005

August 16, 2006 Response Letter Excerpt

1. As indicated in our previous response, we do not believe that a reasonable investor would consider the lawful business activities of Ford and its majority-owned subsidiaries in Syria to be material from either a quantitative or qualitative standpoint.

In addition to the analysis contained in our response dated July 18, 2006, we herein expand our qualitative materiality discussion as requested. First, we note that our global website publishes the fact that Ford sells vehicles into Syria (Syria being readily available as one of the choices in the dropdown menu of countries into which we sell vehicles); global websites for our non-U.S. subsidiaries Volvo, Land Rover and Jaguar similarly list information regarding authorized dealerships in Syria. Although not discussed in our periodic filings because we believe the information to be immaterial, our limited and lawful business activity in Syria is public information, and we have not been able to identify any resulting negative impact on our reputation or share value. Sustained levels of investor inquiries might be considered another gauge of interest in particular aspects of our business; we are not aware of any inquiries regarding our business activities in Syria, including from the public investment funds mentioned in your letter of July 5, 2006. In evaluating qualitative materiality, we also note based on publicly available information that Ford is not unique within the automotive industry in conducting limited business in Syria.

As indicated in our response dated July 18, 2006, Ford and its majority-owned subsidiaries do not directly or indirectly conduct business in Sudan or Iran, except that our Land Rover subsidiary has a contractual relationship with a distributor in the United Kingdom that sells Land Rover models into various markets, including Sudan. As discussed below, we requested additional information from this distributor in response to your further inquiry, and we have been assured by this distributor that its sales into Sudan are negligible. We do not believe that this lawful, *de minimis* sale of Land Rover vehicles by an independent distributor has had or will have a significant negative impact on our reputation or share value.

2. As indicated in our most recent response, we do not believe that a reasonable investor would consider Mazda's business activities relating to Iran or Syria likely to pose a material risk to Ford's reputation or share value. As noted, Mazda is not a subsidiary of Ford; Ford owns approximately 33.4% of Mazda. Although Ford and Mazda share a relationship of strategic cooperation, Mazda is a separate legal entity with a majority of board members independent of Ford, and our equity interest in Mazda does not meet the requirements for consolidation under ARB 51 or FIN 46-R. Further, information about Mazda's distributors in Iran and Syria is readily available from Mazda's global website, and we are not aware of any negative impact resulting from public disclosure of its business activities on Mazda's reputation or share value - or, by extension, on Ford's reputation or share value.

In response to your most recent letter, we requested additional information from Mazda regarding the nature of its activities relating to Iran and Syria. We have been advised that Mazda sells its products to independent Japanese distributors in Japan, who then resell the product to separate trading companies in Iran and Syria. We have been advised that sales by Mazda to these Japanese distributors of vehicles that are then sold by the distributors to outlets in Iran and Syria combined resulted in sales revenue of less than $60 million in 2004 and 2005, and $85 million in 2003; Ford eventually would have attributed to it approximately one third of the net profit, if any, from such sales. We do not believe that this *de minimis* business activity by Mazda impacts Ford's reputation or share value, or the value of Ford's ownership interest in Mazda.

3. The authorized dealerships that sell products of Ford's non-U.S. subsidiaries in Syria are neither owned nor controlled by the Syrian government or government officials. Although we account for vehicle sales at the time of sale by Ford or its non-U.S. subsidiaries to authorized dealerships, we do not believe, after due inquiry, that any of the minimal sales volume by authorized dealerships in Syria in recent years was to the Syrian government or to Syrian government-owned or -controlled entities.

4. Sales by Land Rover to its authorized distributor take place in the United Kingdom, after which the authorized distributor takes control of the vehicles for export to various markets, including Sudan. Based on your most recent request, we queried Land Rover's distributor about the ultimate disposition of the vehicles it purchases from Land Rover. We were advised that, with regard to Sudan, the distributor sells the vehicles that it purchases from Land Rover to a retail outlet in Sudan, which does supply vehicles to various government departments in Sudan. We have been advised by the distributor that the bulk of the small sales volume of this retail outlet has been directed toward the Ministry of Interior. We have been advised further that the other government sales have been largely used for agricultural development purposes.

5. The amount of revenue generated by the activities of Ford and its non-U.S. subsidiaries in Syria for fiscal years 2003 and 2004 were less than 2005 results. Land Rover was advised by its U.K. distributor that sales volume into Sudan in each of these years was negligible.

August 23, 2006 SEC "Completion of Review" Letter Excerpt

We have completed our review of your Form 10-K and related filings and have no further comments at this time.

November 24, 2006 Comment Letter Release Date

Followed by a -3.6% two-day cumulative abnormal return (*CAR*), which is approximately the lowest decile of sample *CAR*.

November 24, 2006 Press Coverage (Factiva Search on Ford Motor Co.)

- Reuters Newswire "SEC asks Ford to detail ties with Sudan, Syria, Iran"
- Dow Jones Newswire "SEC Asked Ford to Detail Commerce With Syria, Iran, Sudan"
- The Canadian Press "SEC asks Ford to disclose details about business in Syria and Sudan"
- AP Press Newswire "SEC Asks Ford About Syria, Sudan Sales"
- AP Press Newswire "Federal regulators ask Ford to disclose details about business in Syria, Sudan"

Appendix C: Variable Definitions

AAR – abnormal analyst revisions calculated as the average daily number of revisions in the 30 trading day period following the comment letter release less the average daily number of revisions in the 30 trading days preceding the release.

ABAS – abnormal bid-ask spread calculated as the average daily percent spread during the event window (0,+1) relative to the comment letter release date less the average daily percent spread from the prior 60-day estimation window (-60,-1). I use the daily closing spread quoted in CRSP (offer price – bid price/midpoint*100) as the measure of daily percent spread.

ADEPTH – abnormal depth calculated as the average daily logged depth (i.e. the quoted quantity of shares that may be traded at a given price) from TAQ for the event window (0,+1) less the average daily logged depth from the prior 60-day estimation window (-60,-1).

Analyst_Dispersion – an indicator for the highest decile of analyst forecast dispersion (standard deviation of the outstanding forecasts) as of the comment letter release date.

Analyst_Revision – the change in the value of an analyst EPS forecast compared to the prior forecast preceding the comment letter release.

Analysts – number of analysts following the company as of the comment letter release date.

AVAR – abnormal return volatility calculated as the event window average return volatility divided by the average return volatility in the prior 60-day estimation window.

AVOL – abnormal volume calculated as the average daily trading volume during the event window (0,+1) relative to the comment letter release date divided by the average daily volume from the prior 60-day estimation window (-60,-1) and then subtract 1.

BTM – book to market ratio as of the most recent reporting period prior to the comment letter release date.

CAR – cumulative abnormal return calculated as the cumulative raw return less the value weighted market index return during the two trading day window (0,+1) relative to the comment letter release date. *absCAR* is the absolute value of *CAR*.[20]

Comments – Total number of accounting comments, as classified by Audit Analytics, issued by the SEC during a comment letter review.

Concurrent_Filing – an indicator for a concurrent filing (including an 8-K) within the comment letter release window.

Copied_Parties – Number of individuals (including external legal counsel or auditors) copied on the correspondence during a comment letter review.

Filings_Reviewed – Number of filings referenced in a comment letter review.

IO – institutional ownership as a percentage of total shares outstanding as of the comment letter release date.

Non_Soph_Requests – number of requests made on EDGAR for comment letter correspondence during the release window by non-sophisticated investors (classified by the ownership of the IP address generating the request). *Log_Non_Soph_Requests* is the natural log of *Non_Soph_Requests*.

[20] Note that the cumulative abnormal return (CAR) for each disclosure source in Table 5 is individually defined in the footnote description for Table 5 rather than in this Appendix. The variables used in the Table 7 ERC test are also described in the footnote to Table 7.

Post_2008 – An indicator for comment letter releases in the second half of the sample period (2009-2012) as compared to the earlier period following the CL policy (2005-2008).

Price – average daily stock price in the event window (0,+1) relative to the comment letter release date.

Revenue_Volatility – an indicator for the highest decile of four-year standard deviation of quarterly revenue.

ROA – return on assets as of the most recent reporting period prior to the comment letter release date.

Rounds – Number of comment letters issued by the SEC during a comment letter review not counting the "Completion of Review" letter.

Size – market value of equity as of the most recent reporting period prior to the comment letter release date. *LogSize* is the natural log of *Size*.

Soph_Requests – number of requests made on EDGAR for comment letter correspondence during the release window by sophisticated investors (classified by the ownership of the IP address generating the request). *Log_Soph_Requests* is the natural log of *Soph_Requests*. *Soph%* is the percentage of total requests made by sophisticated investors.

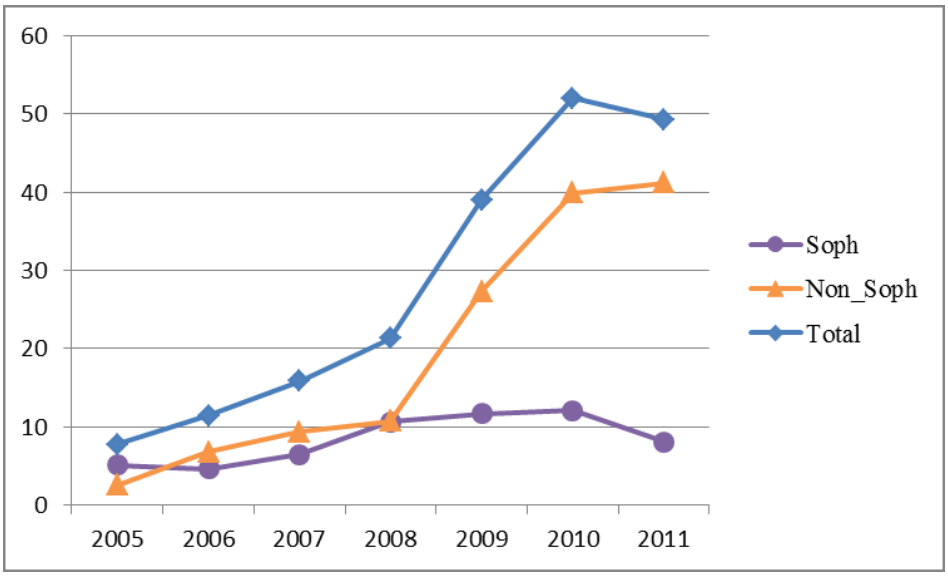
Turnover – average daily turnover for the quarter prior to the comment letter release date.

Volatility – average return volatility for the quarter prior to the comment letter release date.

Young_Company – an indicator for young public companies measured as the lowest decile of number of years on CRSP.

Figure 1 – Investor Access to Comment Letter Correspondence on EDGAR

Panel A: Average Number of Requests per Comment Letter Release



Panel B: Percentage of Total Requests from Sophisticated Investors

Panel A of this figure presents the annual trends in the average number of EDGAR requests for comment letter correspondence within the two-day release window. The number of EDGAR requests from sophisticated investors ("Soph") and non-sophisticated investors ("Non_Soph") are shown separately. Panel B presents the annual trends in the percentage of the comment letter correspondence ("CL") requests coming from sophisticated investors. The comparable percentage of 10-K filing ("10-K") requests coming from sophisticated investors is provided as a benchmark.

Table 1 – Sample Description

Comment Letter Release Dates (2005-2012)	19,185
Less Missing CRSP Market Reaction Data	(7,469)
Univariate Market Reaction Sample	11,716
Less Missing Control Variables	(4,129)
Final Multivariate Sample	7,587

Table 1 describes the composition of the main sample used in this study. I include all comment letter reviews referencing a Form 10-K or 10-Q (periodic filing reviews) from the time the CL policy took effect in 2005 through 2012. The 19,185 comment letter releases contain 93,735 individual SEC comment letters and manager response letters, representing an average of about five pieces of correspondence per comment letter review. The missing CRSP data is due to non-publicly traded companies registered with the SEC. The missing control variables are due to the data requirements for the intersection of Audit Analytics, Compustat, CRSP, I/B/E/S, and Thomson Reuters. The final multivariate sample represents 3,057 unique companies, which suggests that about 40% of the sample companies have more than one comment letter release during the sample period.

Table 2 – Descriptive Statistics

Panel A: Primary Descriptive Statistics

Variables	N	Mean	Median	Std. Dev.	25th Pctile	75th Pctile
Test Variables						
CAR	11,716	0.005	-0.001	0.506	-0.018	0.016
absCAR	11,716	0.036	0.017	0.505	0.007	0.036
AVOL	11,715	0.071	-0.148	1.951	-0.391	0.184
AVAR	11,310	1.333	0.319	4.899	0.064	1.086
ABAS	11,715	0.002	-0.272	3.020	-1.082	0.615
ADEPTH	11,694	-0.047	-0.037	0.338	-0.198	0.112
Conditioning Variables						
Young_Company	7,587	0.086	0	0.281	0	0
Revenue_Volatility	7,587	0.123	0	0.328	0	0
Analyst_Dispersion	7,587	0.092	0	0.289	0	0
Comments	7,587	2.9	2	3.7	1	4
Rounds	7,587	1.7	1	1.0	1	2
Filings_Reviewed	7,587	2.1	2	1.3	1	3
Copied_Parties	7,587	0.3	0	1.2	0	0
Soph_Requests	6,777	9.6	8	10	5	12
Non_Soph_Requests	6,777	25.2	18	25	8	35
Soph%	6,710	0.321	0.276	0.184	0.190	0.429
Control Variables						
Concurrent_Filing	7,587	0.054	0	0.225	0	0
Size	7,587	7,249	1,429	23,445	422	4,542
BTM	7,587	0.562	0.474	0.715	0.276	0.743
ROA	7,587	0.003	0.010	0.065	0.001	0.021
Analysts	7,587	10.2	8.0	7.1	5.0	14.0
IO	7,587	0.735	0.791	0.231	0.608	0.919
Price	6,777	125.82	22.47	3,263.61	10.55	38.16
Turnover	6,777	0.012	0.009	0.011	0.006	0.014
Volatility	6,777	0.030	0.025	0.019	0.018	0.035

Continued

Table 2 continued

Panel B: Supplemental Descriptive Statistics

Variables	N	Mean	Median	Std. Dev.	25th Pctile	75th Pctile
Abnormal Returns Based on Pseudo Dates						
AabsCAR	11,715	0.008	-0.005	0.504	-0.015	0.010
Comment Letter Releases Without Concurrent Events						
CAR	11,097	0.005	-0.001	0.520	-0.018	0.016
AabsCAR	11,096	0.008	-0.005	0.517	-0.015	0.009
AVOL	11,096	0.035	-0.161	1.894	-0.399	0.159
AVAR	10,691	1.152	0.305	3.670	0.062	1.027
Large Accelerated Filers						
CAR	5,983	-0.001	-0.001	0.034	-0.014	0.012
AabsCAR	5,983	0.001	-0.004	0.026	-0.011	0.006
AVOL	5,983	0.035	-0.100	0.709	-0.307	0.176
AVAR	5,784	1.302	0.327	5.058	0.063	1.056
Large Accelerated Filers Without Concurrent Events						
CAR	5,639	-0.001	-0.001	0.033	-0.013	0.012
AabsCAR	5,639	0.000	-0.004	0.025	-0.011	0.006
AVOL	5,639	-0.002	-0.110	0.624	-0.314	0.153
AVAR	5,440	1.055	0.310	2.980	0.060	1.003
Benchmark Portfolio Adjusted Returns						
CAR_DGTW	11,716	-0.0002	-0.001	0.049	-0.017	0.014
absCAR_DGTW	11,716	0.027	0.016	0.041	0.007	0.032

Table 2 presents descriptive statistics for the variables use in this study. Panel A presents the market reaction and information asymmetry test variables along with the conditioning and control variables used in the multivariate analyses. See Appendix C for the definition of each variable. Panel B presents supplemental descriptive statistics for the market reaction variables. The abnormal return based on pseudo dates (*AabsCAR*) is based on the event date *absCAR* less the average *absCAR* for 1,000 random draws of a pseudo date within the year prior to the comment letter release. I present the descriptive statistics for the subsample of large accelerated filers and the subset of comment letter releases not coinciding with a concurrent filing, such as an earnings announcement, which is later controlled for in the multivariate analyses. The benchmark portfolio adjusted returns are adjusted for size, book-to-market, and momentum as in Daniel, Grinblatt, Titman, and Wermers (1997) ("DGTW").

Table 3 – Correlations

Variables	CAR	absCAR	AVOL	ABAS	ADEPTH	Young_ Company	Revenue_ Volatility	Analyst_ Dispersion	Comments	Rounds	Filings_ Reviewed	Copied_ Parties	Soph_ Requests	Non_Soph_ Requests	Concurrent_ Filing	Size	BTM	ROA	Analysts	IO	Price	Turnover	Volatility
CAR																							
absCAR	0.991																						
	(0.000)																						
AVOL	0.005	0.018																					
	(0.571)	(0.057)																					
ABAS	0.104	0.139	0.297																				
	(0.000)	(0.000)	(0.000)																				
ADEPTH	0.019	-0.073	0.050	-0.138																			
	(0.044)	(0.000)	(0.000)	(0.000)																			
Young_Company	-0.004	0.008	0.015	0.033	-0.039																		
	(0.647)	(0.384)	(0.109)	(0.000)	(0.000)																		
Revenue_Volatility	-0.003	-0.010	-0.003	0.000	0.015	-0.059																	
	(0.736)	(0.318)	(0.747)	(0.962)	(0.121)	(0.000)																	
Analyst_Dispersion	-0.009	0.053	0.014	0.006	0.015	-0.018	0.080																
	(0.400)	(0.000)	(0.185)	(0.559)	(0.158)	(0.104)	(0.000)																
Comments	0.006	0.039	0.008	0.002	0.012	0.013	0.058	0.026															
	(0.486)	(0.000)	(0.381)	(0.841)	(0.181)	(0.150)	(0.000)	(0.018)															
Rounds	0.006	0.007	-0.006	-0.015	0.025	-0.018	0.053	0.055	0.711														
	(0.490)	(0.465)	(0.503)	(0.100)	(0.007)	(0.056)	(0.000)	(0.000)	(0.000)														
Filings_Reviewed	-0.008	-0.005	-0.001	-0.014	0.002	0.030	-0.033	0.029	0.398	0.373													
	(0.359)	(0.583)	(0.945)	(0.119)	(0.855)	(0.001)	(0.001)	(0.008)	(0.000)	(0.000)													
Copied_Parties	0.000	0.006	0.005	0.006	-0.020	0.045	0.030	0.003	0.023	-0.016	0.191												
	(0.972)	(0.532)	(0.611)	(0.489)	(0.030)	(0.000)	(0.002)	(0.805)	(0.002)	(0.027)	(0.000)												
Soph_Requests	-0.008	-0.007	-0.011	-0.008	0.010	-0.021	0.126	0.083	0.377	0.537	0.233	0.015											
	(0.393)	(0.495)	(0.261)	(0.440)	(0.327)	(0.031)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.045)											
Non_Soph_Requests	-0.009	-0.012	-0.008	-0.038	0.039	-0.039	0.087	0.126	0.326	0.571	0.255	-0.008	0.653										
	(0.351)	(0.215)	(0.396)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.291)	(0.000)										
Concurrent_Filing	-0.002	0.005	0.078	0.103	0.002	0.004	-0.002	-0.016	0.014	0.005	-0.009	0.001	0.009	0.005									
	(0.794)	(0.587)	(0.000)	(0.000)	(0.847)	(0.686)	(0.844)	(0.143)	(0.053)	(0.526)	(0.210)	(0.911)	(0.230)	(0.539)									
Size	-0.003	-0.010	-0.005	0.005	0.020	-0.064	0.478	0.024	0.031	0.057	-0.035	0.034	0.204	0.121	-0.009								
	(0.741)	(0.269)	(0.578)	(0.581)	(0.033)	(0.000)	(0.000)	(0.027)	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.317)								
BTM	-0.011	-0.003	0.014	0.033	-0.020	0.002	-0.020	0.065	0.025	0.016	0.037	-0.013	0.037	0.036	-0.003	-0.040							
	(0.221)	(0.710)	(0.122)	(0.000)	(0.033)	(0.866)	(0.039)	(0.000)	(0.008)	(0.083)	(0.000)	(0.156)	(0.000)	(0.000)	(0.738)	(0.000)							
ROA	0.001	-0.008	0.003	0.011	0.019	-0.010	0.009	-0.092	-0.048	-0.060	-0.070	0.002	-0.039	-0.065	0.002	0.012	0.014						
	(0.874)	(0.386)	(0.712)	(0.251)	(0.042)	(0.280)	(0.356)	(0.000)	(0.000)	(0.000)	(0.000)	(0.853)	(0.000)	(0.000)	(0.869)	(0.211)	(0.135)						
Analysts	-0.011	-0.024	-0.020	-0.007	0.086	-0.102	0.344	0.044	-0.016	0.032	-0.060	0.020	0.075	0.102	0.012	0.380	-0.070	0.022					
	(0.235)	(0.011)	(0.029)	(0.464)	(0.000)	(0.000)	(0.000)	(0.000)	(0.093)	(0.001)	(0.000)	(0.030)	(0.000)	(0.000)	(0.190)	(0.000)	(0.000)	(0.016)					
IO	-0.006	-0.166	-0.027	-0.008	0.096	-0.138	0.086	-0.014	-0.018	-0.002	-0.065	-0.009	0.005	-0.006	0.020	0.063	-0.069	0.026	0.495				
	(0.555)	(0.000)	(0.005)	(0.408)	(0.000)	(0.000)	(0.000)	(0.217)	(0.063)	(0.850)	(0.000)	(0.370)	(0.626)	(0.570)	(0.039)	(0.000)	(0.000)	(0.007)	(0.000)				
Price	0.000	-0.002	-0.004	0.007	0.005	-0.009	0.078	0.091	-0.007	0.001	-0.013	-0.006	0.345	0.177	-0.006	0.212	0.002	0.001	-0.009	-0.033			
	(0.971)	(0.850)	(0.667)	(0.469)	(0.564)	(0.320)	(0.000)	(0.000)	(0.433)	(0.908)	(0.147)	(0.490)	(0.000)	(0.000)	(0.543)	(0.000)	(0.835)	(0.900)	(0.357)	(0.001)			
Turnover	-0.008	-0.003	-0.029	-0.043	0.028	-0.041	0.106	0.143	0.035	0.051	0.032	0.047	0.078	0.053	0.006	0.009	-0.013	-0.095	0.267	0.314	-0.018		
	(0.388)	(0.747)	(0.002)	(0.000)	(0.003)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)	(0.528)	(0.341)	(0.165)	(0.000)	(0.000)	(0.000)	(0.051)		
Volatility	0.044	0.078	-0.004	-0.051	-0.068	0.109	-0.124	0.102	0.056	0.049	0.085	0.015	0.076	0.004	-0.020	-0.145	0.140	-0.077	-0.233	-0.240	-0.021	0.196	
	(0.000)	(0.000)	(0.632)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.103)	(0.000)	(0.695)	(0.030)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.021)	(0.000)	

Table 3 presents the pairwise correlations between variables used in the study. P-values are shown in parentheses below each Pearson correlation coefficient. Please refer to Appendix C for variable definitions.

Table 4 – Investor Response Univariate Results

Panel A: Baseline Univariate Results

Variables	N	Mean	t-stat
CAR	11,716	0.005	1.0
AabsCAR	11,715	0.008	1.8 *
AVOL	11,715	0.071	3.9 ***
AVAR	11,310	1.333	7.2 ^^^

Panel B: Comment Letter Releases Without Concurrent Filings

Variables	N	Mean	t-stat
CAR	11,097	0.005	1.0
AabsCAR	11,096	0.008	1.6
AVOL	11,096	0.035	1.9 *
AVAR	10,691	1.152	4.3 ^^^

Panel C: Propensity Score Matched Investor Response

Variables	CAR	absCAR	AVOL	AVAR
Intercept	0.001*	0.027***	0.026	1.255***
	(1.81)	(52.41)	(1.11)	(19.50)
CL	-0.001	0.002**	0.078**	0.086
	(-0.70)	(2.52)	(2.53)	(1.00)
N	15,074	15,074	15,071	14,521
R-squared	0.0000	0.0004	0.0004	0.000

Continued

Table 4 continued

Panel D: Propensity Score Matched Investor Response Without Concurrent Filings

Variables	CAR	absCAR	AVOL	AVAR
Intercept	0.001	0.026***	0.004	1.174***
	(1.36)	(50.92)	(0.19)	(21.45)
CL	-0.000	0.001*	0.053*	-0.060
	(-0.29)	(1.85)	(1.84)	(-0.81)
N	14,295	14,295	14,292	13,745
R-squared	0.000	0.000	0.000	0.000

Panel E: Large Accelerated Filers

Variables	N	Mean	t-stat
CAR	5,983	-0.001	-2.4 **
AabsCAR	5,983	0.001	3.8 ***
AVOL	5,983	0.035	3.8 ***
AVAR	5,784	1.302	4.6 ***

Panel F: Large Accelerated Filers Without Concurrent Filings

Variables	N	Mean	t-stat
CAR	5,639	-0.001	-2.2 **
AabsCAR	5,639	0.000	1.2
AVOL	5,639	-0.002	-0.3
AVAR	5,440	1.055	1.4

Continued

Table 4 continued

Table 4 presents the univariate t-tests of significance for the market reaction variables. *, **, and *** denote statistical significance at the 0.10, 0.05, and 0.01 significance levels, respectively. Note that the t-test for *AVAR* compares the mean to its expectation of 1. See Appendix C for the definition of each variable. Panel A presents the baseline univariate results. Panel B presents the market reaction results after removing comment letter releases coinciding with a concurrent filing, such as an earnings announcement. Panel C and D present the propensity score matched sample results. *CL* denotes the treatment sample of comment letter releases. Finally, Panels E and F present the results for the subsample of large accelerated filers.

Table 5 – Relative Information Content

Panel A: Full Sample

Variables	CAR_TotQ	Partial R-squared	Relative Info. Content
Intercept	-0.020***		
	(-34.48)		
CAR_SEC_CL	**0.689*** **	**0.003**	**1.0%**
	(24.82)		
CAR_SEC_10KQ	0.503***	0.008	3.0%
	(50.59)		
CAR_SEC_Other	0.328***	0.004	1.6%
	(29.94)		
CAR_EA	0.320***	0.158	60.0%
	(26.33)		
CAR_Pre_EA	0.374***	0.006	2.2%
	(11.59)		
CAR_MF	0.075***	0.006	2.4%
	(3.73)		
CAR_AF	0.456***	0.078	29.8%
	(127.73)		
N	165,641		
R-squared	0.262	0.262	100%

Panel B: Comment Letter Release Quarters

Variables	CAR_TotQ	Partial R-squared	Relative Info. Content
Intercept	-0.022***		
	(-13.11)		
CAR_SEC_CL	**0.704*** **	**0.024**	**8.3%**
	(25.35)		
CAR_SEC_10KQ	0.457***	0.008	2.7%
	(15.73)		
CAR_SEC_Other	0.273***	0.003	1.1%
	(8.53)		
CAR_EA	0.269***	0.146	50.1%
	(7.53)		
CAR_Pre_EA	0.192**	0.004	1.3%
	(2.21)		
CAR_MF	0.027	0.006	2.2%
	(0.46)		
CAR_AF	0.462***	0.100	34.4%
	(48.89)		
N	18,835		
R-squared	0.292	0.292	100%

Continued

Table 5 continued

Panel C: Comment Letter Release Quarters – Mandatory Information Releases

Variables	CAR_TotQ	Partial R-squared	Relative Info. Content
Intercept	-0.024***		
	(-13.24)		
CAR_SEC_CL	**0.780*** **	**0.030**	**16.1%**
	(26.19)		
CAR_SEC_10KQ	0.362***	0.008	4.6%
	(12.78)		
CAR_EA	0.843***	0.146	79.3%
	(36.75)		
N	18,836		
R-squared	0.184	0.184	100%

Table 5 presents results on the relative information content (partial R-squared) similar to Beyer et al. (2010). The unit of observation is firm-quarters for all quarters containing a comment letter release between 2005 and 2012. The dependent variable (*CAR_TotQ*) is the total quarterly log abnormal return. Each independent variable is the three-day (-1,+1) log abnormal return surrounding the information release of any of the following sources during the quarter: SEC comment letter correspondence (*SEC_CL*), 10-K and 10-Q filings (*SEC_10KQ*), other SEC filings (*SEC_Other*), earnings announcements (*EA*), pre-announcements (*Pre-EA*) and management forecasts (*MF*), and analyst forecasts (*AF*). T-statistics are shown in parentheses. *, **, and *** denote statistical significance at the 0.10, 0.05, and 0.01 significance levels, respectively. Panel A presents the results for the full sample of firm quarters between 2005 and 2012. Panel B presents the results for the quarters that contain a comment letter release. Finally, Panel C only includes the mandatory information releases during the comment letter release quarters.

Table 6 – Economic Uncertainty and Comment Letter Complexity

Variables	absCAR	AabsCAR	AVOL
Intercept	0.063***	0.003	0.069
	(22.35)	(1.05)	(1.14)
Young_Company	**0.007*** **	**0.004*** **	**0.040**
	(4.86)	**(2.96)**	**(1.24)**
Revenue_Volatility	**0.007*** **	**0.002**	**0.048**
	(4.76)	**(1.45)**	**(1.43)**
Analyst_Dispersion	**0.003** **	**-0.001**	**0.067** **
	(2.04)	**(-0.48)**	**(2.09)**
Comments	**0.0004** **	**0.0003***	**0.009*** **
	(2.13)	**(1.91)**	**(2.63)**
Rounds	**-0.001**	**-0.002*** **	**-0.023***
	(-1.53)	**(-2.99)**	**(-1.86)**
Filings_Reviewed	**0.001** **	**0.000**	**0.001**
	(2.48)	**(1.48)**	**(0.11)**
Copied_Parties	**0.001*** **	**0.001*** **	**-0.005**
	(3.25)	**(3.16)**	**(-0.60)**
Concurrent_Filing	0.016***	0.017***	0.629***
	(8.81)	(9.62)	(15.97)
LogSize	-0.006***	-0.000	-0.000
	(-14.24)	(-1.24)	(-0.05)
BTM	0.000	0.000	-0.023*
	(0.82)	(0.30)	(-1.72)
ROA	-0.076***	-0.057***	0.116
	(-11.31)	(-8.65)	(0.80)
Analysts	0.000***	0.000	-0.004*
	(4.69)	(0.81)	(-1.96)
IO	-0.003*	0.001	-0.020
	(-1.73)	(0.70)	(-0.46)
N	7,587	7,587	7,587
R-squared	0.117	0.040	0.044

Table 6 presents results for the investor response cross-sectional tests on economic uncertainty and comment letter complexity. Young public companies (*Young_Company*), high revenue volatility (*Revenue_Volatility*), and high analyst forecast dispersion (*Analyst_Dispersion*) are firm characteristics associated with economic uncertainty. The number of comments issued (*Comments*), rounds of correspondence exchanged (*Rounds*), filings referenced in the review (*Filings_Reviewed*), and external advisors copied on the correspondence (*Copied_Parties*) are comment letter characteristics associated with the complexity of the review. T-statistics are shown in parentheses. *, **, and *** denote statistical significance at the 0.10, 0.05, and 0.01 significance levels, respectively. See Appendix C for variable definitions.

Table 7 – Pre/ Post CL Policy Changes in Earnings Response Coefficients

Variables	Pre_CL_Policy CAR_EA	Post_CL_Policy CAR_EA
Intercept	0.169***	0.181***
	(4.31)	(6.67)
Post	**-0.006**	**-0.001*** **
	(-0.77)	**(-2.68)**
SUE	**0.002**	**0.002*** **
	(1.37)	**(3.70)**
Post * SUE	**0.0002**	**0.0001** **
	(0.33)	**(2.57)**
Persist	0.008	-0.000
	(0.78)	(-0.57)
SUE * Persist	0.002	0.000
	(1.52)	(0.17)
Predict	0.000	-0.000
	(0.00)	(-0.90)
SUE * Predict	0.000	0.000
	(1.36)	(0.60)
Beta	0.001	-0.001
	(0.21)	(-0.62)
SUE * Beta	-0.001*	0.000***
	(-1.77)	(3.74)
MTB	-0.000***	0.000
	(-2.61)	(0.53)
SUE * MTB	0.000	-0.000
	(0.02)	(-0.57)
LogSize	-0.027***	-0.034***
	(-4.62)	(-18.18)
SUE * LogSize	-0.000	-0.000***
	(-0.74)	(-2.81)
Loss	-0.020***	-0.015***
	(-2.75)	(-8.96)
SUE * Loss	0.001	-0.001**
	(0.99)	(-2.48)
Q4	0.003	-0.001
	(0.51)	(-0.67)
SUE * Q4	-0.002***	-0.000***
	(-3.96)	(-2.85)
MeetBeat	0.021***	0.041***
	(3.32)	(29.57)
SUE * MeetBeat	0.002*	-0.000*
	(1.68)	(-1.83)
Nonlinear	-0.000	-0.000***
	(-1.42)	(-3.16)
N	5,163	100,299
R-squared	0.198	0.137

Continued

Table 7 continued

This table presents the results for the Earnings Response Coefficient (ERC) test based on Johnston and Petacchi (2013). Column 1 presents the results for the pre-CL policy regime, and Column 2 represents the post-CL policy regime. *CAR_EA* is the three day cumulative abnormal return centered on the earnings announcement date. *Post* is an indicator for the eight quarterly earnings announcements following each comment letter review, as compared to the eight quarterly earnings announcements preceding the review. The standardized unexpected earnings (*SUE*) is the earnings surprise (realized earnings per share less the median outstanding forecast within 90 days of the earnings announcement) scaled by the standard deviation of the outstanding forecasts. The interaction of *Post* and *SUE* represents the change in the ERC following the comment letter review. The control variables for the Johnston and Petacchi (2013) ERC model are fully interacted with *SUE* and described as follows. *Persist* is the slope coefficient from a regression of current quarterly earnings per share on the earnings per share from the same quarter in the prior year. *Predict* is the square root of the error variance from the regression. *Beta* is the market model coefficient estimated over the year prior to the earnings announcement. *MTB* is the market-to-book ratio as of the end of the quarter. *LogSize* is the natural log of the market value of equity. *Loss* is an indicator for negative realized earnings. *Q4* is an indicator for a 4th quarter earnings announcement. *MeetBeat* is an indicator for a positive earnings surprise. *Nonlinear* is *SUE* x |*SUE*|. The ERC model includes firm and year fixed effects. T-statistics are shown in parentheses, and standard errors are clustered by firm. *, **, and *** denote statistical significance at the 0.10, 0.05, and 0.01 significance levels, respectively.

Table 8 – Information Asymmetry Univariate Results

Panel A: Baseline Univariate Results

Variables	N	Mean	t-stat
ABAS	11,715	0.002	0.1
ADEPTH	11,694	-0.047	-14.9 ***

Panel B: Comment Letter Releases Without Concurrent Filings

Variables	N	Mean	t-stat
ABAS	11,096	-0.072	-2.6 ***
ADEPTH	11,075	-0.047	-14.5 ***

Table 8 presents the univariate t-tests of significance for the information asymmetry proxies. *, **, and *** denote statistical significance at the 0.10, 0.05, and 0.01 significance levels, respectively. See Appendix C for variable definitions. Panel A presents the baseline univariate results. Panel B presents the information asymmetry results after removing comment letter releases coinciding with a concurrent filing.

Table 9 – Information Asymmetry Cross-Sectional Results

Panel A: Investor Access to Comment Letter Correspondence on EDGAR

Variables	ABAS	ABAS	ADEPTH	ADEPTH
Intercept	0.312	-0.038	-0.099***	-0.049**
	(1.37)	(-0.17)	(-3.86)	(-1.97)
Log_Soph_Requests	**0.154*** **		**-0.019*** **	
	(2.91)		**(-3.16)**	
Log_Non_Soph_Requests	**-0.157*** **		**0.022*** **	
	(-3.86)		**(4.81)**	
Soph%		**0.703*** **		**-0.098*** **
		(4.25)		**(-5.26)**
Young_Company	0.373***	0.379***	-0.003	-0.003
	(3.46)	(3.50)	(-0.26)	(-0.28)
Revenue_Volatility	0.090	0.094	-0.009	-0.007
	(0.78)	(0.81)	(-0.67)	(-0.52)
Analyst_Dispersion	0.181*	0.204*	0.007	0.007
	(1.72)	(1.92)	(0.63)	(0.60)
Comments	0.005	0.006	-0.001	-0.001
	(0.46)	(0.55)	(-0.50)	(-0.95)
Rounds	-0.027	-0.037	0.001	0.004
	(-0.58)	(-0.92)	(0.21)	(0.94)
Filings_Reviewed	-0.017	-0.017	0.002	0.002
	(-0.70)	(-0.70)	(0.76)	(0.83)
Copied_Parties	0.010	0.011	-0.005*	-0.005*
	(0.38)	(0.43)	(-1.85)	(-1.74)
Concurrent_Filing	1.088***	1.078***	-0.019	-0.018
	(8.19)	(8.08)	(-1.24)	(-1.22)
LogSize	0.000	0.001	0.004	0.003
	(0.02)	(0.06)	(1.26)	(1.23)
Price	0.000	0.000	0.000	0.000
	(0.59)	(0.57)	(0.75)	(0.79)
Turnover	-6.468**	-6.783**	-0.014	-0.009
	(-2.02)	(-2.11)	(-0.04)	(-0.02)
Volatility	-7.748***	-7.530***	-0.201	-0.179
	(-3.93)	(-3.84)	(-0.91)	(-0.81)
IO	0.040	0.038	0.047***	0.047***
	(0.28)	(0.27)	(2.89)	(2.90)
N	6,777	6,710	6,775	6,708
R-squared	0.031	0.031	0.021	0.021

Continued

Table 9 continued

Panel B: Random Pseudo Dates Falsification Test

Variables	ABAS_pseudo	ABAS_pseudo	ADEPTH_pseudo	ADEPTH_pseudo
Intercept	-0.105***	-0.105***	-0.061**	-0.040
	(-2.99)	(-3.09)	(-2.36)	(-1.58)
Log_Soph_Requests	**-0.009**		**-0.019*** **	
	(-1.07)		**(-3.08)**	
Log_Non_Soph_Requests	**0.001**		**0.012****	
	(0.16)		**(2.50)**	
Soph%		**-0.018**		**-0.061*** **
		(-0.72)		**(-3.26)**
Young_Company	-0.014	-0.013	-0.022*	-0.020
	(-0.82)	(-0.75)	(-1.79)	(-1.64)
Revenue_Volatility	-0.000	-0.001	-0.014	-0.016
	(-0.00)	(-0.06)	(-1.10)	(-1.24)
Analyst_Dispersion	0.011	0.011	0.016	0.015
	(0.69)	(0.65)	(1.33)	(1.24)
Comments	-0.003	-0.002	-0.002*	-0.002
	(-1.52)	(-1.37)	(-1.68)	(-1.47)
Rounds	0.017**	0.014**	0.004	0.001
	(2.41)	(2.22)	(0.70)	(0.19)
Filings_Reviewed	-0.006*	-0.007*	-0.005*	-0.006**
	(-1.70)	(-1.88)	(-1.94)	(-2.14)
Copied_Parties	-0.002	-0.003	-0.002	-0.003
	(-0.55)	(-0.62)	(-0.80)	(-0.88)
Concurrent_Filing	0.002	0.002	-0.013	-0.013
	(0.10)	(0.09)	(-0.84)	(-0.84)
LogSize	0.009**	0.009**	0.006**	0.006**
	(2.37)	(2.30)	(2.18)	(2.10)
Price	-0.000	-0.000	-0.000*	-0.000*
	(-0.93)	(-1.01)	(-1.65)	(-1.75)
Turnover	-0.407	-0.397	0.734**	0.747**
	(-0.83)	(-0.80)	(2.01)	(2.04)
Volatility	0.656**	0.622**	-1.514***	-1.550***
	(2.17)	(2.06)	(-6.75)	(-6.95)
IO	0.031	0.032	0.049***	0.050***
	(1.43)	(1.42)	(3.01)	(3.04)
N	6,757	6,690	6,752	6,685
R-squared	0.014	0.014	0.033	0.033

F-tests of differences of coefficients between Panels A and B (p-values)

0.000* **		**0.971**	
0.000* **		**0.102**	
	0.000* **		**0.168**

Continued

Table 9 continued

Panel C: Prior 10-K Requests Falsification Test

Variables	ABAS	ABAS	ADEPTH	ADEPTH
Intercept	0.146	0.490**	-0.068***	-0.056**
	(0.67)	(2.01)	(-2.77)	(-2.09)
Log_Soph_Requests_10K	**-0.020**		**0.009****	
	(-0.50)		**(2.04)**	
Log_Non_Soph_Requests_10K	**-0.023**		**0.004**	
	(-0.69)		**(0.98)**	
Soph%_10K		**-0.037**		**0.012**
		(-0.32)		**(0.95)**
Young_Company	0.373***	0.337***	-0.002	-0.005
	(3.44)	(2.69)	(-0.20)	(-0.38)
Revenue_Volatility	0.113	0.144	-0.013	-0.009
	(0.98)	(1.15)	(-1.02)	(-0.64)
Analyst_Dispersion	0.164	0.196*	0.009	0.009
	(1.55)	(1.73)	(0.73)	(0.68)
Comments	0.009	0.015	-0.001	-0.001
	(0.78)	(1.16)	(-0.80)	(-0.68)
Rounds	-0.044	-0.077*	0.004	0.004
	(-1.08)	(-1.73)	(0.82)	(0.77)
Filings_Reviewed	-0.018	-0.030	0.002	0.004
	(-0.74)	(-1.08)	(0.84)	(1.25)
Copied_Parties	0.012	0.028	-0.006*	-0.004
	(0.46)	(0.93)	(-1.93)	(-1.11)
Concurrent_Filing	1.093***	1.041***	-0.019	-0.028*
	(8.22)	(6.89)	(-1.28)	(-1.68)
LogSize	0.009	-0.026	0.001	0.001
	(0.36)	(-0.92)	(0.30)	(0.19)
Price	0.000	0.000	0.000	0.000
	(0.69)	(0.61)	(0.69)	(0.72)
Turnover	-6.235*	-4.065	-0.097	0.037
	(-1.94)	(-1.18)	(-0.27)	(0.10)
Volatility	-7.056***	-9.673***	-0.308	-0.352
	(-3.60)	(-4.49)	(-1.40)	(-1.48)
IO	0.073	0.048	0.043***	0.044**
	(0.51)	(0.30)	(2.67)	(2.52)
N	6,777	5,650	6,775	5,648
R-squared	0.029	0.029	0.019	0.018

F-tests of differences of coefficients between Panels A and C (p-values)

0.004* **		**0.000*** **	
0.000* **		**0.000*** **	
	0.000* **		**0.000*** **

Continued

Table 9 continued

Table 9 presents the information asymmetry cross-sectional results. Panel A presents the results on investor access to the comment letter correspondence measured by the number of EDGAR requests by sophisticated investors (*Log_Soph_Requests*) and non-sophisticated investors (*Log_Non_Soph_Requests*). The percentage of sophisticated investor access (*Soph%*) is the percentage of the total requests made by IP addresses classified as sophisticated investors. T-statistics are shown in parentheses. *, **, and *** denote statistical significance at the 0.10, 0.05, and 0.01 significance levels, respectively. See Appendix C for variable definitions. Panel B presents the results of the falsification test using pseudo date *ABAS* and *ADEPTH* based on a random date within the year prior to the comment letter release date. Panel C presents the results of using 10-K requests on EDGAR on a random date within the year prior to the release in lieu of the release window comment letter correspondence requests.

Table 10 – Information Asymmetry Changes Following the CL Policy

Variables	ABAS	ADEPTH
Intercept	0.478**	-0.118***
	(2.40)	(-5.16)
Post_2008	**-0.497*** **	**0.059*** **
	(-8.73)	**(8.98)**
Young_Company	0.358***	-0.005
	(3.66)	(-0.43)
Revenue_Volatility	0.100	-0.015
	(0.98)	(-1.30)
Analyst_Dispersion	0.208**	0.007
	(2.13)	(0.63)
Comments	-0.008	0.001
	(-0.78)	(0.44)
Rounds	0.033	-0.001
	(0.88)	(-0.30)
Filings_Reviewed	-0.025	0.003
	(-1.13)	(1.16)
Copied_Parties	0.016	-0.005*
	(0.70)	(-1.79)
Concurrent_Filing	1.169***	-0.008
	(9.83)	(-0.62)
LogSize	-0.003	0.004
	(-0.14)	(1.54)
Price	0.000	0.000
	(0.57)	(0.77)
Turnover	-6.304**	-0.249
	(-2.14)	(-0.74)
Volatility	-7.038***	-0.167
	(-3.86)	(-0.80)
IO	-0.009	0.049***
	(-0.07)	(3.32)
N	7,665	7,663
R-squared	0.039	0.025

Table 10 presents the results on changes in information asymmetry over the years following the CL policy by partitioning the sample period in half. *Post_2008* denotes comment letter releases in the calendar years 2009-2012 as a comparison to the earlier sample years (2005-2008). T-statistics are shown in parentheses. *, **, and *** denote statistical significance at the 0.10, 0.05, and 0.01 significance levels, respectively. See Appendix C for variable definitions.

Table 11 – Comment Letter Releases and Analyst Forecast Revisions

Panel A: Analyst Revision Frequency

Variables	N	Mean	Median	Std. Dev.	25th Pctle	75th Pctile	t-stat
AAR	11,686	-0.083	0.000	7.870	-4.000	3.333	-1.1

Panel B: Comment Letter Release Price Reactions and Analyst Forecast Revisions

Variables	Analyst_Revision
Intercept	-0.047
	(-0.86)
CAR	-2.075
	(-1.42)
N	35,300
R-squared	0.000

Table 11 presents the results on analyst forecast revisions around comment letter releases. Panel A presents the univariate results for the abnormal analyst revisions (*AAR*), which is calculated as the average daily number of revisions in the 30 trading day period following the comment letter release less the average daily number of revisions in the 30 trading days preceding the release. If an earnings announcement occurs within the 30 trading day pre or post window, it is excluded from the analyses. Panel B presents the results on the association between comment letter release price reactions and analysts' EPS forecast revisions. *Analyst_Revision* is the change in the value of the analyst forecast compared to the prior forecast preceding the comment letter release. For this analysis, I restrict the sample to those forecasts made by the same analyst in the pre and post 30 trading day periods and for the same forecasting period. T-statistics are shown in parentheses. *, **, and *** denote statistical significance at the 0.10, 0.05, and 0.01 significance levels, respectively. See Appendix C for variable definitions.