

SEC Monitoring of Foreign Firms' Disclosures

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Abstract

We document a negative association between the level of SEC monitoring of foreign firms and the strength of those foreign firms' home-country institutions, consistent with the idea that the SEC implicitly shares its regulatory duties with international securities regulators. We find that foreign cross-listed firms are subject to lower monitoring intensity than foreign firms listed only on US exchanges, and that foreign firms listed only on US exchanges are monitored at the same level as US firms. These findings suggest that it is the presence of another regulator that drives the intensity of SEC monitoring. We also find US investor exposure is positively associated with the level of SEC oversight, suggesting that the SEC focuses its resources to protect US investors. Collectively, our analyses show that there are two competing forces. On the one hand, the SEC reduces monitoring intensity when it can rely on the public and private enforcement institutions in the foreign firm's home country. On the other hand, the SEC provides increased monitoring of particular foreign firms when investors on US exchanges have greater investment exposure in those firms.

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JEL codes: G15, G18, M41

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1. Introduction

Foreign firms represent a significant proportion of firms trading in US markets, and like their US counterparts, are subject to SEC oversight.¹ While SEC's tripartite mission—to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation—equally applies to foreign firms, there are some moderating factors. First, foreign firms are subject to home-country regulatory oversight in addition to SEC oversight, and second, US investors are exposed to only a portion of the shares issued by the firm. Thus, it is hard to predict how SEC oversight will vary across foreign firms. For example, while intensive monitoring of foreign firms would enhance investor protection, it could impose onerous reporting requirements on foreign firms already subject to rigorous oversight by home-country regulators, thus hurting the capital formation objective of the SEC. At the same time, reduced monitoring by the SEC could hurt the investor protection objective when US investors have greater exposure to the foreign firm, particularly since foreign firms generally have lower quality accounting earnings than comparable US firms (Lang, Raedy and Wilson, 2006).

We provide evidence on how the SEC varies its monitoring of foreign firms based on the quality of the home-country regulator and US investor exposure. Finding that the SEC incorporates these factors is important for two reasons. First, it provides evidence to support the emerging regulatory philosophy of substituted compliance proposed by Tafara and Peterson (2007). The objective of the substituted compliance framework is to enable SEC to achieve its investor protection objective while recognizing improvements made in regulatory monitoring in some foreign countries. Second, understanding the determinants of SEC monitoring intensity for foreign firms is important because it has implications for the bonding hypothesis (e.g., Piotroski and

¹ For example, the New York Stock Exchange had a total global market value of \$26 trillion in 2006, which included 424 non-US issuers valued at \$10 trillion. Source: <http://www.nyse.com/press/1190629848623.html>

Srinivasan, 2008; Doidge, Karolyi and Stulz, 2004). Finding that the SEC relies on foreign regulators and incorporates the exposure of US investors suggests that there is heterogeneity in the strength of bonding.

We use comment letters issued by the SEC as a proxy for SEC oversight because they are the typical outcome of an SEC review of financial statements. As we outline in more detail in Section 4, our main analyses do not distinguish the types of issues raised in the comment letter as our focus is on whether there was an SEC review, not whether that review identified substantive issues. We categorize firms as foreign if they are identified as a foreign private issuer by the SEC. This approach ensures that our analyses focus on firms that are subject to the same SEC reporting and disclosure requirements. We provide a more detailed description of foreign private issuers and their reporting and disclosure requirements in Section 3.

Consistent with the substituted compliance framework, we find that the intensity of SEC monitoring is lower when foreign firms originate from countries with more robust private and public enforcement of shareholder rights. We measure private enforcement using the disclosure requirements and liability standards indices developed by La Porta, Lopez-de-Silanes, and Shleifer (2006), as these measures capture the ease with which investors can recover damages in response to misleading disclosures. We measure public enforcement using both the formal public enforcement index developed by La Porta et al. (2006) and the resource-based measures of public enforcement based on the size of the regulator's budget and staff developed by Jackson and Roe (2009), as these measures capture the strength of the regulatory rules and the resources available to regulators to implement these rules. Our empirical specifications control for the underlying financial condition of the firm and its accounting quality, to partially address the alternative

explanation that lower SEC monitoring is attributable to better quality firms rather than stronger home-country enforcement.

There are three empirical concerns with using the incidence of comment letters to proxy for the intensity of SEC monitoring. First, because disclosure requirements are not necessarily comparable across all firms, it is possible that variation in the issuance of comment letters is related to variation in accounting and disclosure standards to which the foreign firm is subject, not to variation in SEC monitoring. In other words, it is possible that firms from certain countries might receive more comment letters, conditional on SEC review, because these countries also happen to have weaker accounting and disclosure standards. We mitigate this concern with two empirical specifications that incorporate country fixed effects, thus allowing us to control for unobserved country specific factors. The first specification takes advantage of the fact that some foreign private issuers are only traded on US exchanges.² These firms are subject to a much lower level of, or possibly no, public and private enforcement in their home country. We find that these firms are subject to more intensive SEC monitoring when compared to foreign private issuers from the same country that are listed both in the US and abroad, suggesting that differences in the level of SEC oversight is not just driven by unobservable country specific factors. The second specification uses increases in regulatory staff growth in 14 European countries to capture changes in enforcement and regulatory oversight to find that, controlling for the country effects, improvements in oversight by the foreign regulator result in less intensive monitoring by the SEC. Overall, these results confirm that the home country's public and private enforcement regimes influence the intensity of SEC monitoring.

² An example of this type of foreign private issuer is Alibaba, which is only listed on the NYSE.

The second concern with using the incidence of comment letters to proxy for the intensity of SEC monitoring is that we do not observe cases in which the SEC reviews firm disclosures but does not issue a comment letter, presumably because the financial statement quality is good. We address this concern by expanding our definition of SEC Review to also take the value of one in those cases where there were no comment letters for a given firm in the preceding three years. We do this because the Sarbanes Oxley Act (SOX) requires the SEC to review each firm at least once over three years. Our results using this alternative measure of SEC monitoring intensity are unchanged. The third concern with using the incidence of SEC comment letters is that it may be a noisy proxy for the intensity of SEC monitoring because some reviews entail significantly more effort and resources than others. To mitigate this concern, we repeat our analyses using the length of the comment letter and the number of financial filings covered by the comment letter to better capture the intensity of regulatory effort needed to conduct the review. We also use an alternative measure that identifies whether firms were the recipients of more than one comment letter over a three year period, to better capture the incidence of discretionary reviews. Across each of these approaches, our conclusions are unchanged. All of these specifications indicate that stronger home country institutions are associated with less intensive monitoring by the SEC, consistent with implicit cooperation across regulators.

While the recognition of foreign regulator quality is consistent with the capital formation objective of the SEC and monitoring efficiency, it might be at odds with the countervailing objective of investor protection. Next, we examine whether the SEC focuses its monitoring to provide additional protection to investors on US exchanges. In particular, we examine whether the relative size of the US listing has a moderating effect on the variation in SEC monitoring based on home-country institutions. Consistent with the idea that the SEC protects US investors, we find

that within cross-listed firms from a given foreign home country, SEC monitoring is higher for foreign firms that have a higher fraction of shares listed in the US. Collectively, our analyses suggest that the SEC reduces monitoring intensity when it can rely on the public and private enforcement institutions in the foreign firm's home country. In contrast, the SEC provides increased monitoring when US investors have greater investment exposure.

We add to these analyses by directly comparing the level of oversight of foreign firms to that of US firms. These analyses are complicated by the fact that US firms are not easily comparable to foreign firms on both economic and financial reporting dimensions. Nonetheless, we undertake these additional analyses because the bonding hypothesis suggests that the foreign firms cross-listed in the US will be monitored like US domestic firms, whereas our analyses suggest that US firms will be monitored more intensively by the SEC because there is not another regulator. Using both full-sample and matched-sample analyses, we find that, on average, foreign firms are subject to less intensive monitoring by the SEC than comparable US firms. However, when foreign firms are only listed on US exchanges, and so little if any foreign monitoring is present, we find no difference in the level of SEC monitoring between these foreign firms and comparable US firms. Collectively, these results support our conclusion that SEC reduces its monitoring intensity when it can rely on a foreign regulator.

Our primary contribution is showing that there is implicit cooperation between the SEC and foreign regulators, as current monitoring by the SEC considers the strength of the home-country private and public enforcement regimes. This finding speaks to the emerging regulatory philosophy of substituted compliance (Tafara and Peterson 2007). It also complements Silvers (2016), who documents explicit cooperation between the SEC and foreign regulators through memorandum of understanding.

Our findings also add nuance to the bonding hypothesis. Prior studies have generally found that foreign cross-listed firms on US exchanges exhibit a valuation premium and enjoy a lower cost of capital when compared with similar firms that do not cross-list (Doidge et al., 2004; Hail and Luez, 2006). These studies suggest that these outcomes are consistent with effective monitoring of foreign firms by SEC. While providing direct evidence that SEC monitors foreign firms, we add nuance to these conclusions by documenting that SEC varies its monitoring effort based on attributes of the home country and exposure of US investors rather than viewing all foreign firms as homogenous. In addition, our evidence suggests that bonding may be strengthened when there is more trading of the foreign firm's shares by US investors, as SEC monitoring increases with trading by US investors.

This paper proceeds as follows. In Section 2, we summarize the existing literature and present our hypotheses. We summarize the disclosure and reporting requirements for foreign firms in Section 3, and present our data collection in Section 4. Our research design and empirical results are presented in Sections 5. We conclude in Section 6.

2. Literature Review and Hypothesis Development

Our analysis is motivated in part by the emerging regulatory philosophy of substituted compliance proposed by Tafara and Peterson (2007). The objective of the substituted compliance framework is to enable SEC to achieve its investor protection objective while recognizing improvements made in regulatory monitoring in some foreign countries. Most foreign firms listed in the US are subject to monitoring by their own domestic securities regulator in addition to the SEC. To avoid inefficient duplication of monitoring effort, especially given limited budgets, the SEC could optimally lower its own level of monitoring and leave a share of the monitoring to the

foreign firm's domestic regulator, especially when the institutions in the foreign country are strong. Similarly, the foreign regulator could also reduce its monitoring intensity relative to other local firms not listed on US exchanges in reliance on SEC oversight. A reduction in SEC monitoring is consistent with implicit, rather than explicit, cooperation between the SEC and foreign regulators. Explicit cooperation does not rely on the strength of home-country institutions, but rather is based on agreements between regulators that describe how information is shared.³ To the extent that the SEC implicitly relies on public and private enforcement regimes in other countries, there will be variation in SEC monitoring for foreign firms from different countries. This yields our first hypothesis:

H1: SEC monitoring intensity will be higher for foreign firms from countries with weak public and private enforcement compared to foreign firms from countries with strong public and private enforcement.

One component of the SEC's tripartite mission is to protect US investors. When US investors hold significant stakes in foreign firms that are cross-listed in the US, the potential losses to US investors are amplified. Therefore, even after controlling for the strength of the foreign firm's home-country institutions and the quality of the foreign firm's accounting, there may be additional variation in the level of SEC monitoring based on the exposure of investors on US exchanges. In fact, if the exposure is high enough then the SEC could intensify its oversight regardless of the quality of the home-country regulator. Our second hypothesis is as follows:

H2: SEC monitoring intensity will be higher for foreign firms with greater US investor exposure

³ Explicit agreements between regulators typically take the form of bi-lateral or multi-lateral memorandum-of-understanding. Unlike a treaty, a memorandum of understanding is simply a statement of intent (known as "soft law") and is not enforceable under international law. These memoranda identify the scope, cost, permissible uses, and confidentiality obligations associated with information sharing. See Silvers (2016) for a more complete discussion.

Our two hypotheses suggest that there are competing forces driving the level of SEC oversight. While SEC may reduce monitoring intensity when the foreign firm has strong home-country institutions, it may increase monitoring intensity when US investors have greater investment exposure. These forces do not necessarily work in isolation. In particular, the combination of high exposure and weak institutions could intensify SEC oversight, whereas the combination of low exposure and strong institutions could weaken SEC oversight. We test for this interaction effect in our empirical analyses in Section 5.

3. Institutional Setting and Measurement of SEC Monitoring

Our foreign firm sample consists of firms designated as foreign private issuers by the SEC. In this section, we describe the different types of foreign firms and how they are categorized for reporting and disclosure requirements. We outline these institutional details for two reasons. First, it allows the reader to compare our approach to studying foreign firms with other studies that use international data. Second, we believe these institutional details are helpful in understanding the design and implications of our empirical analyses.

Federal securities laws define a foreign issuer as a company incorporated under the laws of any foreign country. A foreign private issuer is a subset of these companies. A foreign private issuer is any issuer incorporated outside the US, unless (i) more than 50 percent of the outstanding voting securities of the issuer are directly or indirectly held of record by US residents; and (ii) any one of the following: (a) the majority of the executive officers or directors of the issuer are US citizens or residents; or (b) more than 50 percent of the assets of the issuer are located in the US; or (c) the business of the issuer is administered principally in the US.⁴

⁴ See <https://www.sec.gov/divisions/corpfin/internatl/foreign-private-issuers-overview.shtml> for more information.

In simple terms, a foreign private issuer is a company that the SEC considers to be truly foreign, rather than a US firm merely operating out of a foreign jurisdiction. Under federal securities laws, only foreign private issuers are eligible for regulatory concessions, which include relaxed disclosure requirements. For example, while US issuers must file interim quarterly reports (10-Qs) that contain unaudited financial and other prescribed information, foreign private issuers need only file interim reports that are required under the home country's laws. Similarly, foreign private issuers may produce an annual report using either home-country GAAP or IFRS, and provide a reconciliation on Form 20-F. If a foreign issuer does not qualify as a foreign private issuer, it is subject to the same reporting and disclosure requirements as a domestic issuer (i.e., a company incorporated in the US). A brief overview of the disclosure requirements for domestic issuers and foreign private issuers is provided in Figure 1.

The disclosure requirements of foreign private issuers that are traded on major US exchanges is independent of the type of security traded—a foreign private issuer may offer any type of security that a US domestic issuer is permitted to offer in addition to using American Depositary Receipts (“ADRs”). An ADR is a negotiable instrument issued by a US depository bank that represents an ownership interest in a specified number of securities that have been deposited with a custodian, typically in the issuer's country of origin. ADRs can represent one or more shares, or a fraction of a share, and are offered as either “unsponsored” or “sponsored” programs. “Unsponsored” ADR programs are issued by a depository bank without a formal agreement with the foreign private issuer whose shares underlie the ADR. Unsponsored ADRs are only permitted to trade in over-the-counter markets.

“Sponsored” ADRs are depository receipts that are issued pursuant to a formal agreement, known as a depository agreement, between the depository bank and the foreign private issuer.

There are three levels of sponsored ADR programs. Level I ADRs do not involve new capital raising and can only be traded in the US over-the-counter market. In order to establish a Level I ADR, a foreign private issuer must qualify for an exemption under Rule 12g3-2(b) of the Exchange Act. Both unsponsored ADRs and Level I ADRs are exempt from SEC reporting and disclosure requirements. Both Level II and III ADRs are traded on a US exchange, such as the NYSE or NASDAQ, with the difference that Level III involves new capital raising and Level II does not. Both Level II and III are subject to the SEC reporting and disclosure requirements.

Since our sample of foreign firms consists of firms designated by the SEC as foreign private issuers, it excludes (i) global US firms, which are incorporated in the US, but also have listings on foreign exchanges (e.g., IBM) (ii) reverse merger firms, which are incorporated in the US, but headquartered and operate out of a foreign jurisdiction (e.g., China Green Agriculture, as discussed in Lee, Li, and Zhang (2015)), (iii) foreign issuers that are incorporated outside the US but fail to meet the SEC foreign private issuer requirements (e.g., Valeant Pharmaceuticals, a Canadian firm that has executive offices in the US and therefore is treated as domestic issuer by the SEC), and (iv) foreign firms with unsponsored shares or Level 1 ADRs that trade on the OTC markets because the firms are exempt from reporting requirements by the SEC (e.g., Vestas, as discussed in Iliev, Miller, and Roth (2014)).

We proxy for the level of SEC monitoring in our empirical tests using the incidence of SEC comment letters issued in response to annual and interim financial statement filings of a firm.⁵ Comment letters are issued by the SEC's Division of Corporation Finance in response to a periodic review of a firm's annual financial statements and related filings. These letters contain requests from the SEC to the firm to provide additional information, modify the submitted filing, or alter

⁵ We exclude comment letters on other filings such as prospectuses for capital issues.

future filings. The SEC allocates considerable resources to the enforcement of disclosure standards. The SEC's 2006 Audit Report #401 states that about \$125 million were allocated to the Division of Corporate Finance that has 515 staff, of which 80 percent are assigned to review filings.

A few recent studies have used comment letter data, although not as a proxy for the intensity of SEC monitoring. Rather, these studies have examined capital market consequences of the comment letter process by identifying those comment letters with substantive content. Johnston and Petacchi (2016) find that comment letter resolutions are associated with a better information environment and less disagreement among investors and analysts. Dechow et al. (2015) document that insider trading is significantly higher than normal levels prior to the public disclosure of SEC comment letters relating to revenue recognition. Ryans (2015) uses classifications based on textual analysis to identify important comment letters, and shows that these letters are associated with lower future performance and undisclosed financial reporting deficiencies. We do not attempt to distinguish between different types of comment letters because we are primarily interested in identifying whether the SEC reviewed the firm's filings, not whether the SEC found material issues when it reviewed the firm's filings. While not a perfect measure, we suggest that comment letters provide a reasonable proxy for the level of SEC monitoring because a very high percentage of SEC reviews result in a comment letter.⁶ In section 5, we provide more discussion of the potential issues with using the incidence and frequency of comment letters as a proxy for SEC review, and present the results of a series of robustness tests that are designed to mitigate these concerns.

⁶ The percentage of reviews that produce a comment letter has declined in recent years, which may be due to a shift in the focus of the SEC to only issue comment letters in response to material issues. For example, see <http://www.auditanalytics.com/blog/comments-pending-companies-without-recent-comment-letters/>.

4. Sample and Data

We start with the list of foreign private issuers published by the SEC for each year from 2004 through 2012.⁷ We match foreign private issuers identified by the SEC to Compustat by manually comparing firm names. Of the 1,085 firms on the SEC lists of foreign private issuers, there are 168 firms that are not on Compustat. We exclude these firms because we do not have the necessary data to generate the variables used in our analyses. We restrict the sample period to firm years with fiscal year ends after August 1, 2004 and before December 31, 2012 because this date range corresponds with the availability of comment and response letter data, which the SEC began to release for disclosure filings made after August 1, 2004.⁸

The sample period spans two major SEC rule changes related to foreign cross-listed firms. First, effective November 15, 2007, the SEC eliminated the 20-F reconciliation to U.S. GAAP for foreign registrants preparing financial statements in accordance with IFRS. Second, on September 5, 2008, an amendment to Rule 12g3-2 allowed foreign firms to be cross-listed involuntarily (Iliev et al., 2014). To ensure that our results are not influenced by the 20-F reconciliation change, we conduct a robustness test using only data for the period prior to the elimination of the 20-F reconciliation, and separately only data for the period after the elimination of the 20-F reconciliation. In untabulated analyses, we find that our conclusions are unchanged. We do not believe our results are significantly influenced to Rule 12g3-2, as we focus our analyses on Foreign Private Issuers, which were not directly affected by this rule change. The number of foreign private issuer firm-year observations with available data on Compustat is 4,808.

Next, we search for comment and response letters on the Audit Analytics database for the period August 1, 2004 through December 31, 2012. This search produces 13,555 comment letters

⁷ <https://www.sec.gov/divisions/corpfin/internatl/companies.shtml>

⁸ <https://www.sec.gov/news/press/2005-72.htm>

that are in response to a financial filing. For foreign firms, this means that the comment letter was in response to either a 20-F filing or a 6-K filing that contained interim financial reports, which we identified through manual inspection. For each of these letters, we extract the firm's CIK, the subject of the letter, and the date of the corresponding financial filing. We collect control variables from Compustat and CRSP by first matching the CIK from our search of Audit Analytics to GVKEY (Compustat) and PERMNO (CRSP). All control variables are defined in Appendix A. These variables control for aspects of the firm's accounting quality, attributes of the firm's auditor, and other aspects of the firm's financial condition that prior research has suggested may be associated with comment letter frequency (e.g., Cassell, Dreher and Myers, 2013). The resulting sample contains 4,808 unique firm-years, including 1,500 firm-years in which one or more filings by the foreign firm resulted in a comment letter. In Table 1, we report the descriptive statistics of variables of interest and control variables for the final sample of foreign-firm years.

We next identify each foreign firm's home country using the location of the exchange where the firm's non-US shares are traded. When a given firm trades on multiple non-US exchanges, we select the country with the exchange with the highest trading volume. Information on the various exchanges and the trading volume on each exchange were collected from Capital IQ. We use this approach, rather than simply relying on the location of the firm's headquarters, because we expect that the local securities regulator will focus on those firms that are traded on the local exchange, rather than those firms with only a local physical presence.⁹ We believe that the location of the firm's headquarters is well suited to capturing the intensity of other types of

⁹ In untabulated results, we find that our conclusions are unchanged when we conduct our analyses using the foreign firm's headquarters instead of the location of the primary non-US exchange, suggesting that there is little difference across the two measures of home country. We conjecture that part of the reason the results are similar when we use the firm's headquarters is because the location of the primary non-US exchange and the firm's headquarters are the same country for approximately three-quarters of foreign firms in our sample.

oversight. For example, environmental compliance or labor laws are likely to be driven by firm's physical presence. A subset of our analyses uses foreign private issuers who are only listed on a US exchange. We identify these firms using data retrieved from BNY Mellon, which has researched and identified those firms where the US listing is the only listing for that foreign firm.¹⁰ There are 84 firms (402 firm-year observations) in our sample that are identified by BNY Mellon as single-listed firms.

The distribution of firm-year observations by home country, where home country is measured using either the location of the primary exchange or the location of the firm's headquarters, is shown in Table 2. Using the location of the primary non-US exchange rather than the location of the firm's headquarters has a significant effect on two countries—China and Germany. The number of firm-year observations where China is the home country regulator decreases from 487 to 22. This occurs because most of the Chinese firms are also listed on exchanges outside of China, such as Hong Kong, and the majority of their shares trade on these exchanges. In contrast, the number of firm-year observations where Germany is the home-country regulator increases from 88 to 830. This occurs because many firms, particularly those in Europe, have their primary listings in Germany. The changes in the number of firm-year observations are generally modest for the other countries in our sample. Approximately half of the countries in our sample have a small number of firm-year observations. In robustness tests, we confirm that our results are unchanged if countries with less than 30 firm-year observations are excluded from our analyses.

In addition to firm level data, we also collect data on attributes of the home country's institutions for the foreign firms in our sample. We collect country level indices for private

¹⁰ <https://www.adrbnymellon.com/>

enforcement (disclosure requirements and liability standards) and formal public enforcement from La Porta et al. (2006). We also collect resource based indices of public enforcement from Jackson and Roe (2009). We collect two resource based measures, budget and staff. The budget based measure equals the natural log of the security regulator's 2005 budget, and the staff based measure equals the security regulator's 2005 staff headcount divided by the country's population in millions. We use the country-specific growth in staff reported by Christensen et al (2016) to identify countries that experienced growth in regulatory staff during our sample period.

The data by country on the percentage of firm years with comment letters and measures of public and private enforcement are summarized in Table 3. Firms with a primary non-US listing in Canada and Germany comprise the largest proportion, followed by firms primarily traded on exchanges in Israel and the United Kingdom. There is variation in comment letter frequency across countries. For example, Canada has a comment letter frequency for financial filings of only 26 percent, compared with 50 percent for Italy. As discussed in more detail in La Porta et al. (2006) and Jackson and Roe (2009), there is variation in the country level indices that capture public and private enforcement. For example, the disclosure requirements index is 0.67 and the liability standards index is 0.22 in Italy, suggesting that private enforcement is relatively weak in Italy. In contrast, the disclosure requirements index is 0.92 and the liability standards index is 1.00 in Canada, suggesting that private enforcement is relatively strong in Canada.

5. Research Design and Results

5.1 Association between Home-Country Institutions and SEC Monitoring

We examine whether there is variation in the intensity of SEC monitoring across foreign firms based on the strength of public and private enforcement in the foreign firm's home country using the following specification:

$$SEC_Review_{j,t} = \beta_0 + \beta_1 Enforcement + \sum \beta_j Controls_{j,t} + Ind_FE_j + Year_FE_t + \varepsilon_{j,t} \quad (1)$$

The coefficient of interest in equation (1) is β_1 , which measures how SEC monitoring of foreign firms is related to the quality of home-country enforcement. Our first hypothesis implies that there is implicit sharing of monitoring between the SEC and foreign institutions, with the result that SEC monitors foreign firms from countries with strong public and private enforcement less than those from countries with weak public and private enforcement. This implies that the coefficient $\beta_1 < 0$.

The dependent variable, $SEC_Review_{j,t}$, is an indicator variable set equal to 1 if firm j received a comment letter for a period t filing, and 0 otherwise. The variable of interest in equation (1) is $Enforcement$, which we proxy for using five different measures for the strength of the home country's public and private enforcement regime. We measure private enforcement using the disclosure requirements and liability standards developed by La Porta et al. (2006), as these measures capture the ease with which investors can recover damages when firm disclosures are false or misleading. We measure public enforcement using the formal public enforcement index developed by La Porta et al. (2006) and two resource-based measures of public enforcement developed by Jackson and Roe (2009), as these measures capture the strength of the regulatory rules and the resources available to regulators to implement these rules. The two resource based measures of public enforcement are the natural log of the foreign regulator's budget and the foreign

regulator's staff headcount scaled by the country's population in millions. Definitions of each index used to proxy for *Enforcement* are provided in Appendix A Panel B.

We control for a comprehensive set of variables that prior literature has argued are associated with comment letter issuance. In broad terms, the prior literature has found that disclosure and financial reporting quality, the quality of the firm's auditor, and the financial condition of the firm are associated with comment letter frequency (e.g., Cassell et al., 2013). We control for accounting quality using *Small_NI*, *Material_Weakness*, *Restatement*, and *IFRS*. In addition to capturing aspects of accounting quality, *IFRS* also indicates whether the firm is reporting under an accounting standard that could either enhance or limit the SEC's ability to generate comments relative to US GAAP. We control for the quality of the firm's auditor using *Auditor_Big4*, *Auditor_2Tier*, *Auditor_Tenure*, *Auditor_Dismiss*, *Auditor_Resigned*. We control for aspects of the firm's financial condition and information environment using *RetVol_High*, *Market_Cap*, *Firm_Age*, *Sales_Growth*, *Altman_Z*, *Ext_Financing*, *Restructuring*, *M&A*, *Litigation_Risk*, *Loss*, *Num_Segments*, *Institutional_Holding*. We control for the economic condition of the country using *GDP*. Each of these variables is defined in Appendix A, Panel C. Equation (1) also includes year and industry fixed effects, where we classify industry based on Fama-French 17-industries using SIC codes from Compustat. We estimate equation (1) using an OLS specification because nonlinear models tend to produce biased estimates in panel data sets with a short time series and many fixed effects, leading to an incidental parameters problem and inconsistent estimates (see e.g., Ai and Norton, 2003). The standard errors are clustered by country-industry groups. To ensure that our results are not sensitive to this research design choice, we repeat our analyses using both logit and probit specifications, and obtain the same conclusions.

The results from equation (1) are provided in Table 4. The coefficients on each of the measures of public and private enforcement are negative and statistically significant, indicating that SEC monitoring is lower when the firm originates from a country with strong enforcement. The economic magnitude of *Enforcement* in each of these specifications is also economically meaningful. For example, the 25th percentile of the Disclosure Requirements Index is 0.42 and the 75th percentile is 0.75, indicating that a movement from the first to the third quartile of the Disclosure Requirements Index reduces the likelihood a comment letter by approximately 4.9 percent. Overall, the results in Table 4 indicate that the SEC is at least partially relying on the foreign firm's home-country regulator in setting its monitoring intensity, consistent with our first hypothesis.

5.2 Additional Analyses

There are three empirical concerns with using the incidence of comment letters to proxy for the intensity of SEC monitoring. First, because disclosure requirements are not necessarily comparable across all firms, it is possible that variation in the issuance of comment letters is related to variation in accounting and disclosure standards to which the foreign firm is subject, not to variation in SEC monitoring. Second, we have partial observability because we do not observe cases in which the SEC reviews the firm disclosures but does not issue a comment letter, presumably because the financial statement quality is good. Third, simply using the incidence of SEC comment letters may be a noisy proxy for the intensity of SEC monitoring because some reviews entail significantly more resources than others. We conduct additional analyses to address each of these concerns in the following subsections.

5.2.1 Analyses with Country Fixed Effects

A potential concern with the results in Table 4 is that the home-country enforcement metrics could be capturing some underlying country characteristics. To the extent that these country characteristics are responsible for strong regulatory institutions and are associated with better quality firms, we would be spuriously attributing reduced SEC monitoring to the quality of regulatory institutions rather than firm quality in specific countries. We address this concern by conducting two sets of tests that examine variation in SEC monitoring within country.

In the first test, we focus on a subset of countries where there was a documented increase in the regulatory staff budget, and test whether this increase is associated with a corresponding decrease in SEC monitoring intensity. The specification we use is as follows:

$$\begin{aligned} SEC_Review_{j,t} = & \beta_0 + \beta_1 Post * Staff_Growth + \sum \beta_j Controls_{j,t} + Ind_FE_j + Year_FE_t \\ & + Country_FE_t + \varepsilon_{j,t} \end{aligned} \quad (2)$$

The coefficient of interest in equation (2) is β_1 , which identifies whether changes in SEC monitoring of foreign firms is associated with changes in public enforcement. Because equation (2) includes country fixed effects, the coefficient β_1 captures the differential effect by comparing firms from the same country that are subject to different levels of enforcement, thus mitigating concerns related to unobservable country factors. To the extent that the SEC relies on the strength of the home-country regulatory quality, increases in the strength of that regulatory quality should be correlated with decreases in SEC monitoring intensity. This implies that the coefficient $\beta_1 < 0$. *Staff_Growth* is a binary variable, taken from Table 4 in Christensen et al (2016), that identifies whether there was an increase in staff resources from 2005 to 2008. *Post* is a binary variable that takes the value 1 for the years 2008 and later, which corresponds with the years when the increase in enforcement became effective. The main effects for both *Post* and *Staff_Growth* are subsumed

by the year and country fixed effects, respectively. This analysis is restricted to 14 countries, since data in Christensen et al. (2016) is only for European countries. Of these countries, Christensen et al. (2016) report that 7 experienced an increase in staff resources and 7 did not. The results in Column (1) of Table 5 show that the coefficient on *Staff_Growth* is negative and statistically significant, consistent with our first hypothesis and the main results in Table 4.

In the second test, we create variation in home-country monitoring within a given country by distinguishing between foreign private issuers from that country that are listed in both the home country and the US with foreign private issuers from that country that are only listed in the US. We use the following empirical specification:

$$\begin{aligned}
 SEC_Review_{j,t} = & \beta_0 + \beta_1 Single_Listed + \sum \beta_j Controls_{j,t} + Ind_FE_j + Year_FE_t \\
 & + Country_FE_t + \varepsilon_{j,t}
 \end{aligned}
 \tag{3}$$

The coefficient of interest is β_1 , which identifies whether firms that are only listed on a US exchange are subject to a differential level of monitoring when compared to firms from the same country that are also listed on the foreign exchange. *Single_Listed* is a binary variable that takes the value of 1 for foreign private issuers who are listed only in the US. Since foreign firms not listed on a foreign exchange do not necessarily have another securities regulator overseeing the firm's financial disclosures, we expect that foreign private issuers only listed in the US will be subject to higher intensity monitoring by SEC. The results in Column (2) of Table 5 are consistent with this prediction, as the coefficient on *Single_Listed* is positive and significant. In economic terms, the coefficient on *Single_Listed* indicates that foreign firms listed only on US exchanges are 5.3 percentage points more likely to receive comment letters relative to other cross-listed firms from the same country. Overall, the results in Table 5 mitigate the concern that our conclusions from Table 4 are driven by unobservable country specific factors.

5.2.2 Partial Observability of SEC Monitoring

Our measure of SEC monitoring is based on the presence of a comment letter issued by the SEC. This approach results in partial observability because sometimes there is an SEC review without a comment letter being issued. To the extent that the likelihood of receiving a comment letter conditional on an SEC review is related to firm quality, our inferences could be affected. In particular, the documented relation between SEC monitoring intensity and the quality of home-country regulation may arise because firms from weaker regulatory regimes are of poorer quality, rather than the implicit sharing of monitoring effort by the SEC. As a result, these firms would be more likely to receive a comment letter, conditional on SEC review.

We address this concern by constructing an alternative measure of SEC monitoring which assumes that a review is completed every three years. We do this because the Sarbanes Oxley Act (SOX) requires the SEC to undertake some sort of review of every firm at least once in three years, which could involve a partial review of specific disclosures to full-fledged review of the entire filing. Therefore, if a firm does not have a comment letter during a 3-year period, it is likely that there was an SEC review but that no issues were discovered as part of that review. We re-estimate equation (1) replacing the dependent variable with *SEC_Review_Alt*, which is set equal to 1 for period *t* when (a) a firm receives a comment letter for a period *t* filing or (ii) when firms have not received a comment letter for the period *t-2* through period *t* filings, and 0 otherwise.

The results reported in Table 6 are consistent with those in Tables 4 and 5. We continue to find that foreign firms with stronger home country enforcement were less likely to receive a comment letter, conditional on an SEC review. The coefficients in Table 6 are smaller than those in Table 5. For example, coefficient on the Disclosure Requirements index drops from 0.149 to 0.105. This suggests that there are slightly more SEC reviews that do not produce a comment letter

in countries with strong enforcement, consistent with the notion that firms from countries with strong regulatory regimes are of higher quality. However, since each coefficient continues to be negative and both statistically and economically significant, the results in Table 6 continue to support our conclusion that there is implicit cooperation by the SEC with foreign regulators. Taken together, the results in Tables 5 and 6 give us confidence that our results are unlikely to be entirely explained by unobservable country quality or firm quality and provide robust evidence that home-country regulatory quality affects SEC oversight of foreign firms.

5.2.3 Alternative Measures of SEC Monitoring

Our main analyses use the incidence of comment letters as a proxy for SEC monitoring intensity. One potential issue with this approach is that it does not capture variation in the effort required by the SEC to undertake each review. In addition, many of the observed comment letters may be due to the tri-annual review cycle required by SOX, rather than an active decision to increase monitoring of a particular firm. We use three variations in how we measure the intensity of SEC monitoring to mitigate these concerns.

First, we replace *SEC_Review* in equation (1) with *SEC_Review_Words*, a variable that equals the number of words in the first comment letter issued as part of a dialogue between the SEC and the firm. Second, we replace *SEC_Review* in equation (1) with *SEC_Review_Filing*, a variable that equals the number of financial filings with comment letters. Both of these variables better capture the effort required to conduct a review, as longer comment letters or those that cover more financial filings likely took more effort to prepare. Third, we replace *SEC_Review* in equation (1) with *SEC_Review_2*, an indicator variable that takes the value 1 if the firm received a comment letter in year *t* and at least one comment letter in the previous two years. This variable better

captures the discretionary review that is beyond the required level. The results of all three specifications are provided in Table 7. Each specification confirms the results in Table 4. The coefficients on each measure of enforcement in Panels A through C are negative and statistically significant. In addition, the economic significance of the results are comparable to those in Table 4. Overall, these analyses suggest that our results are robust to variations in the measurement of SEC monitoring intensity.

5.3 Association between US Investor Exposure and SEC Monitoring

Our second hypothesis predicts that SEC monitoring intensity will be higher for foreign firms with greater US investor exposure. We test this hypothesis using the following specification:

$$\begin{aligned}
 SEC_Review_{j,t} = & \beta_0 + \beta_1 US\ Exposure + \sum \beta_j Controls_{j,t} + Industry_FE \\
 & + Year_FE + Country_FE + \varepsilon_{j,t}
 \end{aligned}
 \tag{4}$$

The coefficient of interest is β_1 , which identifies whether firms with greater US exposure are subject to a differential level of monitoring. The inclusion of country fixed effects ensures that this comparison is across firms within the same country. *US_Exposure* is equal to the percent of the firm's market capitalization that is traded on US exchanges, where data on the total and US market capitalization is obtained from either Bloomberg or by manually inspecting the firm's 20-F filing. The results are reported in Table 8 Panel A. Column (1) reports the estimates for equation (4) without country fixed effects and column (2) includes the fixed effects. In both specifications, the likelihood of a comment letter is increasing in the market capitalization of the firm, and in the percent of that market capitalization that is held by US investors. These coefficients are also economically significant. For example, moving from the first to the third quartile in *US_Exposure*

is associated with a 2.2 percent increase in the likelihood of a comment letter being issued for the firm.

Next, we examine how *US Exposure* and *Enforcement* interact to influence SEC oversight. For ease of exposition and interpretation, we divide our sample into terciles using independent sorts based on the dollar amount of US exposure (i.e., the product of *US_Exposure* and *MarketCap*) and each metric of home country enforcement, and then construct two-way comparisons of the high and low groupings across each grouping using a modified version of Equation (4) in which we allow for interaction between indicator variables capturing the high and low groups. The coefficients from these analyses are reported in Table 8 Panel B. The values within each grouping (e.g., low-low) represent the difference in monitoring intensity between that group of firms and the group of firms in the middle tercile. For example, the low-low value of 0.004 indicates that the likelihood of a comment letter is 0.4 percentage points higher for firms with US exposure and enforcement in the bottom tercile relative to firms in the middle tercile.

Overall, the results in Table 8, Panel B suggest that the strength of the foreign regulator influences the way in which US trading is incorporated into the SEC's level of monitoring intensity. In particular, we find that SEC monitoring is significantly lower for firms with low US exposure and high quality home-country institutions compared with firms in the middle tercile. This is the group in which the benefit from sharing monitoring efforts is high without a significant sacrifice of US investor protection. In contrast, SEC monitoring is significantly higher for firms with high US exposure and low quality home country institutions compared with firms in the middle tercile, consistent with the notion that these firms warrant the most oversight by the SEC. In general, we do not find significant differences in the intensity of SEC monitoring when we compare firms that are high in both US investor exposure and enforcement with those that are low

in both US investor exposure and enforcement, suggesting that *US Exposure* and *Enforcement* are substitutes rather than complements.

Collectively, our analyses show that there are two competing forces. On the one hand, the SEC reduces monitoring intensity when it can rely on the public and private enforcement institutions in the foreign firm's home country. On the other hand, the SEC provides increased monitoring when US investors have greater investment exposure in the foreign firms.

5.4 Comparison of Foreign Firms with US Firms

To the extent that the SEC shares monitoring effort with foreign regulators, US firms may be subject to more intensive SEC oversight than foreign firms because the SEC may be the sole regulatory for these firms. Therefore, we provide additional evidence to support our first hypothesis by comparing SEC oversight for foreign relative to US firms. We use the following specification:

$$\begin{aligned}
 SEC_Review_{j,t} = & \beta_0 + \beta_1 Foreign_Firm + \sum \beta_j Controls_{j,t} \\
 & + Industry_FE_j + Year_FE_t + \varepsilon_{j,t}
 \end{aligned}
 \tag{5}$$

We estimate this specification using both a full sample of US firms as well as two matched samples. In the first matched sample, we match each foreign firm to a US firm using an exact match based on year and industry (Fama-French 17-industries), and then choose the US firm that is closest in size based on total market cap to the foreign firm. In the second matched sample, we match each foreign firm to a US firm using an exact match based on year, industry (Fama-French 17-industries) and *Small_NI* status (a measure of accounting quality), and then choose the US firm that is closest in size based on total market cap to the foreign firm. The inclusion of the additional criterion based on *Small_NI* status in the second matched sample is to reduce variation across firms

in accounting quality. *Foreign_Firm* is a binary variable that takes the value of 1 for foreign firms, and 0 for US firms. The results in Table 9 show that foreign firms are subject to a lower level of monitoring than comparable US firms. The coefficient on *Foreign_Firm* is negative and statistically significant in each specification, and in economic terms it indicates that the likelihood of receiving a comment letter is 8.0 to 12.5 percentage points lower for foreign firms compared to US firms. This result is consistent with our first hypothesis which states that when SEC can share its monitoring effort with another regulator, it does not monitor as much.

Next, we focus on the subsample of foreign private issuers that are only listed on US exchanges to provide additional support for this conclusion. Consistent with our first hypothesis, we predict that the SEC will monitor these firms to the same extent as they do US firms because these firms are not subject to oversight by another securities regulator. The results are reported in Table 9 Panel B. The coefficient on *Single_Listed* is insignificant in both specifications, indicating that there is no difference in the intensity of SEC monitoring between foreign private issuers that are only listed on US exchanges and domestic issuers.

There are several challenges in comparing US firms with foreign firms in the context of SEC oversight. For example, as described in Section 3, foreign private issuers are subject to some reporting exemptions and therefore to the extent that there are fewer filings made by foreign firms, there may be fewer comment letters. We conduct several robustness tests to mitigate the concern that these differences are driving our results. First, we use the classification of comment letters into topics as identified by Audit Analytics to narrow our sample to topics that are most likely to be equally relevant to both US and foreign firms. More specifically, we conduct one analysis where the dependent variable covers all topics related to disclosure including MD&A, disclosures about risk, internal controls, and accounting rules, and a second analysis where the dependent variable

focuses more narrowly on comment letters that discuss accounting rules and accounting disclosures. In untabulated analyses, we find similar results to Table 9 Panel A for both sets of analysis. We also restrict the sample of foreign firms to those that provide quarterly reporting. In untabulated analyses, we find that the periodicity of financial statement filings does not appear to drive our results.

6. Conclusion

We find significant variation in the level of SEC monitoring across foreign firms based on the strength of their home-country public and private enforcement and the level of US investor exposure. These findings add nuance to the arguments used in the bonding literature by recognizing that SEC may not view all foreign firms as homogenous and thus SEC may vary its monitoring effort based on characteristics of the home country institutions. In particular, we find evidence that supports the emerging regulatory philosophy of substituted compliance, whereby the SEC implicitly relies on the strength of foreign regulators in setting its monitoring intensity. We also find that the SEC monitors foreign firms less intensively than it does US firms because of the implicit sharing of regulatory effort. We call on future research to evaluate whether this strategy achieves optimal monitoring or whether it imposes some costs on US investors in terms of poorer reporting quality for foreign firms.

Appendix A: Variable Description and Data Sources

Variable	Description	Data Source
Panel A: Dependent Variables and Main Variable of Interest		
<i>SEC_Review</i>	Indicator variable set equal to 1 if the firm received a comment letter for a period t filing, and 0 otherwise.	Audit Analytics
<i>Sec_Review_Words</i>	The number of words in each comment letter issued as part of a conversation between the SEC and the firm	Audit Analytics
<i>SEC_Review_Filing</i>	Count variable equal to the number of financial filings with comment letters	Audit Analytics
<i>SEC_Review_2</i>	Indicator variable that takes the value 1 if the firm received a comment letter in year t and at least one comment letter in the previous two years, and 0 otherwise	Audit Analytics
<i>SEC_Review_Alt</i>	Indicator variable equal to 1 for period t when (a) a firm receives a comment letter during period t or (ii) when a firm has not received a comment letter for the period t-2 through period t filing, and 0 otherwise	Audit Analytics
<i>Foreign_Firm</i>	Indicator variable set equal to 1 if firm is classified as a foreign private issuer by the SEC for fiscal year t, and 0 otherwise.	SEC Website
<i>Single_Listed</i>	Indicator variable set equal to 1 if foreign firm's shares only trade on a US exchange, and 0 otherwise.	BNY Mellon
<i>Cross_Listed</i>	Indicator variable set equal to 1 if foreign firm's shares are cross-listed on both a US and foreign exchange, and 0 otherwise.	BNY Mellon
Panel B: Measures of Public Enforcement		
<i>Rules_Enforcement</i>	Formal Public Enforcement Index. The arithmetic mean of: (1) supervisor characteristics index; (2) its rule-making power index; (3) its investigative powers index; (4) orders authority index; and (5) criminal authority index, as La Porta, Lopez-de-Silanes, and Shleifer (2006) describe.	La Porta, Lopez-de-Silanes, and Shleifer (2006)
<i>Staff_Resources</i>	Staff Resource Based Public Enforcement Index. The number of the securities regulators' staff in 2005, divided by the country's population in millions based on the extended sample, as Jackson and Roe (2009) describe.	Jackson and Roe (2009)
<i>Budget_Resources</i>	Budget Resource Based Public Enforcement Index. The securities regulators' 2005 budget divided by the country's GDP based on the extended sample, as Jackson and Roe (2009) describe.	Jackson and Roe (2009)
Panel C: Measures of Private Enforcement		
<i>Disclosure_Requirements</i>	The index of disclosure equals the arithmetic mean of: (1) nature of liability on a prospectus; (2) extent compensation must be disclosed; (3) shareholders' disclosure; (4) extent inside ownership must be disclosed; (5) extent irregular contracts must be disclosed; (6) and the extent that related party and irregular transactions must be disclosed, as La Porta, Lopez-de-Silanes, and Shleifer (2006) describe.	La Porta, Lopez-de-Silanes, and Shleifer (2006)

Variable	Description	Data Source
<i>Liability_Standards</i>	The index of liability standards equals the arithmetic mean of: (1) liability standard for the issuer and its directors; (2) liability standard for the distributor; and (3) liability standard for the accountant, as La Porta, Lopez-de-Silanes, and Shleifer (2006) describe.	La Porta, Lopez-de-Silanes, and Shleifer (2006)
Panel E: Controls for Accounting Quality		
<i>Material_Weakness</i>	Indicator variable set equal to 1 if the internal control audit opinion (under SOX Section 404) or the management certification (under SOX Section 302) as reported in Audit Analytics is qualified for a material weakness in any years of t , $t - 1$, or $t - 2$, and 0 otherwise.	Audit Analytics
<i>Restatement</i>	Indicator variable set equal to 1 if the firm filed a 10-K restatement in any years of t , $t - 1$, or $t - 2$, and 0 otherwise.	Audit Analytics
<i>IFRS</i>	Indicator variable equal to 1 for period t when the firm reports using IFRS	Audit Analytics
<i>Small_NI</i>	Indicator variable set equal to 1 if for firm-years when annual net income scaled by total assets is between 0 and 0.01, a 0 otherwise (see Lang, Raedy, and Wilson, 2006)	Compustat
Panel F: Auditor Related Controls		
<i>Auditor_Big4</i>	Indicator variable set equal to 1 if the firm's auditor is a Big 4 audit firm, and 0 otherwise.	Audit Analytics
<i>Auditor_2Tier</i>	Indicator variable set equal to 1 if the firm's auditor is a second tier audit firm (i.e., BDO Seidman, Crowe Horwath, Grant Thornton, or McGladrey & Pullen), and 0 otherwise.	Audit Analytics
<i>Auditor_Tenure</i>	The number of years during which the auditor has audited the firm.	Audit Analytics
<i>Auditor_Dismiss</i>	Indicator variable set equal to 1 if the auditor was dismissed in any years of t , $t - 1$, or $t - 2$, and 0 otherwise.	Audit Analytics
<i>Auditor_Resigned</i>	Indicator variable set equal to 1 if the auditor resigned in any years of t , $t - 1$, or $t - 2$, and 0 otherwise.	Audit Analytics
Panel G: Other Variables		
<i>RetVol_High</i>	Indicator variable set equal to 1 if the volatility of abnormal monthly stock returns (equal to the monthly return [RET] minus the value weighted return [VWRTD]) is in the highest quartile in a given fiscal year, and 0 otherwise. Return volatility is calculated as the standard deviation of monthly stock returns for the 36-month period ending in the last month of the fiscal year.	CRSP
<i>MarketCap</i>	The natural log of market capitalization, calculated as shares outstanding at fiscal year-end (CSHO) times the share price at fiscal year-end (PRCC_F).	Compustat
<i>Firm_Age</i>	The age of the firm.	Compustat
<i>Loss</i>	Indicator variable set equal to 1 if net income (NI) is negative in any years of t , $t - 1$, or $t - 2$, and 0 otherwise.	Compustat

Variable	Description	Data Source
<i>Sales_Growth</i>	The mean of sales growth in years t , $t - 1$, and $t - 2$, where sales growth is measured as the percentage change (in decimal form) in annual sales (REVT).	Compustat
<i>Bankruptcy</i>	The decile rank of Altman's Z-score, where companies with the weakest financial health are assigned to decile 10. Altman's Z-score is measured following Altman (1968).	Compustat
<i>Num_Segments</i>	The number of business segments reported in the Compustat segments database	Compustat
<i>Ext_Financing</i>	The sum of equity financing and debt financing scaled by total assets, measured in $t+1$, following Ettredge et al. (2011). Equity financing equals the sales of common and preferred stock (SSTK) minus the purchases of common and preferred stock (PRSTKC) and dividends (DV). Debt financing equals long-term debt issued (DLTIS) minus long-term debt reduction (DLTR) minus the change in current debt (DLCCH).	Compustat
<i>Restructuring</i>	Indicator variable set equal to 1 for non-zero restructuring costs as reported on a pre-tax basis (RCP) in any years of t , $t - 1$, or $t - 2$, and 0 otherwise.	Compustat
<i>M&A</i>	Indicator variable set equal to 1 for non-zero mergers or acquisitions as reported on a pre-tax basis (AQP) in year t , and 0 otherwise.	Compustat
<i>Litigation Risk</i>	Indicator variable set equal to 1 if the firm SIC code is one of the following: 2833-6, 3570-7, 3600-74, 5200-5961, or 7370-4, and 0 otherwise.	Compustat
<i>Inst_Ownership</i>	Total institutional holdings minus institutional holdings held by institutions categorized as "transient" in the quarter immediately preceding fiscal year-end divided by the total shares outstanding as of fiscal year-end, winsorized to 1.00 (following D'Souza et al., 2010). We identify transient institutions using data from http://acct3.wharton.upenn.edu/faculty/bushee/IIclass.html	Thomson (S34)
<i>GDP</i>	The log of 2005 gross domestic product in US dollars. Derived from GDP variables downloaded from World Bank Data and Statistics website, as Jackson and Roe (2009) describe.	Jackson and Roe (2009)

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- US Securities and Exchange Commission (SEC). 2012. Study on the cross-border scope of the private right of action under Section 10(b) of the Securities Exchange Act of 1934. Washington, D.C.

Figure 1: Overview of Domestic versus Foreign Private Issuer Reporting and Disclosure Requirements

Obligation	Domestic Issuer	Foreign Private Issuer
Exchange Act Registration Forms	Form 10, which requires SEC-specified disclosure regarding the U.S. domestic issuer and is subject to SEC review.	Form 20-F, which requires SEC-specified disclosure regarding the Foreign Private Issuer and is subject to SEC review.
Exchange Act Reporting Forms	Form 10-K for annual information required by the SEC, including annual audited financial statements. Form 10-Q for interim period financial and other information. Form 8-K for disclosure of specified material events.	Form 20-F for annual information, including annual audited financial statements. Form 6-K for all other material information disclosed by the Foreign Private Issuer according to home-country or stock exchange requirements.
Annual Reporting	Form 10-K prescribes specific disclosures and must be filed within 60-90 days after fiscal year end.	Form 20-F prescribes specific disclosures and must be filed within 4 months after fiscal year end.
Quarterly Reporting	Must file quarterly reports on Form 10-Q.	Not required.
Periodic Reporting	Must file Form 8-K generally within 4 business days of event to be reported. Prescribes specific disclosures to be made.	Form 6-K to be furnished promptly, after information is made public in home jurisdiction. No prescribed specific disclosures. Foreign Private Issuers that produce interim financial statements due to home country requirements disclose those statements in the US using Form 6-K.
Required Accounting Standards	Financial statements typically prepared in accordance with U.S. GAAP.	Must reconcile to U.S. GAAP, unless financial statements are prepared in accordance with IFRS.

Table 1: Sample Composition

This table provides the descriptive statistics for each of the variables used in our analyses. Each variable is defined in Appendix A.

<i>Variable</i>	<i>N</i>	<i>Mean</i>	<i>P25</i>	<i>P50</i>	<i>P75</i>
SEC_Review	4,808	0.312	0	0	1
US_Exposure	4,191	0.358	0.110	0.285	0.564
<i>Controls for Accounting Quality</i>					
Small_NI	4,808	0.08	0	0	0
IFRS	4,808	0.239	0	0	0
Material_Weakness	4,808	0.17	0	0	0
Restatement	4,808	0.103	0	0	0
<i>Auditor Related Controls</i>					
Auditor_Big4	4,808	0.929	1	1	1
Auditor_2Tier	4,808	0.02	0	0	0
Auditor_Tenure	4,808	4.131	2	4	6
Auditor_Dismiss	4,808	0.084	0	0	0
Auditor_Resigned	4,808	0.023	0	0	0
<i>Other Controls</i>					
RetVol_High	4,808	0.243	0	0	0
MarketCap	4,808	10,776	227	1,432	10,541
Firm_Age	4,808	9.215	6	9	12
Loss	4,808	0.422	0	0	1
Sales_Growth	4,808	0.32	0.039	0.145	0.310
Bankruptcy	4,808	5.66	4	6	8
Num_Segments	4,808	1.475	1	1	1
Ext_Financing	4,808	0.01	-0.029	0	0.018
Restructuring	4,808	0.308	0	0	1
M&A	4,808	0.154	0	0	0
Litigation Risk	4,808	0.311	0	0	1
Inst_Ownership	4,808	0.133	0.004	0.045	0.200

Table 2: Location of Primary Exchange relative to Headquarters

This table provides a breakdown of the sample of foreign firms and the location of the firm's headquarters and the primary non-US exchange.

<i>Country</i>	<i>Firm years based on Exchange</i>	<i>Firm years based on Headquarters</i>
United Arab Emirates	1	1
Argentina	102	102
Australia	101	94
Austria	7	3
Belgium	17	15
Belize	0	1
Bermuda	0	76
Brazil	97	97
Canada	1,114	1,148
Switzerland	0	12
Chile	107	107
China	158	580
Colombia	5	5
Cayman Islands	0	14
Cyprus	0	1
Germany	1,019	98
Denmark	15	18
Spain	40	42
Finland	15	15
France	127	131
United Kingdom	328	294
Greece	51	126
Hong Kong	0	47
Hungary	6	7
Indonesia	18	18
India	84	104
Ireland	0	76
Israel	490	572
Italy	62	54
Japan	185	187
South Korea	76	85
Luxembourg	0	38
Monaco	0	7
Mexico	178	149
Marshall Islands	0	8
Netherlands	116	152
Norway	53	17
New Zealand	8	10
Panama	0	13
Peru	19	19
Philippines	13	13
Papua New Guinea	0	6
Portugal	11	10
Russian Federation	23	30
Singapore	0	21
Sweden	21	13
Turkey	9	9
Taiwan	68	93
Venezuela	3	3
South Africa	61	67
Total	4,808	4,808

Table 3: Sample Composition by Country

This table provides a breakdown of the sample of foreign firms and the value of the country level institutional variables used in our analyses. The home country is the location of the primary non-US exchange. All variables are defined in Appendix A.

<i>Country</i>	<i>Firm years</i>	<i>Percent Comment Letters</i>	<i>Disc Req.</i>	<i>Liability Standard</i>	<i>Rules Enforc.</i>	<i>Budget Resources</i>	<i>Staff Resources</i>
United Arab Emirates	1	0.00%	.	.	.	.	.
Argentina	102	35.29%	0.50	0.22	0.58	15,994	3.46
Australia	101	31.68%	0.75	0.66	0.90	89,217	34.44
Austria	7	42.86%	0.25	0.11	0.17	34,464	9.97
Belgium	17	41.18%	0.42	0.44	0.15	27,276	13.76
Brazil	97	36.08%	0.25	0.33	0.58	31,729	2.68
Canada	1,114	26.21%	0.92	1.00	0.80	82,706	38.93
Chile	107	37.38%	0.58	0.33	0.60	66,093	9.93
China	158	24.05%	.	.	.	.	.
Colombia	5	40.00%	0.42	0.11	0.58	42,660	3.94
Germany	1,019	29.05%	0.42	0.00	0.22	12,903	4.43
Denmark	15	66.67%	0.58	0.55	0.37	25,940	10.85
Spain	40	42.50%	0.50	0.66	0.33	29,873	8.5
Finland	15	53.33%	0.50	0.66	0.32	45,937	11.23
France	127	37.80%	0.75	0.22	0.77	28,851	5.91
United Kingdom	328	42.07%	0.83	0.66	0.68	80,902	19.04
Greece	51	29.41%	0.33	0.50	0.32	60,111	12.16
Hungary	6	50.00%	.	.	.	79,996	10.75
Indonesia	18	33.33%	0.50	0.66	0.62	5,576	1.97
India	84	39.29%	0.92	0.66	0.67	.	0.43
Israel	490	23.47%	0.67	0.66	0.63	145,673	18.78
Italy	62	50.00%	0.67	0.22	0.48	61,239	7.25
Japan	185	32.43%	0.75	0.66	0.00	15,754	4.32
South Korea	76	39.47%	0.75	0.66	0.25	80,192	11.55
Mexico	178	28.09%	0.58	0.11	0.35	49,864	5.19
Netherlands	116	35.34%	0.50	0.89	0.47	131,285	23.53
Norway	53	37.74%	0.58	0.39	0.32	25,109	20.78
New Zealand	8	12.50%	0.67	0.44	0.33	37,539	8.95
Peru	19	31.58%	0.33	0.66	0.78	108,353	5.32
Philippines	13	30.77%	0.83	1.00	0.83	65,848	4.29
Portugal	11	72.73%	0.42	0.66	0.58	75,562	14.5
Russian Federation	23	34.78%	.	.	.	.	.
Sweden	21	52.38%	0.58	0.28	0.50	21,988	7.19
Turkey	9	44.4%	0.50	0.22	0.63	58,893	6.17
Taiwan	68	30.9%	0.75	0.66	0.52	44,090	12.53
Venezuela	3	33.3%	0.17	0.22	0.55	.	.
South Africa	61	49.2%	0.83	0.66	0.25	49,291	3.52

Table 4: Variation in SEC Monitoring based on Home Country Enforcement

This table examines whether the intensity of SEC monitoring is different across foreign firms based on the strength of home country enforcement. The dependent variable is *SEC_Review*, an indicator variable set equal to 1 if the firm received a comment letter for a period *t* filing, and 0 otherwise. The five measures of home country enforcement are described in Appendix A. A negative (positive) coefficient on any of the proxies for the strength of home country enforcement indicates that foreign firms with stronger home country enforcement were subject to lower (higher) SEC monitoring. The control variables are listed and defined in Appendix A. Each of the continuous variables is winsorized at 1% and 99% to mitigate outliers. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors clustered by country-industry.

	(1)	(2)	(3)	(4)	(5)
<i>Private Enforcement</i>					
Disclosure_Requirements	-0.149*** (-4.171)				
Liability_Standards		-0.112*** (-5.305)			
<i>Public Enforcement</i>					
Rules_Enforcement			-0.132*** (-3.515)		
Staff_Resources				-0.003*** (-5.374)	
Budget_Resources					-0.034*** (-2.693)
<i>Controls for Accounting Quality</i>					
Small_NI	0.077*** (3.098)	0.080*** (3.251)	0.072*** (2.885)	0.078*** (3.091)	0.084*** (3.449)
IFRS	0.020 (1.028)	0.020 (1.026)	0.029 (1.446)	0.025 (1.263)	0.023 (1.117)
Material_Weakness	0.025 (1.494)	0.024 (1.414)	0.026 (1.562)	0.026 (1.574)	0.031* (1.820)
Restatement	0.015 (0.784)	0.017 (0.855)	0.015 (0.738)	0.010 (0.473)	0.014 (0.710)
<i>Auditor Related Controls</i>					
Auditor_Big4	-0.044 (-1.286)	-0.039 (-1.128)	-0.043 (-1.230)	-0.039 (-1.119)	-0.047 (-1.297)
Auditor_2Tier	-0.048 (-0.953)	-0.046 (-0.927)	-0.053 (-1.057)	-0.046 (-0.938)	-0.052 (-1.016)
Auditor_Tenure	0.000 (0.121)	0.001 (0.185)	-0.001 (-0.224)	-0.000 (-0.019)	-0.000 (-0.043)
Auditor_Dismiss	-0.022 (-1.047)	-0.022 (-1.051)	-0.017 (-0.798)	-0.021 (-0.991)	-0.021 (-0.982)
Auditor_Resigned	0.059 (1.548)	0.063 (1.633)	0.055 (1.450)	0.063* (1.656)	0.052 (1.333)
<i>Other Controls</i>					
RetVol_High	0.014 (0.712)	0.012 (0.611)	0.016 (0.829)	0.015 (0.777)	0.013 (0.676)
MarketCap	0.042*** (8.712)	0.043*** (8.682)	0.040*** (8.135)	0.039*** (7.865)	0.041*** (8.044)

Firm_Age	-0.000 (-0.126)	0.000 (0.066)	-0.001 (-0.248)	-0.000 (-0.076)	-0.001 (-0.247)
Loss	0.027 (1.652)	0.028* (1.707)	0.026 (1.584)	0.029* (1.736)	0.024 (1.419)
Sales_Growth	0.004 (0.484)	0.005 (0.597)	0.005 (0.568)	0.008 (0.830)	0.004 (0.413)
Bankruptcy	-0.001 (-0.371)	-0.002 (-0.514)	-0.001 (-0.274)	-0.001 (-0.288)	-0.002 (-0.555)
Num_Segments	-0.013* (-1.885)	-0.013** (-2.009)	-0.013* (-1.907)	-0.014** (-2.094)	-0.013* (-1.922)
Ext_Financing	-0.063 (-1.138)	-0.057 (-1.035)	-0.062 (-1.146)	-0.054 (-0.999)	-0.051 (-0.929)
Restructuring	-0.010 (-0.684)	-0.013 (-0.911)	-0.009 (-0.658)	-0.008 (-0.588)	-0.013 (-0.873)
M&A	0.022 (1.227)	0.026 (1.445)	0.024 (1.315)	0.027 (1.476)	0.017 (1.003)
Litigation Risk	0.072*** (2.971)	0.072*** (2.909)	0.072*** (2.969)	0.067*** (2.830)	0.067*** (2.752)
GDP	-1.209** (-2.059)	-2.159*** (-3.567)	-2.305*** (-2.910)	-1.842*** (-2.791)	-2.480*** (-2.775)
Inst_Ownership	0.006 (0.159)	0.020 (0.545)	0.008 (0.201)	0.058 (1.494)	-0.017 (-0.386)
Industry FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	4,620	4,620	4,620	4,623	4,539
R ²	0.133	0.135	0.133	0.135	0.134

Table 5: Variation in SEC Monitoring with Country Fixed Effects

This table examines whether the intensity of SEC monitoring is different across foreign firms based on the strength of home country enforcement. Both columns include country fixed effects, which allows us to examine the variation in SEC monitoring within country. The dependent variable is *SEC_Review*, an indicator variable set equal to 1 if the firm received a comment letter for a period t filing, and 0 otherwise. The coefficient of interest in the first column is on the interaction of *Staff_Growth*, a binary variable which takes the value of one if there is an increase in staff resources, and *Post*, a binary variable which takes the value of one for 2008 and later. A positive (negative) coefficient indicates that an increase in enforcement was associated with an increase (decrease) in SEC monitoring intensity. The coefficient of interest in the second column is on *Single_Listed*, a binary variable which takes the value of one if the foreign firm is only listed on a US exchange. A positive (negative) coefficient indicates that single listed firms are subject to higher (lower) levels of SEC monitoring. Each control variable is described in Table 4. Coefficients on control variables are not shown for ease of presentation. We include country-, industry- and year-fixed effects in the regression, but do not report the coefficients. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors clustered by country-industry.

	(1)	(2)
Staff_Growth*Post	-0.119**	
	(-2.050)	
Single_Listed		0.053*
		(1.736)
Control Variables		
Accounting Quality	Yes	Yes
Auditor	Yes	Yes
Other	Yes	Yes
Industry FE	Yes	Yes
Country FE	Yes	Yes
Year FE	Yes	Yes
Observations	1,867	4,808
R ²	0.212	0.145

Table 6: Alternate Measure of SEC Oversight to Mitigate Partial Observability Concerns

This table examines whether the intensity of SEC monitoring is different across foreign firms based on the strength of home country enforcement. The dependent variable is *SEC_Review_ADJ*, an indicator variable set equal to 1 if the firm received a comment letter at time *t* or if it did not receive a comment letter for a period *t*-2 through period *t* filing (i.e., for the previous three years), and 0 otherwise. Each measure of home country enforcement and each control variable is described in Table 4. A negative (positive) coefficient on any of the measures of home country enforcement indicates that foreign firms with stronger home country enforcement were less (more) likely to receive a comment letter, conditional on an SEC review. Each control variable is described in Table 4. Coefficients on control variables are not shown for ease of presentation. We include industry- and year-fixed effects in the regression, but do not report the coefficients. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors clustered by country-industry.

	(1)	(2)	(3)	(4)	(5)
<i>Private Enforcement</i>					
Disclosure_Requirements	-0.105*** (-4.006)				
Liability_Standards		-0.084*** (-5.232)			
<i>Public Enforcement</i>					
Rules_Enforcement			-0.082*** (-2.782)		
Staff_Resources				-0.002*** (-4.969)	
Budget_Resources					-0.024** (-2.457)
<i>Control Variables</i>					
Accounting Quality	Yes	Yes	Yes	Yes	Yes
Auditor	Yes	Yes	Yes	Yes	Yes
Other	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	4,620	4,620	4,620	4,623	4,539
R ²	0.077	0.078	0.076	0.078	0.075

Table 7: Alternative Measures of SEC Monitoring Intensity

Each Table below uses an alternative measure of SEC monitoring intensity. In Panel A, we proxy for SEC monitoring intensity using *SEC_Review_Words*, a variable that equals the sum of the number of words in each comment letter issued as part of a conversation between the SEC and the firm. In Panel B, we proxy for SEC monitoring intensity using *SEC_Review_Filing*, a variable that equals the number of financial filings with comment letters. Both of these variables better capture the effort required to conduct a review, as longer comment letters or those that cover more financial filings likely took more effort to prepare. In Panel C, we proxy for SEC monitoring intensity using *SEC_Review_2*, an indicator variable that takes the value 1 if the firm received a comment letter in year *t* and at least one comment letter in the previous two years. This variable better captures the discretionary review that is beyond the required level. A negative (positive) coefficient on any of the proxies for the strength of home country enforcement in each Panel indicates that foreign firms with stronger home country enforcement were subject to lower (higher) SEC monitoring. Each control variable is described in Table 4. Coefficients on control variables are not shown for ease of presentation. We include industry- and year-fixed effects in the regression, but do not report the coefficients. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors clustered by country-industry.

Panel A: Length of Comment Letter

	(1)	(2)	(3)	(4)	(5)
<i>Private Enforcement</i>					
Disclosure_Requirements	-1.046*** (-3.995)				
Liability_Standards		-0.787*** (-5.033)			
<i>Public Enforcement</i>					
Rules_Enforcement			-0.920*** (-3.376)		
Staff_Resources				-0.021*** (-5.259)	
Budget_Resources					-0.227** (-2.523)
<i>Control Variables</i>					
Accounting Quality	Yes	Yes	Yes	Yes	Yes
Auditor	Yes	Yes	Yes	Yes	Yes
Other	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	4,620	4,620	4,620	4,623	4,539
R ²	0.136	0.138	0.135	0.138	0.137

Table 7 (continued)*Panel B: Number of financial filings with comment letter during fiscal year t as dependent variable*

	(1)	(2)	(3)	(4)	(5)
<i>Private Enforcement</i>					
Disclosure_Requirements	-0.178*** (-3.512)				
Liability_Standards		-0.132*** (-4.766)			
<i>Public Enforcement</i>					
Rules_Enforcement			-0.146*** (-2.954)		
Staff_Resources				-0.003*** (-4.440)	
Budget_Resources					-0.039** (-2.293)
Control Variables					
Accounting Quality	Yes	Yes	Yes	Yes	Yes
Auditor	Yes	Yes	Yes	Yes	Yes
Other	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	4,620	4,620	4,620	4,623	4,539
R ²	0.127	0.128	0.126	0.127	0.130

Table 7 (continued)*Panel C: Two or more comments letters in a three-year period*

	(1)	(2)	(3)	(4)	(5)
<i>Private Enforcement</i>					
Disclosure_Requirements	-0.125** (-2.418)				
Liability_Standards		-0.089*** (-2.982)			
<i>Public Enforcement</i>					
Rules_Enforcement			-0.153*** (-2.935)		
Staff_Resources				-0.003*** (-2.985)	
Budget_Resources					-0.021 (-1.481)
<i>Control Variables</i>					
Accounting Quality	Yes	Yes	Yes	Yes	Yes
Auditor	Yes	Yes	Yes	Yes	Yes
Other	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	2,959	2,959	2,959	2,962	2,903
R ²	0.146	0.147	0.148	0.149	0.145

Table 8: Variation in SEC Monitoring based on US Investor Exposure

Panel A: Analysis of the impact of US investor exposure on regulatory oversight conditional on home country enforcement

This table examines whether the intensity of SEC monitoring is different for foreign firms compared to US firms. The dependent variable is *SEC_Review*, an indicator variable set equal to 1 if the firm received a comment letter for a period *t* filing, and 0 otherwise. The coefficient of interest is *US_Exposure*, which equals the percentage of the firm's overall market cap that is traded on US exchanges. A negative (positive) coefficient on *US_Exposure* indicates that foreign firms which greater exposure to the US were subject to lower (higher) SEC monitoring. Each control variable is described in Table 4. Coefficients on control variables are not shown for ease of presentation. We include industry- and year-fixed effects in the regression, but do not report the coefficients. We include country fixed effects in Column (2). ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors clustered by country-industry.

	(1)	(2)
US_Exposure	0.066*** (2.988)	0.050** (1.999)
Marketcap	0.041*** (7.542)	0.039*** (6.052)
Control Variables	Yes	Yes
Accounting Quality	Yes	Yes
Auditor	Yes	Yes
Other	Yes	Yes
Country FE	No	Yes
Industry FE	Yes	Yes
Year FE	Yes	Yes
Observations	4,191	4,191
R ²	0.136	0.150

Table 8 (continued)

Panel B: Combined Effect of Enforcement and US Investor Exposure

This panel reports the mean values of SEC monitoring intensity across the low and high tercile of US Exposure and each proxy for enforcement. We indicate statistical significance of differences across cells with t-tests.

		<i>Disclosure Requirements</i>			<i>Liability Standards</i>						<i>Rules Enforcement</i>			<i>Staff Resources</i>			<i>Budget Resources</i>			
<i>US Exposure</i>		Low (a)	High (b)	(b)-(a)	Low (a)	High (b)	(b)-(a)				Low (a)	High (b)	(b)-(a)	Low (a)	High (b)	(b)-(a)	Low (a)	High (b)	(b)-(a)	
Low	(i)	0.004 N=446	-0.072 N=427	-0.076**	-0.007 N=446	-0.135 N=319	-0.128***													
High	(ii)	0.092 N=445	0.016 N=427	-0.074*	0.077 N=445	-0.023 N=319	-0.100**													
	(ii)-(i)	0.088***	0.088**	0.012	0.084**	0.112**	-0.16													
Low	(i)	0.008 N=449	-0.092 N=459	-0.100***	-0.005 N=468	-0.103 N=463	-0.098***				0.015 N=419	-0.126 N=510	-0.111***							
High	(ii)	0.114 N=449	0.020 N=459	-0.094***	0.089 N=467	0.029 N=462	-0.60				0.093 N=419	-0.012 N=510	-0.105***							
	(ii)-(i)	0.106***	0.112**	0.012	0.094**	0.132***	0.034				0.078**	0.114***	0.027							

Table 9*Panel A: Comparison of Monitoring Intensity for US versus Foreign Firms*

This table examines whether the intensity of SEC monitoring is different for foreign firms compared to US firms. The dependent variable is *SEC_Review*, an indicator variable set equal to 1 if the firm received a comment letter for a period *t* filing, and 0 otherwise. The coefficient of interest is on *Foreign_Firm*, an indicator variable set equal to 1 if firm is classified as a foreign private issuer by the SEC for fiscal year *t*, and 0 otherwise. A negative (positive) coefficient on *Foreign_Firm* indicates that foreign firms were subject to lower (higher) SEC monitoring. Column (1) uses the full sample of US firms, Column (2) creates a matched sample based on year, industry and size, and Column (3) creates a matched sample using year, industry, accounting quality and size. Each control variable is described in Table 4. Coefficients on control variables are not shown for ease of presentation. We include industry- and year-fixed effects in the regression, but do not report the coefficients. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors clustered by country-industry.

	Full Sample	Matching 1 (year, ind, size)	Matching 2 (year, ind, AQ, size)
	(1)	(2)	(3)
Foreign_Firm	-0.080*** (-4.634)	-0.121*** (-5.405)	-0.125*** (-5.803)
Control Variables			
Accounting Quality	Yes	Yes	Yes
Auditor	Yes	Yes	Yes
Other	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	41,540	9,616	9,574
R ²	0.101	0.145	0.151

Table 9 (continued)*Panel B: Analyses of Foreign Private Issuers Listed only on US Exchange*

This table examines whether the intensity of SEC monitoring is different for foreign firms based on whether the foreign firm's shares are single-listed or cross-listed. The dependent variable is *SEC_Review*, an indicator variable set equal to 1 if the firm received a comment letter for a period t filing, and 0 otherwise. *Single_Listed* is an indicator variable set equal to 1 if foreign firm's shares only trade on a US exchange, and 0 otherwise. *Foreign_CrossListed* is an indicator variable set equal to 1 if foreign firm's shares are cross-listed on both a US and foreign exchange, and 0 otherwise. A positive (negative) coefficient on *Single_Listed* indicates that foreign firms whose shares only trade on a US exchange are subject to a higher level of SEC monitoring than the other firms in the sample. Column (1) compares foreign single-listed with US firms using the sample of US firms and foreign firm whose shares are only traded on a US exchange. Column (2) compares foreign single-listed and foreign cross-listed firms with US firms using the full sample of US firms. All variables are as defined in Appendix A. Each control variable is described in Table 4. Coefficients on control variables are not shown for ease of presentation. We include country-, industry- and year-fixed effects in the regression, but do not report the coefficients. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively, using two-tailed tests and standard errors clustered by country-industry.

	(1)	(2)
Single_Listed	-0.015 (-0.841)	-0.012 (-0.692)
Cross_Listed		-0.083*** (-4.589)
Control Variables		
Accounting Quality	Yes	Yes
Auditor	Yes	Yes
Other	Yes	Yes
Country FE	Yes	Yes
Industry FE	Yes	Yes
Year FE	Yes	Yes
Comparison Group	US	US
Observations	37,134	41,540
R ²	0.102	0.102