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Does the Financial Experience of SEC Regional Directors Impact SEC Investigations into Reporting Entities?

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Does the Financial Experience of SEC Regional Directors Impact SEC Investigations into Reporting Entities?

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Abstract

The SEC's Division of Enforcement is frequently criticized for its lack of oversight effectiveness, and certain vocal critics attribute this to a lack of financial experience within the SEC. Using hand-collected data on SEC regional directors, I find that the majority of these SEC officials lack financial experience. I then examine whether the financial experience of SEC regional directors impacts SEC investigations into reporting entities. Consistent with financial experience equipping directors to better process complex financial transactions and reports, I find that directors with financial experience open public company investigations 29 percent more often and conduct these investigations 34 percent more efficiently. Additional analyses reveal that directors with financial experience open more investigations related to financial fraud or disclosure and that these directors tend to open more consequential investigations. Overall, this study provides new insights into the SEC's oversight process and should be of interest to regulators and other capital market participants concerned with SEC oversight.

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Dedication

I dedicate this dissertation to my wife, Emily, whose love and support have made this all possible. Thank you for being in my life and for encouraging me to complete this journey. I could not have done it without you.

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1. Introduction

The Securities and Exchange Commission (SEC) is the primary securities regulator for U.S. public companies, so its oversight effectiveness is critical for well-functioning capital markets. However, the SEC's Division of Enforcement (hereafter Enforcement or the Division), which handles the investigation and prosecution of possible securities violations, has frequently been criticized and characterized as ineffective by the media, congressional members, and even its own employees (e.g., Henriques 2009; Stewart 2011; Correia 2014; Heese 2019). These criticisms often focus on the poor performance of the SEC's Enforcement leadership and staff. For example, U.S. Senator Bob Menendez stated that the SEC's enforcers were "grossly untrained, uncoordinated, and lazy in their investigations" (U.S. Senate 2009a). Additionally, the SEC's own Inspector General once stated that the SEC's "investigators lacked the expertise to ask the right questions" (Stewart 2011), and an independent watchdog agency referenced the "unthinkable incompetence" of the SEC when discussing several of the Division's shortcomings (Project on Government Oversight 2010).

One of the most prevalent criticisms of the SEC is its staff's lack of financial experience, which is troubling given the SEC's role as a financial regulator. For instance, Harry Markopolos, who uncovered the Bernie Madoff Ponzi scheme, claims that the SEC's personnel are "merely lawyers without any financial industry experience" and "totally untrained in finance," which he characterizes as "financial illiteracy" (Carney 2009; Crittenden 2009). His assessments are based on the fact that he presented SEC personnel with detailed information pointing toward Madoff's fraud, and the enforcers failed to open a formal investigation for almost a decade (Crittenden 2009). However, there is no evidence within the academic literature to indicate whether the financial experience of SEC enforcers impacts SEC investigations. In this study, I examine

whether the financial experience of the SEC's regional directors affects the likelihood that the regulator opens a new public company investigation and the regulator's investigative efficiency (i.e., how quickly these investigations are closed).[1] By doing so, I seek to add to the surprisingly limited evidence on the factors that impact the SEC's enforcers.

This study focuses on the SEC's regional directors because they are the chief Enforcement officials within the SEC's 11 regional offices, where the SEC conducts around three-quarters of its investigations (Blackburne et al. 2021b).[2] Since these directors lead the staff within the offices much like senior officials lead teams in other settings (e.g., CEOs or audit partners), my expectations rely on the upper echelons theory, which posits that the background characteristics of senior decision-makers impact organizational outcomes (Hambrick and Mason 1984). SEC regional directors ultimately decide whether the SEC opens an investigation for a given tip or case within an office and facilitate the subsequent investigation, so extending the upper echelons theory into this setting suggests that these directors' background characteristics could impact SEC investigations. I expect directors with financial experience are likely better equipped to process complex financial transactions and reports because of their background. Therefore, I hypothesize that these directors will open more investigations and conduct investigations more efficiently (i.e., spend less time evaluating cases).[3]

[1] Like other studies on SEC investigations, the data used for my analyses only includes investigations into public companies, so I am unable to draw inferences regarding any potential impacts of SEC regional director financial experience on investigations of other types of entities or individuals. However, as discussed in Section 2.1, most of these other types of investigations are conducted by the SEC Headquarters Office in Washington, D.C. and are not under regional directors' purview, which suggests that this data is appropriate for my analyses.

[2] Although many of the criticisms of SEC Enforcement are somewhat general in nature, I note that the SEC's regional directors have been the subject of specific criticisms. For example, Harry Markopolos stated during a Congressional hearing that he was "shocked by [a director's] financial illiteracy and inability to understand any of the concepts" he discussed with them (U.S. Senate 2009b).

[3] This study focuses on investigations because the investigation phase is the most consequential phase of the SEC's enforcement process that is conducted from a regional office. While a result showing that a director with financial experience conducts investigations more efficiently would be suggestive of effective decision-making, it is less clear whether more investigations being opened would necessarily be better for the SEC (or companies). In Section 4.5, I

Although I expect SEC regional directors' financial experience to impact SEC investigations, there are factors that cast doubt on whether this will be the case. First, the neoclassical view on individual decision-makers suggests that directors' financial experience may not impact investigations because organizational outcomes could merely reflect organizational norms (and not idiosyncratic preferences). Second, it is possible that the only relevant experience for a regional director is legal experience, and this would mean that financial experience is inconsequential for decision-making. Finally, it is possible that investigation outcomes are driven by the actions of lower-level staff and not the directors, which would again lead to no difference in investigation likelihood or efficiency for financial directors.

I hand-collect the background information of SEC regional directors in order to perform my analyses. This data is primarily collected from the SEC's disclosures, but I also supplement the SEC disclosures with LinkedIn information, when available. Using this data, I then determine whether SEC regional directors have financial experience (i.e., professional experience in finance or accounting) based on their pre-SEC work experience. Consistent with SEC Enforcement's structure, I measure SEC regional director financial experience at the company-level by determining whether the regional office with jurisdiction over the company (based on headquarters location) is run by a director with financial experience. My descriptive statistics reveal that fewer than 20 percent of SEC regional directors have prior financial experience, which suggests that there could be some merit to criticisms about a lack of financial experience for key SEC enforcers.

To examine the potential impacts of SEC regional director financial experience on SEC investigations, I obtain company-level data on SEC investigations from Blackburne et al.

investigate whether any increased investigation incidence resulting from directors' financial experience appears to be consequential to determine whether these additional investigations also reflect effective decision-making.

(2021b). I first test whether director financial experience impacts the likelihood that a director opens an investigation for a given case. My results show that SEC regional directors with financial experience are significantly more likely to open an investigation than directors without financial experience. This difference in investigation likelihood is approximately 29 percent (relative to the unconditional mean investigation likelihood), suggesting that the effect size is meaningful. This result suggests that financial experience equips certain regional directors to open investigations more often.

Next, I examine whether SEC regional directors with financial experience conduct investigations more efficiently. To do so, I again leverage the data from Blackburne et al. (2021b) and proxy for investigative efficiency by directly measuring the time from an investigation's opening to its closure. My results show that directors with financial backgrounds facilitate investigations that are completed significantly more quickly. Economically, my coefficient estimates show that their investigations are completed nine months sooner, on average, which equates to a time reduction of around 34 percent (relative to the unconditional mean investigation length). Thus, in addition to opening more investigations, SEC regional directors with financial experience appear to conduct these investigations more efficiently.

I conduct several additional analyses to reinforce my inferences regarding the impact of SEC regional directors' financial experience on SEC investigations. First, I obtain SEC investigation classifications through a Freedom of Information Act (FOIA) request and leverage this data to examine whether the impacts of SEC regional director financial experience are concentrated in certain types of investigations. I find that directors with financial experience open more financial investigations (i.e., investigations involving financial fraud or disclosure)

and do not open more investigations involving other matters, which suggests that their financial acumen predictably aids them with cases involving financial reporting and fraud.

Second, I consider the cross-sectional effect of financial complexity on my primary relations of interest. If the impact of SEC regional directors' financial experience on investigations is explained by these directors' increased understanding of complex financial transactions and reports, then I expect the primary results to be stronger for more complex companies. I find that both of my primary results are stronger for more complex companies. This finding is consistent with SEC regional directors' financial experience affecting investigations because these backgrounds allow the directors to overcome barriers from financial complexity that could normally inhibit or prevent investigations.

Third, I perform two analyses to provide further insights into whether SEC regional director financial experience impacts investigation quality by examining investigation consequences. I first consider investigation outcomes and find that SEC regional directors with financial experience open more investigations that lead to restatements or AAERs, which suggests that my primary results are not explained by these directors opening more investigations involving insignificant matters. Additionally, I examine the capital market consequences of investigations to explore whether directors with financial experience conduct more consequential investigations and find that investigations facilitated by these directors lead to greater improvements in an investigated company's information environment.

Finally, since the SEC's hiring of a regional director with financial experience is a choice, I conduct several analyses to lessen specific concerns about endogeneity in this study. Most notably, I re-estimate my primary results using a specification with SEC regional office fixed effects to ensure that my results are not driven by systematic differences across SEC

regions (e.g., differences in institutional environments, the number of companies, or the types of companies). My results are consistent with this alternative design. Additionally, my primary inferences are consistent across several other specifications, including a falsification test, a specification including control variables relating to associate regional director characteristics, and an entropy balancing approach. In aggregate, the results from these supplementary tests support my previous conclusions by providing additional evidence on the impacts of SEC regional directors' financial experience on SEC investigations.

This study provides new insights into the effects of individual SEC regional directors on SEC investigations. The results show that regional directors with financial experience conduct more investigations and that these investigations are more efficient and consequential. These findings suggest that the opinions of market participants and commentators about the importance of financial experience within the SEC could be valid (Crittenden 2009; Levine 2013). Additionally, this study should be of interest to the SEC and other regulators. The SEC has recently signaled an increased focus on aggressive enforcement (see, e.g., Tokar 2021), and the SEC's Director of Enforcement Stephanie Avakian recently discussed the Division's focus on shortening investigations and stated that the SEC "will continue to look for ways to accelerate the pace of [its] investigations" (SEC 2020b, p. 6). The results of this study suggest that hiring more senior decision-makers with financial experience could be one avenue for the regulator to pursue to achieve these goals, and this is an important implication since the SEC does not currently appear to advertise financial experience as a preferred background for regional director positions.

This study also makes several contributions to the academic literature. First, these findings add to the nascent but growing literature examining the causes and consequences of

SEC investigations (e.g., Blackburne et al. 2021b; Bonsall et al. 2021; Holzman et al. 2021) and the literature on systematic differences in regulatory enforcement (e.g., Kedia and Rajgopal 2011; Agarwal et al. 2014). Relatedly, this paper complements recent literature examining other facets of SEC oversight; these studies examine the effects of trial lawyer incentives on litigation (deHaan et al. 2015) and the impact of review team size and individual reviewer style on SEC comment letter length, duration and effectiveness (Baugh et al. 2021; Kubic 2021).[4]

Finally, by examining SEC director leadership characteristics, this study expands on and adds new evidence to the broader literature within finance and accounting on individual decision-makers and leadership characteristics. While several studies examine the effects of individual managers and their characteristics on corporate outcomes (e.g., DeFond et al. 2005; Custódio and Metzger 2014), less is known about individual regulators. In fact, Hanlon et al. (2021) note that the literature on individual decision-makers in regulation "is still relatively under-developed" and that "more work is needed to understand the role of these individual decision-makers in the economy" (p. 74). These findings highlight the importance of SEC regional directors and their financial experience in the context of capital markets regulation.

2. Institutional Background and Hypothesis Development

2.1 Institutional Background

SEC Enforcement's primary aim is to "protect investors and the markets by investigating potential violations of the federal securities laws and litigating the SEC's enforcement actions"

[4] This study differs from these papers in at least three ways. First, this study focuses on the SEC's senior leadership, while the others focus on SEC personnel of varying ranks. The one study I am aware of that specifically examines a consequence of SEC leadership is Allen and Ramanna (2013), who examine SEC Commissioners and find that these officials generally do not impact accounting standard setting. Accordingly, these findings add to the limited evidence on the impacts of the SEC's senior officials. Second, this study focuses on SEC investigations, which involve different processes than those relating to reviews or civil litigation. This is an important distinction since the effects of background characteristics (e.g., financial or legal experience) likely differ across SEC processes. Third, investigations are generally conducted by the SEC's regional offices (which provide variation in oversight), but reviews and litigation are conducted out of the SEC's headquarters in Washington, D.C.

(SEC 2017, p. 1). The SEC utilizes its 11 regional offices to carry out this goal, as these regional offices handle most of the regulator's investigations of these potential violations (Blackburne et al. 2021b). Figure 1 shows an example staff composition of an average-sized regional office. A regional director heads each office and is the ultimate decision-making authority for Enforcement activities. The hiring process for SEC regional directors typically occurs as follows. The position is advertised publicly on the SEC's job site (USAJobs).[5] As shown from a 2021 regional director job posting in Panel A of Appendix A, there are few formal requirements, and those listed are broad and general. These requirements are that an applicant 1) has a J.D., 2) has an active membership in good standing with any state bar, and 3) has four years of attorney experience (with at least three years as a securities attorney, which ensures that an applicant is familiar with securities law). Notably, the posting does not explicitly advertise financial experience as a desirable qualification for the regional director position.[6,7] After applications are evaluated for completeness and compliance with the minimum requirements, the hiring decisions are made by a small (generally three-person) panel of SEC officials. One or two of the people on the panel typically occupy one of the following positions within the SEC: regional or associate regional director (at a different regional office) or Director or Deputy Director of Enforcement (from the headquarters office in Washington, D.C.).

(Insert Figure 1 here)

[5] This statement (and any subsequent discussion concerning staff composition, hiring, or duties) is based on discussions with former and current SEC regional directors.
[6] This is not due to candidates with financial experience demanding higher pay and thus costing the SEC more to hire since the SEC operates on a governmental salary structure that decides the pay for a given position.
[7] To be clear, I do not posit that legal competence is not critical for regional directors. However, as shown in the job posting, a legal background is an explicit requirement for the position, so this study focuses on financial experience in addition to the standard legal background. Importantly, prior research posits that even if an individual with a financial background moves to a non-financial job, the individual's financial background will continue to shape decision-making (Bernard et al. 2020).

My conversations with a former SEC official that served on multiple regional director hiring panels suggest that the hiring panel generally has no predetermined background in mind for candidates (e.g., prosecutor or accountant); instead, the panel usually seeks to hire the strongest candidate, regardless of their specific experiences. While SEC Enforcement is multi-faceted, a candidate's perceived ability to facilitate and conduct investigations of possible violations of securities laws for public companies is a primary consideration for the panel. In fact, this ability is likely the most important technical factor considered by the panel.

While Enforcement also investigates other types of entities, these activities are largely outside of the regional offices' purview since they are generally handled by the SEC's Specialized Units on Asset Management, Market Abuse, Structured and New Products, Foreign Corrupt Practices, and Municipal Securities and Public Pensions in Washington D.C. Additionally, the regional director also oversees SEC Examinations (which are conducted by a separate SEC Division), but the staff's guidance and objectives with respect to Examinations are generated from the D.C. office. Consistent with this, the regional director generally focuses on Enforcement activities around two-thirds to three-quarters of the time. "Overseeing the initiation and conduct of investigations" is listed as a typical job duty for the position, as shown in Panel B of Appendix A. In fact, this is the only listed job responsibility that does not involve communication (within the SEC or to external parties) or other administrative responsibilities, which illustrates the importance of SEC investigations for SEC regional directors.

The remainder of the regional office is organized as follows. One or two associate regional directors of Enforcement report directly to the regional director. Regional directors and associate regional directors are the only senior officers (as defined by the SEC) within the regional offices. Because of this, associate regional directors are also selected by a panel in a

manner similar to the selection of regional directors.[8] There are three to six assistant regional directors that report to each associate regional director, and each assistant regional director supervises five to ten staff members (i.e., staff attorneys, accountants, and paralegals).

Figure 2 outlines the typical SEC investigative process within Enforcement and the SEC staff involved (GAO 2007; SEC 2017; Holzman et al. 2021). As shown, the process generally begins with a lead, which can be received from various sources (e.g., whistleblower tips, other SEC divisions). Once an office receives a lead, the assigned assistant regional director and staff members perform an initial evaluation of the credibility and severity of the potential violation and recommend whether a lead is promising enough to become a matter-under-inquiry (MUI). The regional director then decides whether to open an MUI (SEC 2017).[9] The assigned assistant regional director and staff (in consultation with a senior officer, when necessary) conduct a more thorough evaluation at the MUI stage to recommend whether a MUI should move to the next stage (an investigation). As the Enforcement Handbook states, "a MUI can be opened on the basis of very limited information," but "an investigation generally should be opened after the assigned staff has done some additional information-gathering and analysis" (SEC 2017, p. 15). Once sufficient information has been gathered relating to the case, the regional director then decides whether a MUI is converted into an investigation. This is the final and most consequential decision made in a regional office, as the subsequent decisions are left up to the Division directors and SEC Commissioners (at the headquarters office in Washington D.C.). The regional office staff generally summarizes their findings to send to the company under

[8] I perform robustness tests in Section 4.6.3 to ensure that associate regional director characteristics do not drive my results.

[9] The regional director can delegate this decision (and other decisions discussed below) to an associate regional director. My conversations with SEC officials suggest this is unlikely, as most of them suggested a very active role in Enforcement-related decisions for regional directors. Moreover, as discussed below, if regional directors are not involved in these decisions, on average, that casts doubt onto whether these directors impact SEC investigations (which biases against my finding results consistent with the expectations discussed below).

investigation (the Wells Notice) and to the SEC's headquarters (the Action Memo) (SEC 2017). The Action Memo then circulates to various SEC Divisions or Offices (e.g., Enforcement's Office of the Chief Counsel or SEC's Office of General Counsel) for feedback and comments, and the ultimate decision on whether to pursue an enforcement action is made by the SEC Commissioners.[10]

(Insert Figure 2 here)

2.2 Hypothesis Development

Prior research on the upper echelons theory and anecdotal evidence suggest that a regional director's background likely plays an important role in their effects on SEC investigations. The upper echelons theory posits that senior decision-makers influence a variety of organizational outcomes because of their background characteristics (Hambrick and Mason 1984; Hambrick 2007). More specifically, the theory states that leaders make decisions based on their interpretations of situations, and these interpretations are largely shaped by individual backgrounds and experiences. Although the potential impacts of SEC senior officials have not been considered by prior literature, I posit that Hambrick and Mason (1984)'s theoretical arguments extend to SEC Enforcement since SEC regional directors lead teams within the SEC's regional offices (much like audit partners or CEOs lead their respective teams).[11]

Hambrick and Mason (1984) theoretically propose several characteristics that could shape individual decision-making, and an individual's functional background is one of the most

[10] Since this study focuses on SEC regional directors, I consider the potential impacts of these directors on SEC investigations. I do not consider SEC enforcement actions in my primary analyses since these decisions are made by the Commissioners. Even though regional directors also decide on whether a lead becomes a MUI, I also do not consider MUIs in my analyses because data on MUIs are not available. Fortunately, the decision to open an investigation is relatively more consequential since it comes later in the Enforcement process, and investigations have been shown to significantly impact the investigated companies (Blackburne et al. 2021a; Blackburne et al. 2021b).

[11] For a literature review of the prior accounting research on individual decision-makers, see Hanlon et al. (2021).

consequential characteristics (especially in terms of research attention). They posit that, although most senior decision-makers have competencies that span several disciplines, one's functional background can shape decision-making, and subsequent archival research supports this proposition. This study focuses on the potential effects of SEC regional directors' financial background. Previous research shows that the decisions of other senior officials with financial backgrounds often differ from the decisions of those without financial backgrounds. Custódio and Metzger (2014) find that companies run by CEOs with financial backgrounds raise capital more effectively, hold less cash, and engage in more share repurchases, and Kalelkar and Khan (2016) show that these financial CEOs appear to leverage their financial expertise into savings in audit fees. Additionally, accounting literature (especially in the post-Sarbanes Oxley era) has devoted significant attention to audit committee financial expertise, consistently concluding that financial experts improve company value (e.g., DeFond et al. 2005) and financial reporting (e.g., Dhaliwal et al. 2010). In general, these studies argue and find that financial experience significantly aids individuals' financial decision-making.

Anecdotal evidence suggests that financial experience also plays an important role in the decisions of SEC officials. Harry Markopolos uncovered Bernie Madoff's Ponzi scheme fraud and first submitted a tip to the SEC about the scheme nearly a decade before Madoff voluntarily confessed to the crime in 2009. Shortly thereafter, Markopolos began publicly criticizing the SEC's Enforcement personnel for a lack of financial competence and experience.[12] In his testimony before Congress following the unveiling of the Madoff fraud, he stated the following:

[12] See also Crittenden (2009), Smith (2009), and Grande (2015), who all echo the concerns expressed by Markopolos.

> Since the SEC only hires unqualified, uneducated people without financial industry experience, all they want to do is check pieces of paper to make sure all the paperwork that existing (outdated) securities law requires is being complied with. Is it any wonder, given the current SEC staff, how major financial felonies go unpunished…? (U.S. Senate 2009a)

These criticisms suggest that capital market participants believe that financial experience could improve an SEC regional director's investigative decision-making.

SEC regional directors with financial experience are likely able to better understand complex deals and transactions and intricate business structures. This has important implications for SEC investigations and leads to at least two testable hypotheses. First, since financial directors likely possess superior knowledge of transactional and reporting norms, they are more likely to detect certain "red flags" or abnormalities that warrant further investigation when evaluating complex fact scenarios. Since this means a given MUI has a higher likelihood of being converted into an investigation, I expect regional directors with financial experience to be more likely to open an investigation into possible securities violations. This leads to my first hypothesis, formally stated in the alternative form as follows:

> *Hypothesis 1: SEC regional directors with financial experience are more likely to open an investigation than directors with no financial experience.*

Second, financial expert directors are likely able to leverage their increased financial knowledge into increased investigative efficiency. A regional director that previously worked in finance or accounting should have a significant foundational knowledge of business environments and transactions. This relevant experience likely leads to faster decision-making since these directors will have to spend less time gathering additional information or familiarizing themselves with certain types of companies or transactions. Additionally, if more facts are needed for a case, a financial director can likely gather and analyze this information more quickly (see, e.g., Forbes (2005) for a similar discussion on experience). If this is the case,

a financial director should be able to make decisions and conclude an investigation more quickly. Accordingly, I state the following hypothesis in the alternative form:

> *Hypothesis 2: SEC regional directors with financial experience conduct investigations more efficiently than directors with no financial experience.*

While I argue that these directors' financial experience affects SEC investigations, there are reasons to believe that this may not be case. The neoclassical view on the role of individual decision-makers maintains that senior officials are relatively homogeneous and merely reflect organizational norms (e.g., Bertrand and Schoar 2003; Bamber et al. 2010). In other words, this view suggests that all SEC regional directors will behave similarly regardless of any idiosyncratic background characteristics because of regimented guidelines for the role. If this is the case, then their financial experience will not affect investigations. Additionally, financial experience may not impact regional directors' decisions if the only relevant experience for the position is legal experience. This possibility could explain the SEC's lack of discussion of financial experience in job postings for regional director positions. Finally, even if regional directors' backgrounds could impact investigations, it is possible that lower-level staff perform all of the consequential work on a given case and the directors' decisions are just a formality based on the staff's recommendation. Again, if this is true, on average, then I will find no differences in investigative decisions for regional directors with financial experience relative to those without financial experience.

3. Research Design and Sample Selection

3.1 Variable Measurement

3.1.1 Financial Experience Variable

I follow Custódio and Metzger (2014) in my determination of financial experience. Accordingly, I classify regional directors with past experience working for a financial firm (e.g.,

bank or broker-dealer), working for an accounting firm, or working in an accounting- or finance-related corporate role as having financial experience. While Custódio and Metzger (2014) focus on CEO financial experience, their classification should also capture any financial experience in this setting because financial experience is incremental to general management skills required for a C-suite position in their study, and similarly, financial experience is incremental to any requisite legal or management qualifications for SEC regional directors in this study.

I hand-collect data on SEC regional directors' backgrounds using a combination of SEC postings and LinkedIn profiles. When an individual is hired into a senior official role at the SEC, the SEC issues a press release detailing the hiring. Within this posting, the SEC outlines the individual's previous employment history. Although this background information is quite detailed, I also supplement and verify this data with the SEC's other press releases related to the director and with the director's LinkedIn profile, when available.[13] Appendix B shows the SEC postings for one regional director that I classify as having financial experience and one that I classify as not having financial experience.[14] Because regional offices directly oversee companies based on company location (generally by state, although jurisdiction over California is split between the Los Angeles and San Francisco office) (SEC 2020a), my measure of financial experience is assigned based on a company's headquarters location. Since Compustat backfills headquarters data, I use Compustat Snapshot data for headquarters data (which captures locations as they were reported). My variable of interest, *FinExperience* is an indicator variable

[13] When I attempted to acquire any available background information on these directors via a FOIA request, I received a response which referred me to the SEC's press releases for this data.

[14] Since directors with financial experience obtain this experience outside of the SEC, I acknowledge that my financial experience classification inherently relates to a director's non-SEC experience, and I cannot fully rule out my results being partially attributable to directors with non-SEC experience being systematically different than those with SEC experience. However, as discussed in Section 3.2, I include a control variable that captures director SEC experience in all the empirical models, which suggests any findings are not the product of directors' non-SEC experience.

equal to one for companies overseen by an SEC office led by a regional director with financial experience, and zero otherwise.

3.1.2 Investigation Variables

Information on SEC investigations has historically been unavailable to researchers because of the confidential nature of the investigations, but Blackburne et al. (2021b) recently acquired data on investigation targets, opening dates, and closing dates through a series of FOIA requests. Accordingly, I obtain raw data on all closed SEC investigation between January 1, 2000, and August 2, 2017, from Blackburne et al. (2021b) to create the outcomes of interest for this study. *InvestigationOpened* is an indicator variable equal to one if the SEC opens a new investigation into a company from the regional office overseeing the company in the fiscal year, and zero otherwise.[15] *InvestigationDuration* follows Blackburne et al. (2021b) and measures the number of years between an investigation's opening date and closing date.

3.2 Empirical Models

To examine whether SEC regional directors with financial experience are more likely to open an investigation, I estimate the following equation using ordinary least squares (OLS) regression:[16]

$$InvestigationOpened = \beta_0 + \beta_1 FinExperience + \beta_n Controls + Year\ Fixed\ Effects + Industry\ Fixed\ Effects + \varepsilon. \quad (1)$$

The dependent variable in Equation (1) is *InvestigationOpened*, which is defined in Section 3.1.2, and the variable of interest is *FinExperience*, which captures SEC regional directors' financial experience as defined in Section 3.1.1. Consistent with a director's financial

[15] SEC regional directors should not impact the opening or facilitation of investigations by other offices, so I examine investigations opened in other offices as a falsification test in Section 4.6.2.

[16] I use OLS (i.e., a linear probability model) to estimate this equation to facilitate coefficient interpretation, comparison of average treatment effects, and the usage of fixed effects. I perform robustness tests with logistic and probit regression in Section 5.3 to ensure that my results are not sensitive to this design choice.

experience increasing the likelihood of an investigation opening, I expect β_1 to be positive and significant. I include a vector of control variables in this model to control for the potential impact of a director's other characteristics or a company's financial position and information environment on investigation likelihood. First, I include director-specific control variables to control for background characteristics that could plausibly impact a director's financial experience and investigative decisions. I include controls for the prestige of director's law school (*EliteJD*), a director's previous prosecutorial experience (*PriorProsecutor*), and a director's prior SEC experience (*PriorSEC*).[17] I also include company-specific controls for a company's analyst following (*Analysts*), size (*Assets*), auditor type (*Big4*), book-to-market ratio (*BTM*), institutional ownership (*InstOwn*), leverage ratio (*Leverage*), performance (*Loss*, *ROA*), distance from the nearest SEC office (*SECDist*), and complexity (*Segments*). Finally, I include year and Fama-French 48 industry fixed effects and cluster standard errors by SEC regional director.[18] All continuous variables are winsorized at the 1st and 99th percentiles, and all variables are formally defined in Appendix C.

To examine whether financial directors conclude investigations more quickly, I estimate the following equation using OLS regression with standard errors clustered by regional director:

$$InvestigationDuration = \alpha_0 + \alpha_1 FinExperience + \alpha_n Controls + Year\ Fixed\ Effects + Industry\ Fixed\ Effects + \upsilon. \quad (2)$$

[17] I do not control for a director's financial education (i.e., possession of an accounting or finance degree) since this control variable would largely reflect the same construct as financial experience, and Whited et al. (2022) state that same construct controls "can significantly distort casual estimates" (p. 407). Nonetheless, I perform robustness tests with the inclusion of a control for directors' financial education in Section 5.2.

[18] Angrist and Pischke (2009) recommend clustering "one level higher" than the treatment (e.g., clustering by state for a state-year level effect). Since my treatment (i.e., *FinExperience*) is based on SEC director-year, I cluster by SEC director. As discussed in Section 4.1, there are 35 unique directors in the sample, so although clustering by directors is theoretically appealing, there could be concerns that 35 clusters would lead to the "too few" clusters issue that results in biased standard errors (Petersen 2009; Cameron and Miller 2015). There is no clear-cut definition of how many is "too few," but Cameron and Miller (2015) state that, "depending on the situation, "few" may range from less than 20 to less than 50 clusters" (p. 319). This suggests that 35 clusters are likely to be enough clusters. Even so, I perform robustness tests with alternative clustering conventions in Section 5.4.

Since this analysis is conditional on there being an SEC investigation, the sample for this test is limited to observations with an open SEC investigation being conducting by the regional office that oversees the company. The dependent variable for Equation (2) captures the investigation duration in years (as defined in Section 3.1.2). Consistent with a director's financial experience decreasing the investigation duration, I expect α_1 to be negative and significant. The control variables and fixed effects for this equation are the same as those in Equation (1).

3.3 Sample Selection

Table 1 outlines the sample selection process. Because of the changes within the SEC in 2002 and 2003 due to the Sarbanes-Oxley Act (e.g., increased staffing), the sample begins in 2004. The sample ends in 2014 since the investigations data from Blackburne et al. (2021b) ends in August 2017, and most of the investigations started by 2014 will likely have been closed within two or three years (Blackburne et al. 2021b). The sample includes all public companies at the intersection of CRSP and Compustat that are incorporated and headquartered in the U.S. with non-missing assets and Compustat Snapshot headquarters data. I obtain financial statement data from Compustat, institutional ownership data from Thomson Reuters Institutional Holdings S34 database, and analyst data from I/B/E/S. To ensure accurate measurement of *FinExperience* for a given observation, I exclude company-year observations without adequate SEC regional director data and observations where there was a change in regional director financial experience during the year (i.e., a change in regional leadership from a director with financial experience to a director without financial experience, or vice versa). Because Hypothesis 1 focuses on the opening of new SEC investigations, I also eliminate observations that are beyond the first year of an SEC investigation. Finally, I exclude any company-year observations that lack data for control variables. This process results in a final sample of 37,920 company-year observations

(for tests relating to Hypothesis 1), which include 1,595 unique SEC investigations. From these investigations, I remove investigations conducted by multiple SEC regional directors (i.e., opened by one director and closed by a different director) for tests of Hypothesis 2 since the durations of these investigations are not uniquely attributable to a certain director. 1,029 is the final sample size for these tests.

(Insert Table 1 here)

4. Empirical Results

4.1 Descriptive Statistics

Table 2 presents SEC regional office-year-level descriptive statistics that show the prevalence of SEC regional directors with financial experience. As shown, five out of the 35 directors (i.e., 14.3 percent) have financial experience. Further, these directors head 17.8 percent of regional office-years. These averages are consistent with concerns that suggest that most SEC directors lack financial experience. Two out of the three directors for the Boston office are financial directors, with these directors overseeing 86.4 percent of the office-years. The regional offices in Atlanta, Fort Worth, and Los Angeles are headed by one financial director during the sample period, and each of these directors leads their respective office for over 30 percent of the office-years. As such, it appears that there is meaningful cross-sectional (i.e., across office) and time series (i.e., within office) variation in financial experience during my sample period.[19]

(Insert Table 2 here)

Figure 3 displays the SEC regional directors across time and across offices. The figure shows that the directors with financial experience are relatively well distributed across time.

[19] To ensure that any documented results are not driven by time-invariant regional factors or systematic differences across regions (e.g., the number or types of companies being overseen), I perform robustness tests in Section 4.6.1 with models that include regional fixed effects.

There is at least one regional office headed by a financial director in every sample year, there are two offices led by financial directors at the beginning and end of the sample period, and there are three offices headed by financial directors concurrently from mid-2011 to mid-2013.

(Insert Figure 3 here)

Descriptive statistics for the sample used in tests of Equation (1) are reported in Panel A of Table 3. As shown by the mean value of *InvestigationOpened*, the SEC regional office overseeing a company opens an investigation for approximately 4.2 percent of company-year observations within this sample.[20] Additionally, around 16.0 percent of companies within the sample are within the jurisdiction of an SEC regional director with financial experience (*FinExperience*), which is consistent with the office-year-level statistics presented above. The mean values of the director-level control variables show companies are overseen by directors with prestigious law degrees 37.9 percent of the time (*EliteJD*) and overseen by directors with prior prosecutorial (SEC) experience 26.1 (74.5) percent of the time (*PriorProsecutor* and *PriorSEC*). The distributions of the company control variables generally follow those from prior studies. For instance, 67.1 percent of companies engage a Big 4 auditor (*Big4*), and 65.4 percent of companies' shares are owned by institutional owners (*InstOwn*), on average. Panel B presents descriptive statistics for the reduced sample for tests of Equation (2). As shown, the mean (median) investigation takes 2.2 (1.6) years to complete (*InvestigationDuration*).

(Insert Table 3 here)

[20] Blackburne et al. (2021b) report an 11 percent investigation rate. However, my 4.2 percent rate is reconcilable with theirs since I focus on the opening of investigations and exclude all years beyond the first year of investigation. Further, I exclude investigations opened by an office other than the office that oversees the company's headquarters location. I find that if I include all investigations and years, the investigation rate in my sample is 10.3 percent (untabulated).

Panels C and D present comparative descriptive statistics between companies overseen by directors with financial experience (i.e., *FinExperience*=1) and companies overseen by other directors (i.e., *FinExperience*=0) for the two primary samples. The mean value of *InvestigationOpened* is significantly higher for companies overseen by financial directors in Panel C ($p < 0.01$), providing initial evidence consistent with Hypothesis 1. Similarly, the mean value of *InvestigationDuration* is significantly lower for companies overseen by directors with financial experience in Panel D ($p < 0.01$), providing preliminary evidence consistent with Hypothesis 2.

4.2 Primary Hypothesis Tests

Table 4 tabulates the results of my primary tests of Hypothesis 1. Column (1) presents the estimation with only director-specific control variables and fixed effects, Column (2) tabulates the estimation with only company-specific control variables and fixed effects, and Column (3) shows the full model estimation. Consistent with my expectation, the coefficients on *FinExperience* are positive and significant ($p < 0.05$ in Columns (1) and (2); $p < 0.01$ in Column (3)). These results indicate that companies overseen by regional directors with financial experience are more likely to be investigated. Moreover, the coefficient estimate in Column (3) indicates that these companies are 28.6 percent more likely to be investigated (relative to the unconditional mean rate of 4.2 percent for *InvestigationOpened*), which suggests that this effect is economically meaningful. The coefficients on the control variables indicate that larger, more visible companies (i.e., higher *Analysts*, *Assets*, and *InstOwn*) are more likely to be investigated, and companies with poorer performance (i.e., *Loss*=1 or lower *ROA*) are also more likely to be investigated.

(Insert Table 4 here)

Table 5 presents the results from the primary tests of Hypothesis 2. Again, the model for Column (1) includes director-specific control variables, the model for Column (2) contains company-specific control variables and fixed effects, and the model for Column (3) includes the full set of control variables and fixed effects from Equation (2). As shown, the coefficients for *FinExperience* are negative and significant ($p < 0.01$ in each), which indicates that SEC regional directors with financial experience conduct investigations in less time (i.e., more efficiently). Further, the coefficient estimate of -0.75 in Column (3) indicates that investigations conducted by directors with financial experience are completed approximately three-quarters of a year (i.e., nine months) sooner than those conducted by directors without financial experience. Relative to the unconditional mean rate of *InvestigationDuration* (2.2 years), this represents a 34.1 percent lower investigation duration for investigations conducted by financial directors, suggesting an economically significant effect.

(Insert Table 5 here)

4.3 Differences in SEC Investigation Types

In this section, I rely on differences in SEC investigation types to provide further insights into my primary results. As discussed above, I argue that the impact of SEC regional directors' financial experience on SEC investigations is largely due to their increased knowledge of financial transactions and reporting. As such, I expect directors' financial experience to impact investigations that are clearly related to financial fraud and disclosure, but it is unclear whether this experience differentially impacts (or should impact) investigations related to more technical legal matters (e.g., the Foreign Corrupt Practices Act). I obtain investigation classifications from the SEC through a FOIA request, and this data is available for 1,015 of the 1,029 investigations in my sample (over 98 percent). Around half of these 1,015 investigations are classified as

relating to "Financial Fraud/Issuer Discl." by the SEC, so I consider these cases "financial" investigations and other cases "other" investigations. Other investigations consist of several categories of investigations, but "Insider Trading" is the only classification of other investigations that comprise more than seven percent of investigations.[21] I then perform estimations of modified forms of Equation (1) where *InvestigationOpened* is replaced with *FinInvestigationOpened* (an indicator denoting whether a financial investigation was opened in the company-year) or *OtherInvestigationOpened* (an indicator denoting whether an "other" investigation was opened in the company-year). My expectation is that SEC directors' financial experience will lead to more financial investigations being opened. Table 6 presents the results of this analysis. As shown in Column (1), *FinExperience* is positively associated with *FinInvestigationOpened* ($p < 0.01$). In contrast, Column (2) shows that *FinExperience* is not associated with *OtherInvestigationOpened* ($p > 0.10$).[22] This result is consistent with my expectation and shows that directors' financial experience leads to more investigations being opened that are clearly linked to financial reporting and fraud.

(Insert Table 6 here)

4.4 Financial Complexity Cross-Sectional Analysis

I next consider the effects of financial complexity on the relation between SEC regional directors' financial experience and SEC investigation likelihood and duration. As discussed above, my expectations for the primary hypotheses are based on the notion that directors with

[21] Other investigations also include the following categories: "Broker-Dealer" (1.18 percent), "Corporate Control" (0.20 percent), "FCPA" (2.96 percent), "Fraud Against Reg Entity" (0.20 percent), "IA / IC" (1.18 percent), "Market Manipulation" (6.31 percent), "Other" (3.45 percent), "SRO/Exchange" (0.10 percent), and "Securities Offering (2.27 percent).

[22] The sample for Column (1) is limited to observations where *FinInvestigationOpened* equals one or *OtherInvestigationOpened* equals zero, and the sample of Column (2) is limited to observations where *OtherInvestigationOpened* equals one or *FinInvestigationOpened* equals zero to ensure that the comparison groups represent companies that are not investigated. However, these results are consistent if I do not impose these restrictions (untabulated).

financial experience can likely better understand and process complex financial transactions and reports. If this is the case, then I expect that the effects of directors' financial experience should be more consequential for complex companies. In other words, these directors' increased financial acumen will be more beneficial in scenarios where more financial expertise could help a director understand a given case. Accordingly, I expect the effects of SEC directors' financial experience on investigations to be stronger for companies that are more complex.

To test my cross-sectional prediction, I use a company's number of business segments to capture financial complexity. Since the median company has two business segments, I classify observations with more than two business segments as complex (*HighSeg*=1) and observations with one or two business segments as not complex (*HighSeg*=0). I then modify Equations (1) and (2) by adding *HighSeg* and its interaction with *FinExperience* as independent variables. Since this cross-sectional variable is based on a company's number of segments, I exclude the *Segments* control variable from this analysis.

Table 7 presents the results of these estimations. Column (1) tabulates the result of estimating the modified form of Equation (1), and Column (2) presents the estimation of a similarly modified form of Equation (2). For both estimations, the base effect for *FinExperience* is significant ($p < 0.10$ in Column (1); $p < 0.01$ in Column (2)), which indicates that directors' financial experience impacts the investigations of companies that are not complex. Consistent with my prediction, the coefficient estimate for the interaction term in Column (1) is positive and significant ($p < 0.01$), which suggests that the impact of financial directors on investigation likelihood is stronger for complex companies. Additionally, the interaction term in Column (2) is negative and significant ($p < 0.10$), which suggests that the impact of directors with financial experience on investigation duration is stronger for companies with high complexity. Finally, the

linear combinations are significant in each column ($p < 0.01$ in each), which confirms that the total effects of directors' financial experience on investigations are statistically significant. In sum, the findings from Table 7 suggest that SEC regional directors' financial experience has a greater impact on SEC investigations when a company is more complex, which lends support to my arguments that financial experience impacts investigations by aiding regional directors' processing of complex financial transactions and reports.

(Insert Table 7 here)

4.5 Investigation Consequences

While my results suggest that regional directors with financial experience open more investigations, it is not clear whether the additional investigations being opened necessarily reflect high quality decision-making. The results showing higher investigation efficiency for financial directors provide some evidence of effective decision-making, but if the investigation opening results reflect these directors opening more investigations that are of lower quality, then that casts doubt on the potential benefits of an experienced financial professional heading an SEC regional office. In this section, I perform two analyses to provide insights into whether regional directors with financial experience appear to open quality investigations by examining whether these directors' investigations are more consequential.

I first examine the outcomes of investigations to provide evidence on whether the investigations opened by regional directors with financial experience appear to be consequential. To do this, I estimate a modified form of Equation (1) with *InvestigationOpened* replaced by *SevereInvestigationOpened*. *SevereInvestigationOpened* equals one if there is a financial investigation opened in a company-year (i.e., *FinInvestigationOpened*=1) and one or both of the following occurs: i) the company subsequently restates the fiscal year's financial statements or

ii) the SEC subsequently files an AAER that involves the company's financials in that fiscal year, and zero otherwise. In other words, the variable captures the investigations with the most severe consequences and excludes investigations that did not result in a restatement or an AAER. This classification is similar to the classification in Blackburne et al. (2021b). AAER data is from the USC Leventhal School of Accounting (Dechow et al. 2011); restatement data is from Audit Analytics. Column (1) of Table 8 shows the results of this analysis. Indeed, *FinExperience* is positively and significantly associated with *SevereInvestigationOpened* ($p < 0.05$), which shows that directors with financial experience more frequently open investigations with consequential outcomes.[23] This result suggests that the findings of this study are not merely driven by these directors opening inconsequential investigations. While I do also find that financial directors open more investigations that do not lead to restatements or AAERs (untabulated), the relative increase in severe investigations is larger. Regional directors with financial experience open 70.4 percent more severe investigations (relative to the mean likelihood) compared to 24.9 percent more non-severe investigations (relative to the mean likelihood).

(Insert Table 8 here)

I next examine the effects of director financial experience on the future capital market consequences of investigations. Since prior research suggests that SEC investigations lead to improvements in companies' information and financial reporting quality (Blackburne et al. 2021a), I consider whether investigations conducted by SEC regional directors with financial experience are incrementally consequential for companies. It typically takes SEC enforcers two

[23] The sample for this analysis is limited to observations where *SevereInvestigationOpened* equals one or observations without a non-severe investigation opened to ensure that the comparison group represents companies that are not investigated. However, this result is consistent if I do not impose this restriction (untabulated).

or three years to conduct an investigation, so I consider the three-year change (from the year of the investigation opening to the third fiscal year after the opening) in two company-level information quality outcomes for this analysis and re-estimate modified versions of Equation (2) with these outcomes as the dependent variable. Specifically, I employ the future change in analysts' earnings per share (EPS) forecast error (*ΔForecastError*) and forecast dispersion (*ΔForecastDispersion*) as my outcomes of interest. My expectation is that these outcomes will improve more because of investigations conducted by directors with financial experience. Columns (2) and (3) of Table 8 present the results of this analysis, which is conducted on a sample of company-years under investigation with requisite analyst data. As shown, investigations conducted by SEC regional directors with financial experience lead to significantly greater reductions in analyst EPS forecast error and forecast dispersion ($p < 0.01$ in each), consistent with these investigations resulting in greater improvements in companies' information environments.[24] These two results together show that investigations opened by an SEC director with financial experience have more significant capital market consequences. Together with the prior result, the results of these analyses show that financial directors appear to open and conduct consequential investigations.

4.6 Tests to Address Endogeneity Concerns

As discussed in Section 2.1, the SEC's hiring decision for the regional director position is made by a small (usually three-person) panel of senior SEC officials from the headquarters office and other regional offices. Since this decision is made outside of the regional office, it is less likely to be reflective of endogenous local (e.g., company- or office-specific) factors (relative to

[24] The sample in Column (2) is slightly larger than the sample in Column (3) since analyst forecast error can be calculated with just one forecast, while forecast dispersion calculations require at least two forecasts. I note that the result in Column (2) is consistent if it is estimated with the smaller sample from Column (3) (untabulated).

decisions made within the same office). Nonetheless, I acknowledge that the hiring of a regional director with financial experience is a choice and, thus, suffers from potential endogeneity concerns. While the unobservable nature of the regional director applicant pools and hiring decisions makes it challenging to identify a strong instrumental variable to alleviate general endogeneity concerns, I employ several different tests (each with its strengths and weaknesses) to lessen concerns about specific sources of endogeneity. As discussed below, I utilize a regional fixed effects approach, a falsification test, a test including control variables for other SEC regional officers, and an entropy balancing approach to help address potential alternative explanations and functional form misspecification.

4.6.1 Systematic Differences Across Regions

Systematic differences across SEC regions are one potential source of endogeneity that could impact or explain the association between director financial experience and SEC investigations. It is possible that SEC Enforcement pays specific attention to companies in certain regions in response to perceived misconduct since there is significant geographic variation in misconduct (Parsons et al. 2018), and this could explain an increase in hiring for SEC regional directors with financial experience and an increased incidence of SEC investigations. To address this potential concern, I perform two related sets of tests. First, I re-estimate Equations (1) and (2) with the inclusion of *FinRegion*, which is an indicator for whether a given region is overseen by a regional director with financial experience at any point during the sample period (i.e., a "treated" region). Since the estimations still include *FinExperience*, *FinRegion* captures any time-invariant systematic differences between treated and non-treated regions outside of the periods when they are led by financial directors. Columns (1) and (3) of Table 9 present the results of this estimation. In both columns, the coefficient on *FinRegion* is

insignificant, which suggests that SEC investigation outcomes did not significantly differ across treated and non-treated regions while the treated regions were led by a non-financial director. Importantly, the coefficient on *FinExperience* remains positive (negative) and significant in Column (1) (Column (3)) ($p < 0.05$ in each), which reinforces my primary results.

(Insert Table 9 here)

While these estimations should alleviate concerns about systematic differences between the four treated regions and the seven non-treated regions, I also re-estimate Equations (1) and (2) with the inclusion of SEC regional office fixed effects in addition to industry and year fixed effects to control for systematic differences across each SEC region. Any results from these specifications will be driven by variation in *FinExperience* within regions. Column (2) of Table 9 shows that *FinExperience* remains positively associated with *InvestigationOpened* with the inclusion of region fixed effects ($p < 0.05$), and Column (4) shows that *FinExperience* remains negatively associated with *InvestigationDuration* ($p < 0.01$).

4.6.2 Falsification Test using Other SEC Investigations

If the SEC increases its focus on certain areas due to broad changes in misconduct over time in certain areas (i.e., time-varying regional effects), the primary results could be attributable to some Enforcement-wide trend or initiative (and not specifically to differential investigative decision-making by regional directors with financial experience). Accordingly, I consider whether my findings could be driven by contemporaneous Enforcement-wide changes in oversight by performing a falsification test that examines the impact of SEC regional director financial experience on investigations conducted by other offices (i.e., other regional offices or the headquarters office). Since SEC regional directors should have no impact on investigations that are not facilitated by their office, I expect no associations between director financial

experience and other investigations if my inferences are not confounded by this alternative explanation. To test this, I estimate a modified form of Equation (1) with *InvestigationOpened* replaced by *InvestigationOpenedDiff*, which is an indicator variable equal to one if the SEC opens a new investigation into a company from a different office in the fiscal year, and zero otherwise. As shown in Column (1) in Panel A of Table 10, there is no association between *FinExperience* and *InvestigationOpenedDiff* ($p > 0.10$). Further, I also examine whether regional directors' financial experience impacts the investigation efficiency of other investigations in Column (2), and I find no association between *FinExperience* and *InvestigationDuration* ($p > 0.10$). In summary, the results of these falsification tests suggest that the results of this study are not driven by Enforcement-wide oversight changes.

(Insert Table 10 here)

4.6.3 Other Senior Regional Officers

Within each regional office, the only other SEC enforcers that are chosen in a manner similar to the regional director are the associate regional directors. To ensure that my results are not driven by characteristics of these associate regional directors that may be correlated with the regional directors' attributes, I re-perform my primary tests with the inclusion of control variables related to the associate regional directors. To do so, I gather data from SEC press releases and LinkedIn on associate regional directors' financial experience, law school prestige, and prior prosecutorial experience to create *ADFinExperience*, *ADEliteJD*, and *ADPriorProsecutor*, respectively. For regional offices with multiple Enforcement regional directors (i.e., Chicago, Los Angeles, and New York), these indicators are defined as one if any regional director has financial experience, a prestigious law degree, or prior prosecutorial experience. I do not include an indicator for associate regional directors' SEC experience since

its inclusion leads to multicollinearity; the variance inflation factor score for this control variable is over 50, which is well above the standard threshold of 10. Only one out of 31 associate regional directors during my sample period has financial experience (untabulated), which suggests that these directors' financial experience is unlikely to explain my results. Further, as shown in Panel B of Table 10, each of my primary results is consistent with the inclusion of these additional control variables ($p < 0.05$ in Column (1) for Equation (1); $p < 0.01$ in Column (2) for Equation (2)).

4.6.4 Entropy Balancing

I also re-estimate my primary tests using entropy balancing to ensure that my results are not driven by functional form issues with my observed covariates. Specifically, I use entropy balancing to balance the treatment (i.e., *FinExperience*=1) and control (i.e., *FinExperience*=0) groups across the covariates' distributional moments by assigning continuous weights to each observation. I balance on the mean, variance, and skewness for the control variables. I am unable to entropy balance across all covariates simultaneously because of the strong correlation between *PriorProsecutor* and *PriorSEC*. First, I balance across all covariates except *PriorSEC,* and Panel A of Table 11 suggests that differences in these observable covariates are eliminated through this process. The results of re-estimating Equations (1) and (2) after entropy balancing in Panel B show that *FinExperience* remains positively associated with *InvestigationOpened* ($p < 0.01$) and that *FinExperience* remains negatively associated with *InvestigationDuration* ($p < 0.01$). Second, I instead balance across all covariates except *PriorProsecutor*. As shown in Panel C of Table 11, this also eliminates differences in the observable covariates across the treatment and control groups. Further, Panel D shows that my results are consistent using this design; the coefficient for *FinExperience* is significant with both dependent variables ($p < 0.01$ in each). Overall, the

robustness of my results to this approach suggests that my findings are not driven by functional form misspecification or covariate imbalance.

(Insert Table 11 here)

5. Additional Tests

The preceding analyses document the impacts of SEC regional directors with financial experience on SEC investigations and provide further insights into these impacts. The following subsections show the robustness of the primary empirical results to alternative research design decisions.

5.1 Triggering Event

My tests in Section 4.5 involving investigation effectiveness shed light on *ex post* effectiveness by examining whether SEC regional directors with financial experience open more consequential investigations. However, *ex ante* investigation effectiveness could also be assessed by examining whether financial directors open more investigations that appeared to be more warranted beforehand. Although SEC cases are initiated based on tips from many sources (most of which are unobservable), financial restatements are one publicly observable trigger event that often lead to investigations. Accordingly, I re-estimate Equation (1) on a sub-sample of companies with a restatement announcement in the current fiscal year to limit the sample to company-years that were more likely to justifiably attract the SEC's attention (Bonsall et al. 2021). As shown in Table 12, I continue to find consistent results with this limited sample, which provides further comfort that financial directors are opening more investigations that are warranted.

(Insert Table 12 here)

5.2 SEC Regional Director Financial Education

Since financial education arguably represents the same construct as financial experience (i.e., financial expertise), I do not include a control variable for SEC regional director financial education in my primary models since doing so could lead to significantly biased estimates (Whited et al. 2022). Nonetheless, I re-estimate my primary results with the inclusion of a control for regional director's financial education (*FinEducation*) to ensure that my results are attributable to financial experience. As shown in Table 13, my results are consistent with the inclusion of this additional control variable.

(Insert Table 13)

5.3 Alternative Regression Techniques

For my primary analyses, I estimate the basic and modified forms of Equation (1) using OLS. However, the dependent variable for Equation (1) is an indicator variable, so logistic or probit regression are alternative regression techniques that could be suitable for these tests. Column (1) of Table 14 shows my primary test of Equation (1) estimated using logistic regression, and Column (2) shows the result of this estimation using probit regression. As shown, the coefficient on *FinExperience* continues to be positive and significant ($p < 0.01$), providing comfort that these results are not attributable to the usage of OLS.

(Insert Table 14 here)

5.4 Alternative Standard Error Clustering

5.4.1 Company-Level Clustering

I cluster the standard errors in my primary tests by SEC director since the guidance from Angrist and Pischke (2009) suggests that I should cluster one level higher than my director-year treatment. However, since this only allows me to cluster my standard errors into 35 clusters, my

approach arguably could be subject to the "too few" clusters issue that results in biased standard errors (Petersen 2009; Cameron and Miller 2015). Accordingly, I re-perform my primary tests clustering standard errors by company instead since there are clearly a sufficient number of clusters using this approach. As shown in Table 15, my inferences are consistent if I use this alternative clustering convention.

(Insert Table 15 here)

5.4.2 Two-Way Clustering

Although clustering standard errors by SEC director should address cross-sectional dependence of standard errors, Petersen (2009) suggests that time series dependence is another important consideration for clustering standard errors. Accordingly, I re-estimate my primary tests clustering standard errors on two separate dimensions concurrently (i.e., two-way clustering) and cluster by SEC director and year. Table 16 tabulates the results of this analysis, and my inferences are similar with this clustering convention.

(Insert Table 16 here)

6. Conclusion

This study presents new evidence on the importance of SEC regional directors' financial experience with respect to SEC investigations into reporting entities. Although the SEC is the primary financial regulator for public companies in the U.S., outspoken critics of the SEC argue that the SEC's enforcement efforts are woeful and that this problem is (at least partially) the product of a lack of financial experience for SEC enforcers. I examine whether financial experience meaningfully impacts the SEC's enforcement activities by focusing on one of the most influential groups of SEC Enforcement decision-makers – regional office directors. These directors usually determine whether the SEC investigates a given lead and facilitate the subsequent

investigation, so I expect any consequential financial knowledge from financial experience to manifest in the form of increases in investigation likelihood and efficiency.

The results from my analyses suggest that SEC regional directors with financial experience are significantly more likely to open a new SEC investigation. Furthermore, these directors also appear to conduct more efficient investigations since investigations overseen by directors with financial experience are significantly shorter. These effects are more pronounced for financially complex companies (where financial knowledge likely helps the most). Finally, my results also suggest that regional directors with financial experience open and conduct more consequential investigations. Taken together, these findings suggest that SEC regional directors' financial experience meaningfully impacts investigations. Although I cannot definitively conclude that the implications of this study will extend to other functions of the SEC, this study should interest regulators and other capital market participants concerned with the SEC's oversight of public companies. Most notably, these findings could inform the future hiring decisions of SEC decision makers, especially as they seek to advance their current objectives relating to more aggressive and efficient enforcement activities.

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Appendix A: Example Regional Director Job Posting

This appendix displays two sections of an SEC regional director job posting from May 2021. The first panel displays the job qualification requirements, while the section panel shows the job duties. The full job posting can be found at https://www.usajobs.gov/job/600824100/print.

Panel A: Regional Director Job Qualification Requirements

Qualifications

All qualification requirements must be met by the closing date of this announcement.

Qualifying experience may be obtained in the private or public sector. Experience refers to paid and unpaid experience, including volunteer work done through National Service programs (e.g., Peace Corps, AmeriCorps) and other organizations (e.g., professional; philanthropic; religious; spiritual; community, student, social). Volunteer work helps build critical competencies, knowledge, and skills and can provide valuable training and experience that translates directly to paid employment. You will receive credit for all qualifying experience, including volunteer experience. Qualifying education must have been obtained from an accredited college or university recognized by the U.S. Department of Education.

BASIC REQUIREMENT: All applicants must possess the following

- J.D. or LL.B. degree (Note: Official Transcript will be required before entry on duty.) --AND--
- Active membership of the bar in good standing in any state, territory of the United States, the District of Columbia, or the commonwealth of Puerto Rico. (Note: proof of bar membership will be required before entry on duty.)

MINIMUM QUALIFICATION REQUIREMENT: In addition to meeting the basic requirement, applicants must also meet the minimum qualification requirement.

- **SO-01:** Applicant must have **four** year(s) of post J.D. work experience as a practicing attorney, **three** years of which includes: applying knowledge and experience in interpreting Federal securities laws and conducting investigations and enforcement activities under the Federal securities Acts relating to the anti-fraud, anti-manipulative, and other provisions of the Acts.

Panel B: Regional Director Job Duties

Duties

The Regional Director is responsible for the day-to-day oversight and administration of examination, investigation and litigation activities in the Chicago Regional Office. Principal functions of this office include: inspection of broker-dealers, transfer agents, investment companies and investment advisers; investigation of possible violations of federal securities laws; trial of civil cases in United States District Courts and administrative proceedings before administrative law judges; interpretations regarding the application and meaning of Commission rules and regulations; and assistance to United States Attorneys in the prosecution of criminal cases.

Typical duties include:

- Coordinating the various program and management activities within the region and with the Headquarters staff, as appropriate.
- Receiving general program and policy guidance and direction and management oversight from the Director of the Division of Enforcement, the Director of the Office of Compliance Inspections and Examinations, and from other Headquarters Divisions/Offices, depending upon the program area involved.
- Overseeing the initiation and conduct of investigations deemed necessary to determine whether violations of any of the federal securities laws, or the rules and regulations adopted thereunder, have occurred or are about to occur.
- Reviewing of internal operating procedures of the regional office to improve program execution, to promote increased efficiency of operations and to assure the full utilization of resources.
- Participating in and leading programs aimed at communicating agency priorities and objectives to industry representatives, investors, other regulators, and members of the bar.
- Establishing and maintaining effective working relationships with senior officials in other SEC Offices and Divisions; state and federal government agencies, civil and criminal; SROs, regulated entities, and public companies; the securities bar; and the media.
- Having high-level oversight of regional administrative functions, including internal controls, budgets, information technology, and other administrative support.

Appendix B: Example Regional Directors for Financial Experience Measurement

This appendix displays two SEC press releases detailing the hiring of new regional directors. The first press release features a regional director with financial experience (*FinExperience*=1), while the second press release introduces a regional director without financial experience (*FinExperience*=0). The entire release is included for completeness, but the relevant background information can be found in the second (second) paragraph of the first (second) article. The first press release can be found at https://www.sec.gov/news/press/2011/2011-168.htm. The second press release can be found at https://www.sec.gov/news/press/2008/2008-100.htm.

Example 1: Example Regional Director with Financial Experience

David Woodcock Named Director of SEC Fort Worth Regional Office

FOR IMMEDIATE RELEASE
2011-168

Washington, D.C., Aug. 12, 2011 – The Securities and Exchange Commission today announced that David Woodcock has been named Regional Director of the SEC's Fort Worth Regional Office. He will begin working at the agency in mid-September.

Mr. Woodcock joins the SEC from the law firm of Vinson & Elkins LLP, where he has been a litigation partner in the firm's Austin office with a practice focusing on securities and commercial litigation, internal corporate investigations, complex accounting and auditing issues, and antitrust matters. Mr. Woodcock also has significant appellate experience. Prior to his legal career, Mr. Woodcock practiced public accounting for several years at Price Waterhouse LLP and Ernst & Young LLP.

"David is a tremendous talent who brings impressive legal and managerial skills with him to his new position as the head of our Fort Worth Regional Office," said Robert Khuzami, Director of the SEC's Division of Enforcement. "The combination of David's experience in law and public accounting, along with his sound judgment and outstanding work ethic, make him the ideal candidate to lead the Fort Worth Regional Office into the future."

Carlo di Florio, Director of the SEC's Office of Compliance Inspections and Examinations, said, "David is exceptionally qualified for this position. He will be a tremendous asset to the SEC's oversight of securities firms in the Fort Worth region and nationally."

Mr. Woodcock said, "I am honored and pleased to have been chosen as the SEC's Regional Director in Fort Worth. I know from personal experience that the lawyers and examiners in the Fort Worth office are enormously talented, dedicated, and committed. I look forward to working with them to further the SEC's mission of investor protection and ensuring fair and orderly markets."

As Regional Director, Mr. Woodcock will oversee the Fort Worth office's enforcement and examination activities in Texas, Oklahoma, and Arkansas as well as the office's enforcement activities in Kansas. Mr. Woodcock succeeds Rose Romero as Regional Director. She departed the SEC in March.

Mr. Woodcock earned his bachelor's degree in accounting from Louisiana State University in 1992, and a JD from the University of Texas School of Law in 2000. He served as a law clerk for the Honorable Howell Cobb of the U.S. District Court for the Eastern District of Texas.

Example 2: Example Regional Director without Financial Experience

SEC Veteran Rosalind Tyson Tapped to Lead Los Angeles Region

FOR IMMEDIATE RELEASE
2008-100

Washington, D.C., May 29, 2008 — Securities and Exchange Commission Chairman Christopher Cox today announced the appointment of Rosalind Tyson as Regional Director of the Commission's Los Angeles Regional Office. As Regional Director she will oversee the office's enforcement and examination functions in Southern California, Arizona, Nevada, and Hawaii. Ms. Tyson has been Acting Regional Director of the office since the departure of Randall Lee last year.

Since 1993, Ms. Tyson has served as Associate Regional Director for Examinations in the Los Angeles Regional Office. In that position she oversaw the office's examination program, which conducts inspections of broker-dealers, investment advisers, mutual funds, and transfer agents, as well as its bankruptcy program. Ms. Tyson is a veteran of the Commission staff; she joined the Los Angeles Regional Office in 1982 as an enforcement lawyer after several years of private practice. Since that time she has held a number of positions of increasing responsibility within the Los Angeles office.

Chairman Cox said, "Roz is a consummate professional whose over 25 years of experience with the SEC makes her exceptionally well-qualified to take on this responsibility. Her steadfast commitment to our nation's investors is unparalleled. Her knowledge not only of the Commission's enforcement program, but also our examination program for broker-dealers, investment advisers, and mutual funds, will be an important asset to both the Los Angeles office staff and the investing public."

Lori Richards, Director of the SEC's Office of Compliance Inspections and Examinations, said, "It has been my pleasure to work with Roz for many years. She is a wonderful leader and an experienced regulator. She has unparalleled knowledge of the securities industry and is a dedicated advocate for investors. I'm delighted that she will lead the Los Angeles Office."

Linda Chatman Thomsen, Director of the SEC's Division of Enforcement, added, "For years, Roz has demonstrated her excellent judgment and strong management skills. Those attributes, combined with her wealth of SEC experience, make her an ideal choice to lead the Los Angeles office."

Ms. Tyson said, "It will be a privilege to serve as Regional Director for the Los Angeles Regional Office's team of superbly talented professionals. The Commission is deeply committed to effective investor protection, and I greatly appreciate the trust the agency has placed in me. I intend to emphasize swift and vigorous enforcement of the securities laws and to reinforce our cooperative working relationships with our fellow regulators at the federal, state and local levels.

Ms. Tyson graduated from Georgetown University's School of Languages and Linguistics in 1970, received her Master's degree in 1972 from the University of Hawaii, and received her J.D. degree from Stanford Law School in 1978.

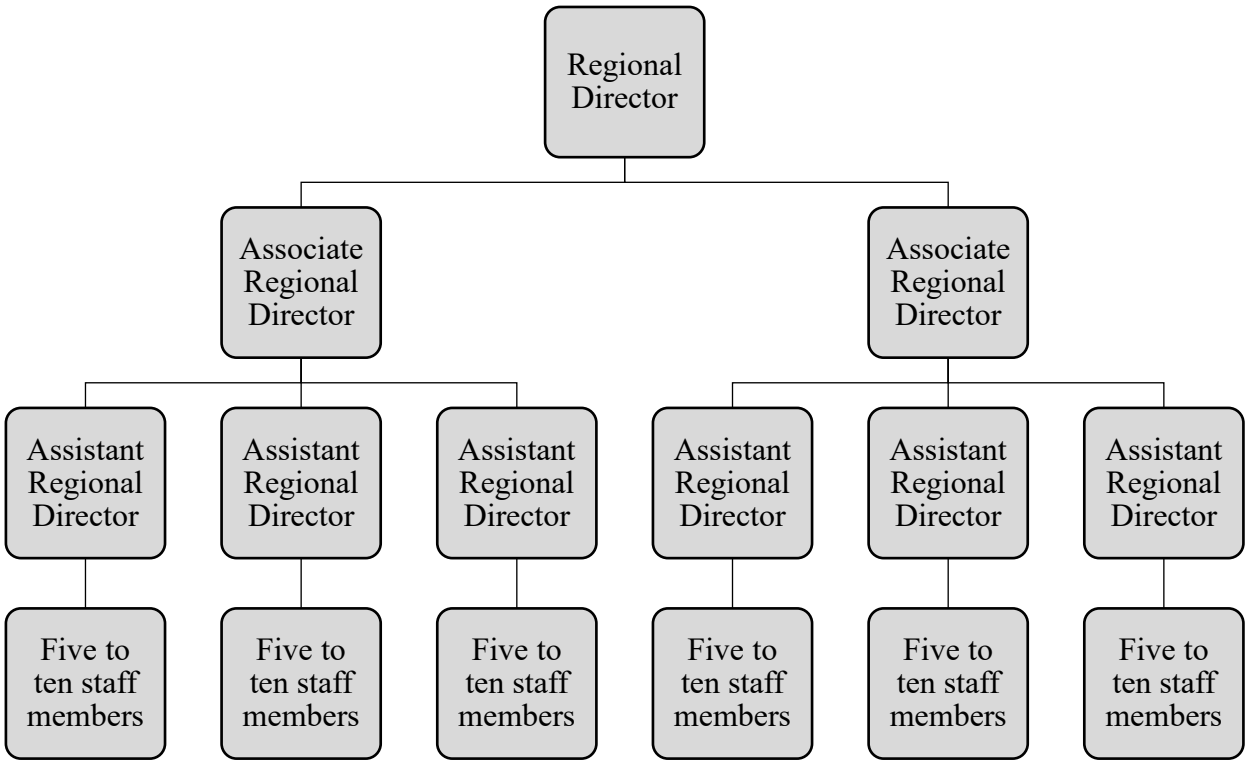
Appendix C: Variable Definitions

Variable	Definition
ADFinExperience	Indicator variable equal to one for companies overseen by an SEC office with an associate regional director with financial experience, and zero otherwise.
ADEliteJD	Indicator variable equal to one for companies overseen by an SEC office with an associate regional director with a law degree from one of the top 6 U.S. News law schools as of 2014 (Yale, Harvard, Stanford, Columbia, Chicago, or NYU), and zero otherwise.
ADPriorProsecutor	Indicator variable equal to one for companies overseen by an SEC office with an associate regional director with prior prosecutorial experience, and zero otherwise.
Analysts	The natural logarithm of one plus the number of analysts following a company.
Assets	The natural logarithm of the company's total assets.
Big4	Indicator variable equal to one if the company is audited by a Big 4 auditor, and zero otherwise.
BTM	The company's book value of equity divided by market value of equity.
EliteJD	Indicator variable equal to one for companies overseen by an SEC office led by a regional director with a law degree from one of the top 6 U.S. News law schools as of 2014 (Yale, Harvard, Stanford, Columbia, Chicago, or NYU), and zero otherwise.
FinEducation	Indicator variable equal to one for companies overseen by an SEC office led by a regional director with a degree in finance or accounting, and zero otherwise.
FinExperience	Indicator variable equal to one for companies overseen by an SEC office led by a regional director with financial experience, and zero otherwise.
FinInvestigationOpened	Indicator variable equal to one if the SEC opens a new investigation into a company in the fiscal year and the investigation classification is "Financial Fraud/Issuer Discl.," and zero otherwise.
FinRegion	Indicator variable equal to one for companies overseen by an SEC office led by a regional director with financial experience at any point during the sample period (i.e., the Atlanta, Boston, Fort Worth, or Los Angeles office), and zero otherwise.
HighSeg	Indicator variable equal to one if a company has more than the median (two) business segments, and zero otherwise.

InstOwn	The proportion of a company's shares held by institutional investors.
InvestigationDuration	The number of years between an investigation's opening date and closing date.
InvestigationOpened	Indicator variable equal to one if the SEC opens a new investigation into a company from the regional office overseeing the company in the fiscal year, and zero otherwise.
InvestigationOpenedDiff	Indicator variable equal to one if the SEC opens a new investigation into a company from an office other than the regional office overseeing the company in the fiscal year, and zero otherwise.
Leverage	The company's total debt divided by the company's total assets.
Loss	Indicator variable equal to one if the company reports a loss during the year, and zero otherwise.
OtherInvestigationOpened	Indicator variable equal to one if the SEC opens a new investigation into a company in the fiscal year and the investigation classification is not "Financial Fraud/Issuer Discl.," and zero otherwise.
PriorProsecutor	Indicator variable equal to one for companies overseen by an SEC office led by a regional director with prior prosecutorial experience, and zero otherwise.
PriorSEC	Indicator variable equal to one for companies overseen by an SEC office led by a regional director with prior SEC experience, and zero otherwise.
ROA	The company's return on assets, defined as net income before extraordinary items divided by average total assets.
SECDist	The natural logarithm of the distance between a company's headquarters and the nearest SEC office.
Segments	The natural logarithm of the company's total number of business segments.
SevereInvestigationOpened	Indicator variable equal to one if the SEC opens a new financial investigation into a company in the fiscal year and one or both of the following occurs i) the company subsequently restates the fiscal year's financial statements or ii) the SEC subsequently files an AAER that involves the company's financials in that fiscal year, and zero otherwise.
ΔForecastDispersion	The three-year change (from the year of the investigation opening to the third fiscal year after the opening) in analysts' EPS forecast dispersion. Forecast dispersion is measured in the most recent I/B/E/S period preceding the earnings announcement, and forecast dispersion equals the standard deviation of forecasts scaled by the company's end of year stock price.

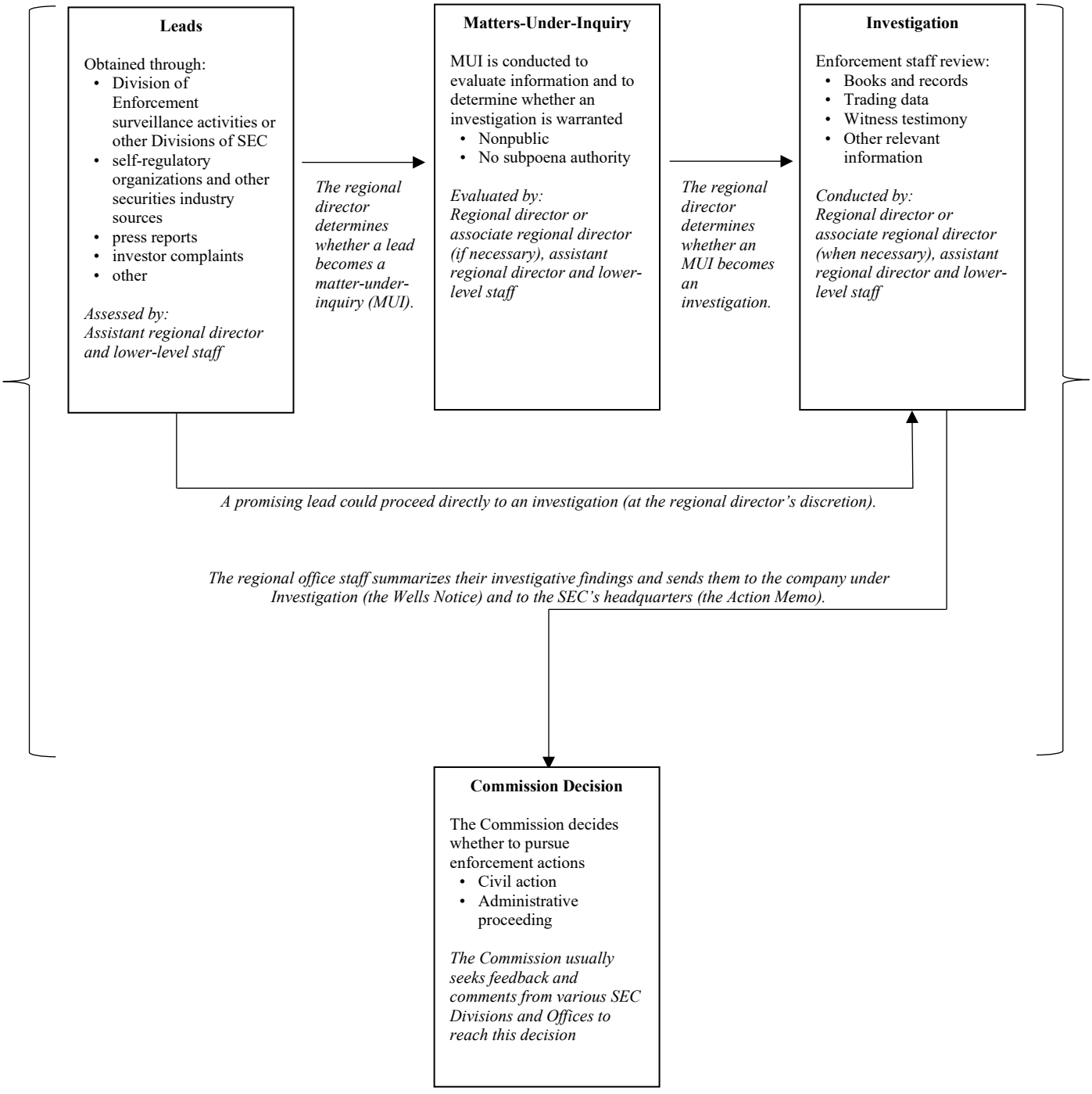
ΔForecastError	The three-year change (from the year of the investigation opening to the third fiscal year after the opening) in analysts' EPS forecast error. Forecast error is measured in the most recent I/B/E/S period preceding the earnings announcement, and forecast error equals the absolute value of the mean estimate less the actual reported EPS (all scaled by the company's end of year stock price).

Figure 1: Example Staff Composition in an SEC Regional Office



This figure displays an example SEC Enforcement staff composition within an SEC regional office.

Figure 2: SEC Investigation Process



This figure outlines SEC Enforcement's investigation process. The information in *italics* is from SEC (2017) and conversations with former and current SEC regional directors. The remainder of the information is from GAO (2007) and SEC (2017). Brackets denote activities that occur within an SEC regional office.

Figure 3: SEC Regional Directors Across Offices

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Atlanta	Richard Wessel			Katherine Addleman			***Rhea Kemble Dignam***				
Boston	***Walter Ricciardi***			***David Bergers***							P. Levenson
Chicago	Merri Jo Gillette										D. Glockner
Denver	Randall Fons			George Curtis		Donald Hoerl					Julie Lutz
Fort Worth	Harold Degenhardt			Rose Romero				***David Woodcock***			
Los Angeles	***Randall Lee***				Rosalind Tyson					Michele Wein Layne	
Miami	David Nelson						Eric Bustillo				
New York	Mark Schonfeld					George Canellos				Andrew Calamari	
Philadelphia	Arthur Gabinet			Daniel Hawke							Binger
Salt Lake City	Kenneth Israel, Jr.										K. Martinez
San Francisco	Helane Morrison				Marc Fagel						Jina Choi

This chart includes 31 of the 35 SEC regional directors that oversaw companies during the sample period. Directors with financial experience are denoted in ***bold italics***. For presentation purposes, the following four individuals are excluded because they solely acted as temporary regional directors during transition periods: Tim Warren (acting director of the Chicago office in 2013), James Clarkson (acting director of the Fort Worth office in 2005-2006), Joy Thompson (acting director of the Philadelphia office in 2005-2006), and Kristin Snyder (acting director of the San Francisco Office in 2013).

Table 1: Sample Selection

Table 1 outlines the sample selection process for this study.

	Observations
U.S. incorporated and headquartered companies at the intersection of CRSP and Compustat with non-missing assets and Snapshot headquarters data for fiscal years 2004-2014	47,392
Less: Observations without adequate SEC regional director data	-3,412
Less: Observations with a change in *FinExperience* during the year	-1,783
Less: Observations in year 2 or later of an SEC investigation	-3,973
Less: Observations missing data for control variables	-304
Final sample of observations for tests of Equation (1)	37,920
Unique investigations	1,595
Less: Investigations conducted by multiple SEC regional directors	-566
Final sample of observations for tests of Equation (2)	1,029

Table 2: Regional Director Descriptive Statistics

Table 2 presents regional director descriptive statistics at the regional office level.

Office	Fin. Directors	Non-Fin. Directors	Total Directors	% Fin. Directors	Fin. Years	Non-Fin. Years	Total Years	% Fin. Years
Atlanta	1	2	3	33.3%	5	6	11	45.5%
Boston	2	1	3	66.7%	9.5	1.5	11	86.4%
Chicago	0	3	3	0.0%	0	11	11	0.0%
Denver	0	4	4	0.0%	0	11	11	0.0%
Fort Worth	1	3	4	25.0%	3.5	7.5	11	31.8%
Los Angeles	1	2	3	33.3%	3.5	7.5	11	31.8%
Miami	0	2	2	0.0%	0	11	11	0.0%
New York City	0	3	3	0.0%	0	11	11	0.0%
Philadelphia	0	1	4	0.0%	0	11	11	0.0%
Salt Lake City	0	2	2	0.0%	0	11	11	0.0%
San Francisco	0	4	4	0.0%	0	11	11	0.0%
All Offices	5	30	35	14.3%	21.5	99.5	121	17.8%

Table 3: Full Sample Descriptive Statistics

Panels A and B present descriptive statistics for tests of Equations (1) and (2), respectively. Panels C and D present comparative descriptive statistics between companies overseen by an SEC office led by a regional director with financial experience (i.e., *FinExperience*=1) and those not overseen by such an office (i.e., *FinExperience*=0) for tests of Equations (1) and (2), respectively. *, **, and *** indicate significant differences across the groups at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed tests. All variables are defined in Appendix C.

Panel A: Full Sample Descriptive Statistics for Investigation Opening Tests

Variable	N	Mean	Std. Dev.	p(25)	Median	p(75)
InvestigationOpened	37,920	0.042	0.201	0.000	0.000	0.000
FinExperience	37,920	0.160	0.366	0.000	0.000	0.000
EliteJD	37,920	0.379	0.485	0.000	0.000	1.000
PriorProsecutor	37,920	0.261	0.439	0.000	0.000	1.000
PriorSEC	37,920	0.745	0.436	0.000	1.000	1.000
Analysts	37,920	1.157	1.044	0.000	1.099	2.079
Assets	37,920	6.287	2.048	4.850	6.327	7.679
Big4	37,920	0.671	0.470	0.000	1.000	1.000
BTM	37,920	0.628	0.594	0.280	0.509	0.285
InstOwn	37,920	0.654	0.331	0.365	0.744	1.000
Leverage	37,920	0.211	0.220	0.017	0.149	0.331
Loss	37,920	0.310	0.463	0.000	0.000	1.000
ROA	37,920	-0.036	0.242	-0.020	0.017	0.062
SECDist	37,920	4.009	1.615	2.993	4.018	5.463
Segments	37,920	0.833	0.579	0.693	0.693	1.386

Panel B: Full Sample Descriptive Statistics for Investigation Duration Tests

Variable	N	Mean	Std. Dev.	p(25)	Median	p(75)
InvestigationDuration	1,029	2.204	1.791	0.959	1.638	2.890
FinExperience	1,029	0.183	0.387	0.000	0.000	0.000
EliteJD	1,029	0.347	0.476	0.000	0.000	1.000
PriorProsecutor	1,029	0.263	0.441	0.000	0.000	1.000
PriorSEC	1,029	0.753	0.431	1.000	1.000	1.000
Analysts	1,029	1.474	1.155	0.000	1.609	2.485
Assets	1,029	6.894	2.162	5.291	6.861	8.388
Big4	1,029	0.795	0.404	1.000	1.000	1.000
BTM	1,029	0.529	0.550	0.232	0.430	0.715
InstOwn	1,029	0.745	0.286	0.587	0.838	1.000
Leverage	1,029	0.226	0.234	0.011	0.161	0.362
Loss	1,029	0.371	0.483	0.000	0.000	1.000
ROA	1,029	-0.052	0.264	-0.044	0.019	0.069
SECDist	1,029	3.908	1.633	2.890	3.701	5.428
Segments	1,029	0.882	0.581	0.693	0.693	1.386

Panel C: Comparative Descriptive Statistics for Investigation Opening Tests

	FinExperience=1		*FinExperience*=0			
Variable	**N**	**Mean**	**N**	**Mean**	**Diff**	
InvestigationOpened	6,050	0.050	31,870	0.041	0.010	***
EliteJD	6,050	0.556	31,870	0.345	0.211	***
PriorProsecutor	6,050	0.235	31,870	0.266	-0.031	***
PriorSEC	6,050	0.364	31,870	0.817	-0.454	***
Analysts	6,050	1.138	31,870	1.160	-0.022	
Assets	6,050	6.152	31,870	6.312	-0.161	***
Big4	6,050	0.688	31,870	0.667	0.020	***
BTM	6,050	0.581	31,870	0.637	-0.056	***
InstOwn	6,050	0.663	31,870	0.652	0.011	**
Leverage	6,050	0.208	31,870	0.211	-0.003	
Loss	6,050	0.319	31,870	0.309	0.010	
ROA	6,050	-0.042	31,870	-0.035	-0.007	**
SECDist	6,050	3.826	31,870	4.044	-0.218	***
Segments	6,050	0.843	31,870	0.831	0.012	

Panel D: Comparative Descriptive Statistics for Investigation Duration Tests

	FinExperience=1		*FinExperience*=0			
Variable	**N**	**Mean**	**N**	**Mean**	**Diff**	
InvestigationDuration	188	1.723	841	2.312	-0.589	***
EliteJD	188	0.473	841	0.319	0.155	***
PriorProsecutor	188	0.351	841	0.244	0.107	***
PriorSEC	188	0.394	841	0.834	-0.440	***
Analysts	188	1.446	841	1.481	-0.035	
Assets	188	6.679	841	6.942	-0.263	
Big4	188	0.782	841	0.798	-0.016	
BTM	188	0.464	841	0.543	-0.080	*
InstOwn	188	0.763	841	0.741	0.022	
Leverage	188	0.215	841	0.229	-0.014	
Loss	188	0.351	841	0.376	-0.025	
ROA	188	-0.042	841	-0.054	-0.012	
SECDist	188	3.655	841	3.965	-0.309	**
Segments	188	0.940	841	0.869	0.071	

Table 4: SEC Regional Director Financial Experience and Investigation Openings

Table 4 presents the results of OLS estimations of Equation (1). Column (1) includes director control variables and fixed effects, Column (2) includes company control variables and fixed effects, and Column (3) includes the entire set of controls variables and fixed effects. Dependent variables are listed above their respective columns. Year and industry fixed effects are excluded for brevity. Cluster (director) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

	Pred.	(1)	(2)	(3)
		DV = InvestigationOpened		
FinExperience	+	***0.011****	***0.009****	***0.012*****
		(2.084)	***(1.703)***	***(2.545)***
EliteJD		-0.003		-0.004
		(-0.877)		(-1.240)
PriorProsecutor		0.005		0.006
		(1.352)		(1.529)
PriorSEC		0.003		0.002
		(0.930)		(0.608)
Analysts			0.004*	0.004*
			(2.026)	(2.030)
Assets			0.013***	0.014***
			(9.105)	(9.195)
Big4			-0.010***	-0.010***
			(-3.846)	(-3.833)
BTM			-0.003	-0.003
			(-1.606)	(-1.628)
InstOwn			0.010**	0.010**
			(2.365)	(2.374)
Leverage			-0.010	-0.010
			(-1.509)	(-1.552)
Loss			0.023***	0.023***
			(7.744)	(7.753)
ROA			-0.015**	-0.015**
			(-2.355)	(-2.389)
SECDist			-0.001	-0.001
			(-1.382)	(-1.677)
Segments			0.000	0.000
			(0.065)	(0.071)
Observations		37,920	37,920	37,920
Adjusted R-squared		1.02%	2.45%	2.46%
Industry FE		Yes	Yes	Yes
Year FE		Yes	Yes	Yes
Constant		Yes	Yes	Yes

Table 5: SEC Regional Director Financial Experience and Investigation Efficiency

Table 5 presents the results of OLS estimations of Equation (2). Column (1) includes director control variables and fixed effects, Column (2) includes company control variables and fixed effects, and Column (3) includes the entire set of controls variables and fixed effects. Dependent variables are listed above their respective columns. Year and industry fixed effects are excluded for brevity. Cluster (director) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

	Pred.	(1)	(2)	(3)
		DV = InvestigationDuration		
FinExperience	-	***-0.758******	***-0.631******	***-0.750******
		(-4.065)	***(-2.892)***	***(-4.191)***
EliteJD		0.060		0.046
		(0.221)		(0.181)
PriorProsecutor		-0.519***		-0.504***
		(-3.053)		(-3.013)
PriorSEC		-0.348*		-0.361*
		(-1.908)		(-1.975)
Analysts			-0.003	0.007
			(-0.062)	(0.150)
Assets			0.108*	0.098
			(1.695)	(1.649)
Big4			-0.209	-0.230
			(-1.021)	(-1.072)
BTM			0.134	0.142
			(0.990)	(1.050)
InstOwn			0.053	0.101
			(0.366)	(0.647)
Leverage			-0.011	-0.031
			(-0.028)	(-0.084)
Loss			0.168	0.154
			(0.789)	(0.727)
ROA			0.241	0.246
			(0.670)	(0.664)
SECDist			-0.014	-0.020
			(-0.341)	(-0.562)
Segments			-0.036	-0.034
			(-0.619)	(-0.547)
Observations		1,029	1,029	1,029
Adjusted R-squared		8.92%	8.53%	9.25%
Industry FE		Yes	Yes	Yes
Year FE		Yes	Yes	Yes
Constant		Yes	Yes	Yes

Table 6: Investigation Type

Table 6 presents the results of OLS estimations of modified forms of Equation (1). *InvestigationOpened* is replaced by *FinInvestigationOpened* (*OtherInvestigationOpened*) in the first (second) column. The first (second) column excludes observations where *OtherInvestigationOpened*=1 (*FinInvestigationOpened*=1). Dependent variables are listed above their respective columns. Year and industry fixed effects are excluded for brevity. Cluster (director) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

	Pred.	(1)	(2)
Dependent Variable:		*FinInvestigationOpened*	*OtherInvestigationOpened*
FinExperience	+/?	***0.013****	***-0.001***
		(3.150)	***(-0.479)***
EliteJD		-0.005*	0.001
		(-1.757)	(0.340)
PriorProsecutor		0.005	0.001
		(1.513)	(0.590)
PriorSEC		0.000	0.002
		(0.020)	(0.984)
Analysts		0.002*	0.001
		(1.865)	(1.138)
Assets		0.007***	0.007***
		(7.009)	(7.270)
Big4		-0.007***	-0.004***
		(-3.311)	(-3.284)
BTM		0.001	-0.005***
		(1.471)	(-2.743)
InstOwn		0.006*	0.004
		(1.983)	(1.602)
Leverage		-0.006	-0.005
		(-1.638)	(-0.873)
Loss		0.012***	0.012***
		(5.656)	(5.956)
ROA		0.000	-0.015***
		(0.110)	(-2.829)
SECDist		-0.001	-0.001
		(-1.403)	(-1.071)
Segments		-0.000	0.000
		(-0.086)	(0.182)
Observations		37,078	37,167
Adjusted R-squared		1.82%	1.30%
Industry FE		Yes	Yes
Year FE		Yes	Yes
Constant		Yes	Yes

Table 7: Cross-Sectional Effects of Financial Complexity

Table 7 presents the results of OLS estimations of modified forms of Equation (1) (Column (1) and Equation (2) (Column (2)). *Segments* is replaced by *HighSeg* and *FinExperience*HighSeg* in both columns. Dependent variables are listed above their respective columns. Year and industry fixed effects are excluded for brevity. Cluster (director) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

	Pred.	(1)	(2)
Dependent Variable:		*InvestigationOpened*	*InvestigationDuration*
FinExperience*HighSeg	+/-	***0.013******	***-0.221****
		(3.304)	***(-1.425)***
FinExperience	+/-	0.007*	-0.663***
		(1.569)	(-3.492)
HighSeg		-0.000	0.032
		(-0.154)	(0.323)
EliteJD		-0.005	0.045
		(-1.272)	(0.179)
PriorProsecutor		0.006	-0.507***
		(1.565)	(-3.019)
PriorSEC		0.002	-0.358*
		(0.657)	(-1.935)
Analysts		0.004**	0.006
		(2.081)	(0.143)
Assets		0.013***	0.096
		(9.011)	(1.610)
Big4		-0.010***	-0.235
		(-3.830)	(-1.090)
BTM		-0.003	0.144
		(-1.656)	(1.068)
InstOwn		0.010**	0.108
		(2.396)	(0.695)
Leverage		-0.010	-0.029
		(-1.546)	(-0.079)
Loss		0.023***	0.152
		(7.760)	(0.716)
ROA		-0.015**	0.248
		(-2.421)	(0.671)
SECDist		-0.001*	-0.020
		(-1.727)	(-0.566)
Observations		37,920	1,029
Adjusted R-squared		2.48%	9.20%
Industry FE		Yes	Yes
Year FE		Yes	Yes
Constant		Yes	Yes
Linear Combination:			
*FinExperience*HighSeg* +		0.020***	-0.884***
FinExperience		(3.599)	(-4.488)

Table 8: Investigation Effectiveness

Table 8 presents the results of OLS estimations of modified forms of Equation (1) (Column (1)) and Equation (2) (Columns (2) and (3)). *InvestigationOpened* is replaced by *SevereInvestigationOpened* in Column (1), and *InvestigationDuration* is replaced by *ΔForecastError* (*ΔForecastDispersion*) in the second (third) column. The first (second) column excludes observations with non-severe investigations opened. Dependent variables are listed above their respective columns. Year and industry fixed effects are excluded for brevity. Cluster (director) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

	Pred.	(1)	(2)	(3)
DV:		*SevereInvestigationOpened*	*ΔForecastError*	*ΔForecastDispersion*
FinExperience	+/-/-	***0.002****	***-0.019*****	***-0.002*****
		(1.837)	***(-3.476)***	***(-2.844)***
EliteJD		-0.000	0.006	0.000
		(-0.409)	(1.109)	(0.303)
PriorProsecutor		0.001	-0.005	0.000
		(0.955)	(-1.198)	(0.457)
PriorSEC		0.001	-0.012**	-0.001
		(0.804)	(-2.044)	(-1.600)
Analysts		0.000	0.002	0.001
		(0.561)	(0.370)	(0.665)
Assets		0.001**	-0.001	-0.000
		(2.497)	(-0.510)	(-0.534)
Big4		-0.001	-0.001	-0.003
		(-0.875)	(-0.210)	(-1.415)
BTM		-0.000	-0.019	-0.002
		(-0.018)	(-1.458)	(-0.812)
InstOwn		0.002***	0.002	0.001
		(3.301)	(0.203)	(0.174)
Leverage		0.001	-0.010	0.001
		(0.528)	(-0.832)	(0.312)
Loss		0.003***	-0.015**	0.000
		(3.215)	(-2.075)	(0.240)
ROA		0.000	-0.008	0.004
		(0.164)	(-0.291)	(0.496)
SECDist		0.000	-0.001	0.000
		(0.046)	(-0.672)	(0.463)
Segments		-0.000	0.004	-0.000
		(-0.683)	(1.007)	(-0.351)
Observations		36,441	585	526
Adjusted R-squared		0.27%	9.74%	-2.52%
Industry FE		Yes	Yes	Yes
Year FE		Yes	Yes	Yes
Constant		Yes	Yes	Yes

Table 9: Systematic Differences Across Regions

Table 9 presents the results of OLS estimations of modified forms of Equations (1) and (2). Columns (1) and (3) show results of estimating modified forms of Equations (1) and (2) with the inclusion of *FinRegion*, and Columns (2) and (4) show results of estimating modified forms of Equations (1) and (2) with the inclusion of SEC regional office fixed effects. Dependent variables are listed above their respective columns. Control variables and fixed effects are excluded for brevity. Cluster (director) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

	Pred.	(1)	(2)	(3)	(4)
Dependent Variable:		*InvestigationOpened*	*InvestigationOpened*	*InvestigationDuration*	*InvestigationDuration*
FinRegion	?	0.003		-0.415	
		(0.658)		(-1.682)	
FinExperience	+/+/-/-	***0.010****	***0.012****	***-0.483****	***-0.510*****
		(1.694)	***(2.423)***	***(-2.378)***	***(-3.589)***
EliteJD		-0.005	-0.008	0.087	0.169
		(-1.341)	(-1.634)	(0.391)	(1.185)
PriorProsecutor		0.006	0.002	-0.533***	-0.272*
		(1.557)	(0.443)	(-3.259)	(-1.854)
PriorSEC		0.003	0.001	-0.506***	-0.282
		(0.809)	(0.109)	(-2.885)	(-1.389)
Analysts		0.004*	0.003*	0.003	0.045
		(2.018)	(1.946)	(0.063)	(1.032)
Assets		0.014***	0.014***	0.098	0.080
		(9.127)	(9.159)	(1.659)	(1.317)
Big4		-0.010***	-0.010***	-0.224	-0.245
		(-3.871)	(-3.818)	(-1.053)	(-1.202)
BTM		-0.003	-0.003	0.141	0.082
		(-1.597)	(-1.523)	(1.079)	(0.671)
InstOwn		0.010**	0.009**	0.084	0.151
		(2.339)	(2.224)	(0.535)	(0.942)
Leverage		-0.010	-0.009	-0.012	-0.148
		(-1.554)	(-1.441)	(-0.033)	(-0.425)
Loss		0.023***	0.022***	0.150	0.202
		(7.794)	(7.698)	(0.707)	(0.993)
ROA		-0.015**	-0.015**	0.237	0.204
		(-2.392)	(-2.395)	(0.630)	(0.598)
SECDist		-0.001*	-0.001	-0.010	-0.002
		(-1.717)	(-0.707)	(-0.293)	(-0.038)

Table 9: Systematic Differences Across Regions (cont.)

	Pred.	(1)	(2)	(3)	(4)
Dependent Variable:		*InvestigationOpened*	*InvestigationOpened*	*InvestigationDuration*	*InvestigationDuration*
Segments		0.000	0.000	-0.044	-0.079
		(0.061)	(0.144)	(-0.760)	(-1.267)
Observations		37,920	37,920	1,029	1,029
Adjusted R-squared		2.46%	2.58%	9.78%	13.77%
Region Fixed Effects		No	Yes	No	Yes
Industry FE		Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes
Constant		Yes	Yes	Yes	Yes

Table 10: Additional Tests to Address Endogeneity Concerns

Table 10 presents the results of estimations of modified forms of Equations (1) and (2). In Panel A, Column (1) shows the result of estimating a modified form of Equation (1) with *InvestigationOpened* replaced by *InvestigationOpenedDiff*, and Column (2) shows the result of estimating Equation (2) with a sample of investigations started by different offices (i.e., observations where *InvestigationOpenedDiff*=1). In Panel B, *ADFinExperience*, *ADEliteJD*, and *ADPriorProsecutor* are included as additional control variables in modified forms of Equation (1) (Column (1)) and Equation (2) (Column (2)). Dependent variables are listed above their respective columns. Control variables and year and industry fixed effects are excluded for brevity. Cluster (director) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

Panel A: Falsification Test

	Pred.	(1)	(2)
Dependent Variable:		*InvestigationOpenedDiff*	*InvestigationDuration*
FinExperience	?	***-0.001***	***0.546***
		(-1.489)	***(1.124)***
EliteJD		0.001	0.560
		(1.347)	(1.067)
PriorProsecutor		-0.000	-0.221
		(-0.145)	(-0.466)
PriorSEC		-0.000	0.706
		(-0.515)	(1.008)
Analysts		0.001**	-0.063
		(2.423)	(-0.368)
Assets		0.004***	-0.156
		(5.675)	(-0.946)
Big4		-0.004***	-0.582
		(-4.441)	(-0.640)
BTM		-0.000	0.825
		(-0.814)	(1.185)
InstOwn		-0.003*	1.491
		(-1.897)	(1.011)
Leverage		-0.003	1.853
		(-1.614)	(1.179)
Loss		0.003***	-0.309
		(3.555)	(-0.459)
ROA		-0.005**	-0.349
		(-2.087)	(-0.277)
SECDist		-0.001	-0.049
		(-1.424)	(-0.472)
Segments		0.001	0.346
		(1.269)	(1.039)
Observations		37,920	124
Adjusted R-squared		1.12%	32.71%
Industry FE		Yes	Yes
Year FE		Yes	Yes
Constant		Yes	Yes

Table 10: Additional Tests to Address Endogeneity Concerns (cont.)

Panel B: Inclusion of Associate Regional Director Controls

	Pred.	(1)	(2)
Dependent Variable:		*InvestigationOpened*	*InvestigationDuration*
FinExperience	+/-	***0.011****	***-0.726*****
		(2.055)	***(-4.122)***
ADFinExperience		-0.002	0.267
		(-0.091)	(0.739)
ADEliteJD		-0.000	0.316
		(-0.104)	(1.242)
ADPriorProsecutor		-0.002	-0.072
		(-0.368)	(-0.333)
EliteJD		-0.004	-0.013
		(-1.160)	(-0.057)
PriorProsecutor		0.006	-0.420**
		(1.665)	(-2.606)
PriorSEC		0.002	-0.420**
		(0.452)	(-2.626)
Analysts		0.004*	0.012
		(1.982)	(0.249)
Assets		0.014***	0.088
		(9.130)	(1.523)
Big4		-0.010***	-0.240
		(-3.900)	(-1.133)
BTM		-0.003	0.135
		(-1.620)	(0.992)
InstOwn		0.010**	0.104
		(2.318)	(0.675)
Leverage		-0.010	-0.028
		(-1.549)	(-0.076)
Loss		0.023***	0.165
		(7.755)	(0.789)
ROA		-0.015**	0.279
		(-2.365)	(0.752)
SECDist		-0.001	-0.014
		(-1.634)	(-0.405)
Segments		0.000	-0.038
		(0.077)	(-0.648)
Observations		37,920	1,029
Adjusted R-squared		2.46%	9.67%
Industry FE		Yes	Yes
Year FE		Yes	Yes
Constant		Yes	Yes

Table 11: Entropy Balancing Specifications

Table 11 presents the results of estimations of modified forms of Equations (1) and (2) using an entropy balanced approach. Panel A (C) presents the post-balancing descriptive statistics split on *FinExperience* for the first (second) entropy balancing approach, and Panel B (D) presents the estimations using the first (second) entropy balanced sample. Dependent variables are listed above their respective columns. Control variables and year and industry fixed effects are excluded for brevity. Cluster (director) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

Panel A: Covariate Balance for Entropy Balancing Approach 1

	FinExperience=1			*FinExperience*=0			
Variable	**Mean**	**Variance**	**Skewness**	**Mean**	**Variance**	**Skewness**	**Diff.**
EliteJD	0.556	0.247	-0.226	0.556	0.247	-0.226	0.000
PriorProsecutor	0.235	0.180	1.248	0.235	0.180	1.247	0.000
Analysts	1.138	1.106	0.336	1.138	1.106	0.336	0.000
Assets	6.152	4.084	0.104	6.152	4.084	0.105	0.000
Big4	0.688	0.215	-0.811	0.688	0.215	-0.811	0.000
BTM	0.581	0.300	1.837	0.581	0.300	1.837	0.000
InstOwn	0.664	0.109	-0.544	0.663	0.109	-0.544	0.001
Leverage	0.208	0.048	1.204	0.208	0.048	1.204	0.000
Loss	0.319	0.217	0.778	0.319	0.217	0.777	0.000
ROA	-0.042	0.063	-3.064	-0.042	0.063	-3.064	0.000
SECDist	3.826	2.047	-0.392	3.826	2.048	-0.392	0.000
Segments	0.843	0.321	0.163	0.843	0.321	0.163	0.000

Table 11: Entropy Balancing Specifications (cont.)

Panel B: Entropy Balancing Approach 1

	Pred.	(1)	(2)
Dependent Variable:		*InvestigationOpened*	*InvestigationDuration*
FinExperience	+/-	***0.012******	***-0.653******
		(3.103)	***(-3.557)***
EliteJD		-0.010**	0.203
		(-2.213)	(0.881)
PriorProsecutor		0.012**	-0.638***
		(2.262)	(-4.000)
PriorSEC		0.002	-0.397*
		(0.404)	(-1.974)
Analysts		0.002	0.061
		(0.683)	(0.880)
Assets		0.016***	0.085
		(7.045)	(1.687)
Big4		-0.013***	-0.106
		(-3.657)	(-0.496)
BTM		-0.004	0.194
		(-1.543)	(1.626)
InstOwn		0.011	0.209
		(1.600)	(1.037)
Leverage		-0.023***	0.134
		(-2.953)	(0.467)
Loss		0.024***	0.026
		(6.428)	(0.156)
ROA		-0.010	-0.088
		(-1.206)	(-0.265)
SECDist		-0.002**	-0.044
		(-2.590)	(-0.853)
Segments		0.003	-0.176**
		(1.230)	(-2.509)
Observations		37,920	1,029
Adjusted R-squared		3.10%	14.16%
Industry FE		Yes	Yes
Year FE		Yes	Yes
Constant		Yes	Yes

Table 11: Entropy Balancing Specifications (cont.)

Panel C: Covariate Balance for Entropy Balancing Approach 2

	FinExperience=1			*FinExperience*=0			
Variable	**Mean**	**Variance**	**Skewness**	**Mean**	**Variance**	**Skewness**	**Diff.**
EliteJD	0.556	0.247	-0.226	0.556	0.247	-0.226	0.000
PriorSEC	0.364	0.231	0.567	0.364	0.231	0.567	0.000
Analysts	1.138	1.106	0.336	1.138	1.106	0.336	0.000
Assets	6.152	4.084	0.104	6.151	4.084	0.105	0.001
Big4	0.688	0.215	-0.811	0.688	0.215	-0.811	0.000
BTM	0.581	0.300	1.837	0.581	0.300	1.837	0.000
InstOwn	0.664	0.109	-0.544	0.663	0.109	-0.544	0.001
Leverage	0.208	0.048	1.204	0.208	0.048	1.204	0.000
Loss	0.319	0.217	0.778	0.319	0.217	0.777	0.000
ROA	-0.042	0.063	-3.064	-0.042	0.063	-3.064	0.000
SECDist	3.826	2.047	-0.392	3.826	2.047	-0.392	0.000
Segments	0.843	0.321	0.163	0.843	0.321	0.163	0.000

Table 11: Entropy Balancing Specifications (cont.)

Panel D: Entropy Balancing Approach 2

	Pred.	(1)	(2)
Dependent Variable:		*InvestigationOpened*	*InvestigationDuration*
FinExperience	+/-	***0.013******	***-0.800******
		(3.724)	***(-3.829)***
EliteJD		-0.012***	0.130
		(-2.975)	(0.660)
PriorProsecutor		0.016***	-0.514*
		(3.297)	(-1.925)
PriorSEC		0.009*	-0.325
		(1.881)	(-1.025)
Analysts		0.002	0.085
		(0.752)	(1.075)
Assets		0.013***	0.033
		(4.205)	(0.667)
Big4		-0.008	-0.157
		(-1.689)	(-0.551)
BTM		-0.001	0.272*
		(-0.220)	(1.904)
InstOwn		0.021**	0.428
		(2.513)	(1.194)
Leverage		-0.013	0.132
		(-1.356)	(0.499)
Loss		0.026***	0.148
		(5.254)	(0.590)
ROA		-0.007	0.084
		(-0.854)	(0.259)
SECDist		-0.002**	-0.081
		(-2.190)	(-1.106)
Segments		0.005	-0.038
		(1.644)	(-0.245)
Observations		37,920	1,029
Adjusted R-squared		2.73%	15.37%
Industry FE		Yes	Yes
Year FE		Yes	Yes
Constant		Yes	Yes

Table 12: Restatement Triggering Event

Table 12 presents the results of an OLS estimation of Equations (1) on a subset of companies with financial restatement announcements. Dependent variables are listed above their respective columns. Control variables and year and industry fixed effects are excluded for brevity. Cluster (director) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

	Pred.	(1)
Specification:		*Restatement Sub-Sample*
		DV = InvestigationOpened
FinExperience	+	***0.071***
		(2.180)
EliteJD		-0.042**
		(-2.323)
PriorProsecutor		0.011
		(0.397)
PriorSEC		-0.017
		(-0.693)
Analysts		0.004
		(0.415)
Assets		0.024***
		(7.224)
Big4		-0.016
		(-1.289)
BTM		-0.000
		(-0.018)
InstOwn		0.051*
		(2.026)
Leverage		-0.058**
		(-2.335)
Loss		0.051***
		(3.407)
ROA		-0.001
		(-0.018)
SECDist		-0.003
		(-0.743)
Segments		-0.006
		(-0.861)
Observations		2,744
Pseudo R-squared		6.14%
Industry FE		Yes
Year FE		Yes
Constant		Yes

Table 13: Inclusion of Financial Education Control Variable

Table 13 presents the results of estimations of modified forms of Equations (1) and (2). *FinEducation* is included as an additional control variable in modified forms of Equation (1) (Column (1)) and Equation (2) (Column (2)). Dependent variables are listed above their respective columns. Control variables and year and industry fixed effects are excluded for brevity. Cluster (director) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

	Pred.	(1)	(2)
Dependent Variable:		*InvestigationOpened*	*InvestigationDuration*
FinExperience	+/-	***0.009****	***-0.789*****
		(1.901)	***(-4.021)***
FinEducation		0.017***	0.297
		(2.981)	(1.156)
EliteJD		-0.003	0.064
		(-0.920)	(0.249)
PriorProsecutor		0.008**	-0.452**
		(2.134)	(-2.452)
PriorSEC		0.004	-0.325
		(1.278)	(-1.659)
Analysts		0.004**	0.008
		(2.040)	(0.189)
Assets		0.014***	0.100
		(9.166)	(1.677)
Big4		-0.010***	-0.233
		(-3.782)	(-1.091)
BTM		-0.003	0.143
		(-1.614)	(1.055)
InstOwn		0.010**	0.098
		(2.394)	(0.636)
Leverage		-0.010	-0.033
		(-1.567)	(-0.089)
Loss		0.023***	0.150
		(7.803)	(0.707)
ROA		-0.015**	0.238
		(-2.426)	(0.642)
SECDist		-0.001*	-0.021
		(-1.843)	(-0.578)
Segments		0.000	-0.040
		(0.091)	(-0.626)
Observations		37,920	1,029
Adjusted R-squared		2.48%	9.22%
Industry FE		Yes	Yes
Year FE		Yes	Yes
Constant		Yes	Yes

Table 14: Logistic and Probit Regression

Table 14 presents the results of estimating Equation (1) using logistic regression (Column (1)) and probit regression (Column (2)). Dependent variables are listed above their respective columns. Control variables and fixed effects are excluded for brevity. Cluster (director) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

	Pred.	(1)	(2)
Specification:		*Logistic Regression*	*Probit Regression*
		DV = InvestigationOpened	
FinExperience	+	***0.240******	***0.111******
		(2.680)	***(2.587)***
EliteJD		-0.094	-0.042
		(-1.011)	(-1.017)
PriorProsecutor		0.139	0.065
		(1.316)	(1.366)
PriorSEC		0.064	0.019
		(0.718)	(0.464)
Analysts		0.113***	0.051***
		(3.600)	(3.381)
Assets		0.321***	0.148***
		(11.134)	(11.609)
Big4		-0.196***	-0.097***
		(-3.096)	(-3.407)
BTM		-0.104*	-0.044*
		(-1.847)	(-1.805)
InstOwn		0.471***	0.193***
		(4.866)	(4.325)
Leverage		-0.152	-0.067
		(-0.918)	(-0.901)
Loss		0.600***	0.280***
		(8.031)	(8.341)
ROA		-0.506***	-0.219***
		(-3.631)	(-3.591)
SECDist		-0.032	-0.015
		(-1.460)	(-1.600)
Segments		0.012	0.002
		(0.193)	(0.071)
Observations		37,844	37,844
Pseudo R-squared		7.72%	7.66%
Industry FE		Yes	Yes
Year FE		Yes	Yes
Constant		Yes	Yes

Table 15: Company-Level Clustering

Table 15 presents the results of OLS estimations of Equations (1) and (2) with standard errors clustered by company. Column (1) shows this result for Equation (1), and Column (2) shows this result for Equation (2). Dependent variables are listed above their respective columns. Control variables and year and industry fixed effects are excluded for brevity. Cluster (company) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

	Pred.	(1)	(2)
Dependent Variable:		*InvestigationOpened*	*InvestigationDuration*
FinExperience	+/-	***0.012******	***-0.750******
		(3.061)	***(-4.990)***
EliteJD		-0.004*	0.046
		(-1.858)	(0.362)
PriorProsecutor		0.006**	-0.504***
		(2.069)	(-3.401)
PriorSEC		0.002	-0.361**
		(0.640)	(-2.122)
Analysts		0.004**	0.007
		(2.136)	(0.118)
Assets		0.014***	0.098**
		(10.757)	(2.404)
Big4		-0.010***	-0.230
		(-3.621)	(-1.354)
BTM		-0.003	0.142
		(-1.551)	(1.374)
InstOwn		0.010***	0.101
		(2.801)	(0.503)
Leverage		-0.010	-0.031
		(-1.456)	(-0.115)
Loss		0.023***	0.154
		(7.056)	(1.085)
ROA		-0.015**	0.246
		(-2.112)	(0.971)
SECDist		-0.001*	-0.020
		(-1.714)	(-0.581)
Segments		0.000	-0.034
		(0.069)	(-0.311)
Observations		37,920	1,029
Adjusted R-squared		2.46%	9.25%
Industry FE		Yes	Yes
Year FE		Yes	Yes
Constant		Yes	Yes

Table 16: Two-Way Clustering

Table 16 presents the results of OLS estimations of Equations (1) and (2) with standard errors clustered by director and year. Column (1) shows this result for Equation (1), and Column (2) shows this result for Equation (2). Dependent variables are listed above their respective columns. Control variables and year and industry fixed effects are excluded for brevity. Cluster (director and year) robust *t*-statistics are presented in parentheses below the corresponding coefficients. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively, based on two-tailed (one-tailed) tests for variables without (with) a prediction. All variables are formally defined in Appendix C.

	Pred.	(1)	(2)
Dependent Variable:		*InvestigationOpened*	*InvestigationDuration*
FinExperience	+/-	***0.012****	***-0.750*****
		(2.320)	***(-3.021)***
EliteJD		-0.004	0.046
		(-1.109)	(0.148)
PriorProsecutor		0.006	-0.504*
		(1.079)	(-2.101)
PriorSEC		0.002	-0.361
		(0.460)	(-1.765)
Analysts		0.004	0.007
		(1.550)	(0.130)
Assets		0.014***	0.098*
		(9.434)	(1.929)
Big4		-0.010*	-0.230
		(-2.207)	(-1.253)
BTM		-0.003	0.142
		(-1.074)	(0.870)
InstOwn		0.010	0.101
		(1.501)	(0.605)
Leverage		-0.010	-0.031
		(-0.975)	(-0.094)
Loss		0.023***	0.154
		(6.773)	(0.658)
ROA		-0.015*	0.246
		(-2.158)	(0.483)
SECDist		-0.001	-0.020
		(-1.582)	(-0.703)
Segments		0.000	-0.034
		(0.056)	(-0.349)
Observations		37,920	1,029
Adjusted R-squared		2.46%	9.25%
Industry FE		Yes	Yes
Year FE		Yes	Yes
Constant		Yes	Yes