

Regulatory Oversight and Reporting Quality: Evidence from SEC Office Assignment Change

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Abstract

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This study examines the effects of SEC office change on regulatory oversight and firms' reporting quality. Firms are assigned to the SEC's filing review offices. However, the SEC regularly change office assignment for firms in some industries. I find that SEC oversight on newly assigned firms will be more intense. Firms are more likely to receive comment letters and there are more accountants on the filing review team. Then I provide evidence that firms improve their reporting quality after office change. Firms' financial reports are less likely to be restated and more readable. The effects start in the first year of office change and are stronger for firms with long office tenure. The SEC is more likely to be involved in newly assigned firms' restatements and asks fewer questions about severe issues in the comment letter. Overall, the results suggest that office change brings a "fresh look" benefit and leads to an increase in the intensity of SEC oversight. Firms improve their reporting quality by anticipating the increase.

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Chapter 1: Introduction

Since its inception, the Securities and Exchange Commission (SEC) has reviewed corporate disclosure filings to ensure their compliance with mandatory reporting and disclosure regulations. The filing review is done by filing review offices at the Division of Corporation Finance (DCF) at the SEC. Firms are assigned to the SEC's filing review offices, which are organized by industry. The SEC regularly change the office assignment for firms in some industries. In this paper, I study how office assignment change affects regulatory oversight and firms' reporting quality.

The SEC change office assignment every three or four years. For example, in September 2022, the DCF added two new offices to existing seven offices. In September 2019, the DCF reassigned all companies previously assigned to eleven AD offices to nine industry offices. While not as significant as the extensive reform in 2019 and 2022, there were also office changes in 2004, 2007, 2011, and 2015. About 25 percent of industries have experienced reassignment to a new office between 2000 and 2018.

Although the SEC changes office assignment on a regular basis, the effect of office assignment change on regulatory oversight and firms' reporting quality is unclear and has not been studied in prior literature. On the one hand, familiarity with firms may lead staffers in the old office to focus on issues that are similar to prior regulatory actions and overlook other areas of concern. The new office that comes in after office change can take a "fresh look" (Kubic and Toynebee 2021) and may allocate more attention and resources to newly assigned firms. Besides, the stated goals of office change by the SEC are to have a better fit between industries and offices and to balance the workload between different offices. Hence, office change may lead to an increase in the intensity of SEC oversight and firms will change their reporting behavior by anticipating and observing the increase. On the other hand, old offices are familiar with firms. This may allow them to integrate existing and new information more efficiently and effectively when evaluating

compliance with regulations. Prior studies suggest that there is friction to share information and knowledge across offices (Goodwin and Wu 2014; Stice-Lawrence 2021). It might be difficult for new offices to acquire information and knowledge from old offices. So, the potential lack of firm-specific knowledge about newly assigned firms may impair filing review quality and lower oversight intensity.

Firms are assigned to a filing review office on the basis of their four-digit Standard Industrial Classification (SIC) code¹. The SEC's SIC code list provides a match between the SIC code and the respective office. Office assignment might change if the SEC modifies the SIC code list that is used to assign a firm to an office. According to SEC announcements and SEC officials, the change of SIC code list is unrelated to individual firms' reporting behavior². So, I define this type of change as mandatory change. The SIC code indicates the company's type of business and is self-selected by the firm. Firms can choose to change their reported SIC codes and this might also lead to office change, which I defined as voluntary change. In my empirical analysis, I focus on firms that only experienced mandatory office change, which is exogenous to firms' reporting behavior. However, only the current office assignment and current SIC codes are available from the SEC website and EDGAR. To get historical office assignments, I collect historical SIC code lists from historical SEC web pages using the Wayback Machine and historical SIC codes from firms' 10-K filings. In my full sample, 25.2 percent of firms have experienced a change of office assignment at least once between 2000 and 2018. In my final sample for analysis, 10.3 percent of firms experienced mandatory change between 2000 and 2018.

First, I investigate how office change affects the intensity of SEC oversight. The intensity of SEC oversight is not directly observable. I use comment letters and the number of accountants on a comment letter filing review team to proxy SEC oversight. A comment letter is a joint product of SEC oversight and a firm's reporting quality. Receiving a comment letter implies that the firm's filing is reviewed by the SEC. Kubic (2021) shows that a higher number of accountants (but not lawyers) on the comment letter review team will lead to better filing review quality. I find that,

¹The most recent code list can be found at <https://www.sec.gov/info/edgar/siccodes.htm>

²I confirm this argument with two anonymous SEC officials and accounting scholars who have worked at the SEC.

compared with firms that have not experienced office change, firms are more likely to receive comment letters after office change and there will be more accountants on the comment letter review team.

Next, I exploit how office change affects firms' reporting behavior. Managers will adjust their reporting and disclosure behavior in response to changes in the intensity of SEC oversight if they can either anticipate or observe it. To proxy for reporting quality, I use the incidence of accounting restatements, including unfiltered and severe restatement. In addition to the restatement, I also use Fog Index and Flesch Reading Ease Index to measure readability as a proxy of reporting and disclosure quality. In 1998, the SEC adopted a rule requiring the use of plain English and published a guide handbook on how to create clear SEC disclosure documents. I find that, following office change, firms' financial reports are less likely to be restated and more readable, indicating that firms improve reporting quality.

Combining the results on SEC oversight and reporting quality, I conclude that there is an increase in the intensity of SEC oversight after office change and firms improve their reporting quality. Results from dynamic effect analysis further support this conclusion. The effect of office change on SEC oversight mainly clusters in the first year of office change. Firms adjust their reporting behavior starting from the first year of office change because they know in advance which office will review their filings and whether they will be assigned to a new office.

I conduct additional analyses on the cross-sectional difference. I find that the effect of office change on firms' reporting quality is stronger for firms with long office tenure, which is consistent with the argument of "fresh-look" benefits. I also find that the effect of office change on the readability of 10-K filings is stronger for firms whose previous office is busier. Splitting restatements based on SEC involvement in the restatement process, I find that the probability of SEC triggered restatements increases while the probability of SEC non-involved restatements decreases. The results highlight that, similar to the comment letter, SEC triggered restatement is also a joint product of regulatory oversight and reporting quality. Also, it eliminates the concern that the decreasing probability of restatement is because the new offices are not good at detecting misstatements.

When digging into the issues and topics raised in the comment letter, I find that the number of core-earnings topics decreases. Core-earnings topics tend to be severe issues, implying that firms improve reporting quality. As a robustness check, I use alternative measures of reporting quality and get similar results. Lastly, I investigate how office change due to the change of reported SIC code affects SEC oversight and firms' reporting behavior. Unlike the mandatory change results, firms have lower reporting quality around the year of voluntary office change.

One caveat of my study is that I cannot provide evidence about the impact of office change on filing review quality. Prior literature uses comment letter characteristics (e.g. length, the number of topics, firm response, error detection rate) to measure comment letter quality (Cassell et al. 2013; Ege et al. 2020; Gunny and Hermis 2020; Kubic 2021; Kubic and Toynbee 2021). However, these measures are correlated with both filing review quality and firms' reporting and disclosure behavior. Office change affects both filing review quality and reporting behavior. So the effect of office change on these measures is unclear. For example, when studying the impact of office change on comment letter topics, I find a positive but insignificant effect on the number of accounting rule and disclosure topics. It is difficult to tell if there is a change in filing review quality.

My study makes several contributions. First, it adds to studies that examine factors that influence regulatory oversight and the enforcement of financial reporting regulations. I find that office change could affect SEC oversight. Previous research finds that geographic proximity (Kedia and Rajgopal 2011), political connectedness (Correia 2014; Heese et al. 2017), future career concerns (DeHaan et al. 2015), and staff continuity (Kubic and Toynbee 2021) can impact regulators' decision-making. In particular, similar to my study, Kubic and Toynbee (2021) also focus on the SEC filing review process and study the continuity of comment letter review team staff. However, firms do not know *ex ante* who will review their filings. In my setting, firms know in advance which office will review their filings and if they will be assigned to a new office. So, I can study how firms anticipate the change of SEC oversight and as a result change their reporting behavior.

Second, my evidence complements studies examining auditor rotation. There are numerous

studies on auditor rotation and its effect on audit quality (Bowlin et al. 2015; Carey and Simnett 2006; Chen et al. 2008; Cheynel and Zhou 2023; Chi et al. 2009; Christensen et al. 2021; Dopuch et al. 2001; Gipper et al. 2021; Laurion et al. 2017; Lennox et al. 2014; Myers et al. 2003). The auditing and SEC filing review settings have different features that limit the ability to draw direct comparisons. Nevertheless, my finding that office change affects SEC oversight could provide some new insights into audit rotation literature. For instance, most auditor rotation studies focus on audit partner rotation, an analogy to filing review staff rotation. While in my setting, the change of filing review office is similar to audit firm rotation. I show that the filing review office allocates more attention and resources to firms newly assigned to them. This might also have similar implications in the audit firm rotation, where the audit firm can decide on resource allocation, which impacts audit quality.

Third, it contributes to the literature that examines the relationship between regulatory oversight and firms' reporting behavior. I provide causal evidence that SEC oversight affects firms' reporting behavior. While some studies in the European setting examine the effect of enforcement and oversight on firms' behavior and capital market outcomes (Christensen et al. 2013; Christensen et al. 2020), the evidence in the SEC setting is limited. A few studies use input-based measures to identify variation in the intensity of SEC regulatory oversight and its effect on firms' reporting behavior (Blackburne 2014; Kedia and Rajgopal 2011; Stice-Lawrence 2021). Blackburne (2014) is closest to my setting. He uses proprietary budget and resource allocation data between SEC's filing review offices to proxy the intensity of SEC oversight at the office level and studies the effect of SEC oversight on firms' reporting behavior. However, as shown in Blackburne (2014), the budget and resource allocation between SEC filing review offices is correlated with the reporting quality of firms in the previous year. In my setting, by exploiting variation in the intensity of regulatory oversight due to mandatory office change, which is likely exogenous to firms reporting behavior, I provide evidence that the intensity of SEC oversight plays a role in improving reporting quality. Regulatory oversight is an important mechanism that has a deterrence effect and influences firms' reporting decisions.

Finally, my study contributes to a large literature on comment letters or regulatory outputs in general. Comment letters, AAERs, and other regulatory outputs are a joint function of regulatory oversight and firms' reporting quality. My results show that a higher probability of receiving comment letters does not always imply lower reporting quality, which should be of interest to stakeholders who use SEC comment letters to access disclosure quality and reporting compliance.

The rest of the paper proceeds as follows. Chapter 2 describes the institutional background on the SEC's filing review process and filing review office assignment. Chapter 3 outlines my hypothesis development. Chapter 4 provides a description of the data, measurement and research design. I present the main results of my analyses in Chapter 5 and additional analyses in Chapter 6. Finally, Chapter 7 concludes.

Chapter 2: Institutional Background

2.1 The SEC's filing review process

The SEC is composed of several divisions, including the Division of Enforcement (DOE) and the Division of Corporation Finance (DCF). The former handles investigations of possible violations of federal securities laws, including violations of requirements for U.S. listed companies to provide financial reports in accordance with U.S. GAAP. The latter provides interpretive assistance to listed companies with regards to SEC rules, which includes reviewing firms' financial reporting in real time to monitor and enhance compliance.

Section 408 of the Sarbanes-Oxley Act of 2002 (SOX) requires the DCF to review U.S. listed-firm filings at least once every three years. According to SEC annual reports, on average, the SEC has reviewed 45 percent of companies in any given fiscal year between 2006 and 2016, which is in excess of the once-every-three-years requirement under SOX Section 408 (which would average to reviewing approximately 33 percent of companies in any given year). The percentage has increased steadily from 33 percent in 2006 to 56 percent in 2016 (Cunningham and Leidner 2022). This review is done by filing review offices at the DCF, where the offices are organized by industry. Similar to the Internal Revenue Service's audit formula, the DCF does not discuss the specifics of when and why certain firms are reviewed.

If questions arise during a financial-reporting review, the DCF issues a comment letter to the reporting firm. The comment letter is an expression of concern by the SEC and an opportunity for the firm to respond to the SEC's questions about the firm's reporting practices. The outcome of the comment letter process varies considerably. The process can result in no action by the firm. The comment letter can also end with the firm filing an amendment or making a restatement. In a few cases, the comment letter process may conclude with the DCF recommending the case to the DOE

for enforcement action.

On June 24, 2004, the SEC announced it would make comment and firms' response letters related to filings filed after August 1, 2004 publicly available. As a result, comment letters issued by the DCF are publicly available since 2004 while firms whose filings are reviewed by the DCF are not observable³.

2.2 Filing review office assignment and industry classification

Filing review offices are organized by industry. Different from the Division of Enforcement' regional offices, all DCF's industry offices are located at SEC headquarters. The Division of Corporation Finance uses the Standard Industrial Classification (SIC) Codes that appear in a company's disseminated EDGAR filings as a basis for assigning review responsibility for the company's filings. Before the office alignment program in 2019⁴, there were twelve AD offices, each led by an assistant director. Firms are assigned to one of twelve AD offices based on their SIC codes.

However, the assigned office for each SIC code may change over time. The change of the SIC code assignment list will lead to a change of office assignment for firms even if firms have not changed their industry classification. Since 2000, the SIC code list has been modified several times on a regular basis. According to the SEC, the goals of office reassignment are to have a better fit between offices and industries and to balance the workload between different offices⁵. In Figure 1, I plot the workload per staffers or accountants in each office around the year of office change in my sample period, where the workload is defined as the number of firms assigned to each office. Consistent with the SEC's stated goal, the SEC assigned firms from offices that are relatively busy

³On July 1, 2015, the staff of the Division of Corporation Finance begin releasing through the EDGAR system correspondence with issuers relating to Securities Act registration statements that are not selected for review.

⁴On September 27, 2019, the DCF realigned the work of its disclosure program. Starting from September 29, 2019, the DCF has reassigned all companies previously assigned to AD office to nine industry offices, including Office of Energy & Transportation, Office of Finance, Office of International Corp Fin, Office of Life Sciences, Office of Manufacturing, Office of Real Estate & Construction, Office of Structured Finance, Office of Technology, Office of Trade & Services.

⁵For example, in Sep 2022, the DCF added Office of Industrial Applications and Services, which is responsible for the non-pharma, non-biotech, and non-medicinal products companies currently assigned to the Office of Life Sciences. The stated reason is that, in recent years, the life sciences industry has experienced significant growth, which has added to the number of filings and companies assigned to that office. Transitioning a subset of these companies to a separate group will allow the staff to better build specialized expertise in this space.

into offices that were relatively not busy⁶. A history of the number of SIC codes assigned to each office can be found in Table 1.

The SIC codes indicate the company's type of business. However, the SIC code is self-selected when a firm registers IPO and sets up its EDGAR accounts⁷. Firms report their SIC codes on EDGAR and all filings. Over time, a company may decide to change its SIC code at almost no cost⁸. As a result, besides the change of the SIC code list, which is a decision by the SEC, the change of the SIC code reported by firms may also lead to a change of office assignment.

⁶I don't find similar pattern for misstatement measure, which further support the argument that office change is unrelated to firms' reporting behavior.

⁷In another project, I investigate the incentive behind the selection and change of SIC code reported by firms.

⁸To update a company EDGAR profile with a new SIC code, the company will send a request to the SEC through email. After the request has been processed, the EDGAR profile will be updated with the new SIC after a filing has been submitted to EDGAR.

Chapter 3: Hypothesis Development

3.1 Office change and the intensity of SEC oversight

Prior literature shows that the intensity of SEC oversight is constrained by the limited budget and resources. The SEC wants to conduct high-quality filing reviews, but doing so within a fixed budget is difficult because they cannot simply hire more people or allocate more hours to the review (Blackburne 2014). Gunny and Hermis (2020) find that the SEC filing review quality is affected by seasonality because over 70 percent of registrants have a December fiscal year-end. Ege et al. (2020) show that comment letters for periodic reports are of lower quality during periods of abnormally high transactional filings. Resources constraints limit the SEC's ability to review every firm's filings and ensure high quality for every review they conduct. Hence, the intensity of SEC oversight over firms during the filing review process will differ.

The filing review offices play an essential role in determining the intensity of oversight and allocating the limited resources between reviews. The change of office assignment leads to discontinuity and change of filing review offices and staff. First, it changes filing review offices that decide which filings to review and the resources to spend on the review. Second, the staff members in the review team who conduct the review will also be different.

The effect of continuity and rotation are important in financial reporting, auditing and regulatory settings. Huang and Hilary (2018) show that board tenure exhibits an inverted U-shaped relation with firm value and accounting performance. There are numerous studies on auditor and partner rotation, but the evidence is mixed. For example, using Chinese data, Lennox et al. (2014) suggest that mandatory rotation of engagement partners results in higher quality audits. However, recent work by Gipper et al. (2021) use PCAOB data and find no evidence for audit quality declines over the tenure cycle and little support for fresh-look benefits after mandatory partner rotations. In

SEC regulatory setting, Kubic and Toynbee (2021) find that reviewers' continuity leads to lower comment letter quality. Among these studies, the main argument for rotation is fresh-look benefits.

In the context of filing review office change, "fresh look" also plays an important role. Staying with the same office makes firms interact with the same group of people over the years during the filing review and comment letter process. This could lead to potential regulator capture (Heese et al. 2017). It could also lead staff to form strong expectations about which areas of the financial reports are more likely to contain material deficiencies, which in turn, could lead staff to search for confirmatory evidence and may interfere with staffs' ability to recognize new issues. The new office that comes in after office change does not have these ties and, hence, can take a "fresh look". This might change the way how office interacts with firms. The filing review offices may pay more attention to the new firms just assigned to them because they did not have any interaction before. Also, according to SEC, the goals of office reassignment are to have a better fit between offices and industries and to have more balanced workload between offices. Better industry knowledge and more balanced workload will lead to better oversight. In summary, office change could lead to a higher level of oversight intensity.

On the other hand, having firms work with the same office increases staff familiarity with a firm's operations, financial reports, and prior comment letter reviews. This may allow staff to better integrate historical and new information when evaluating compliance with regulations. This firm-specific knowledge allows them to analyze information more easily and effectively. Hence, having firms work with the same office can bring efficient oversight and high-quality filing review.

New offices are not familiar with firms newly assigned to them. They may have lower oversight efficiency and poor filing review quality because of the lack of firm-specific knowledge. Information and knowledge sharing across office boundaries could potentially mitigate these issues. This is especially the case for filing review offices because all industry offices are all located at SEC headquarters in the same building, often on the same floor. However, Goodwin and Wu (2014) show that it is difficult to transfer knowledge across individuals even when they are at the same location. Stice-Lawrence (2021) shows that SEC employees are less likely to follow up on leads

for firms that are assigned to different industry offices. Her evidence suggests that SEC employees often do not share information across offices, potentially as a result of communication costs. As a result, this friction may prevent new offices acquiring firm-specific knowledge from old offices and lead to poor filing review quality.

Overall, the effect of office change on SEC oversight is unclear. Thus, I state the first hypothesis below (in the null form):

H1: The change of office assignment does not affect the intensity of SEC oversight on affected firms.

3.2 The intensity of SEC oversight and reporting quality

Monitoring and enforcement of financial reporting regulations play an important role in capital markets (Christensen et al. 2013; Leuz and Wysocki 2016). Keeping the regulations and laws unchanged, the change of enforcement and regulatory oversight will impact firms' behavior and capital market outcomes (Christensen et al. 2020).

The conventional wisdom is that more intense oversight or greater enforcement improves financial reporting quality. The seminal work of Becker (1968) describes, in a normative fashion, the deterrence effects of a regulator's commitment to punish wrongdoing. Theory suggests that managers will adjust their reporting and disclosure behavior in response to changes in the intensity of SEC oversight if they can either anticipate or observe it because the potential cost of misreporting is changed (Fischer and Verrecchia 2000). Consistent with this, Blackburne (2014) provides evidence that when SEC oversight is more intense, managers report lower discretionary accruals, managers are less likely to issue financial reports that will be subsequently restated, and firms' bid-ask spreads decrease. Similarly, Kedia and Rajgopal (2011) find that firms located closer to the SEC and in areas with greater past SEC enforcement activity, both proxies for firms' information about SEC enforcement, are less likely to restate their financial statements. Two recent studies analyze the firms' reporting and disclosure behavior after receiving a comment letter. Johnston and Petacchi (2017) show that following comment letter resolution, the adverse selection component of

the bid–ask spread declines and Earnings Response Coefficients (ERCs) increase. Cunningham et al. (2020) find that increased regulatory scrutiny, in the form of an SEC comment letter, will induce management to switch from accrual-based earnings management to real earnings management.

Unlike studies that use comment letter to proxy SEC oversight and investigate its effect on future reporting behavior, I focus on how the change of office assignment affect both *current* and *future* reporting quality. Firms know in advance which office will review their firm’s filing and if they will be assigned to a new office. This is different from Kubic and Toyne (2021), where the firms do not know *ex ante* the name of staffs that will review their filings. If the change of SEC oversight is anticipated by firms in the year of office change, firms will change their reporting behavior accordingly based on their expectations even before their filings are reviewed by the new office.

However, recent theory works show that strengthening enforcement and increasing oversight could have unintended consequences and may even lead to lower reporting quality. Schantl and Wagenhofer (2020) show that, due to strategic interaction between public and private enforcement, strengthening public enforcement could crowd out private enforcement and can exacerbate misreporting. Ewert and Wagenhofer (2019) show that with a strategic auditor, enforcement and auditing could be a substitute. So, the effects of strengthening enforcement are ambiguous. Samuels et al. (2021) argue that on the one hand, high levels of public scrutiny facilitate monitoring, suggesting a negative relation between scrutiny and misreporting. However, public scrutiny also increases the weight that investors place on earnings in valuing the firm. This in turn increases the benefit of misreporting, suggesting a positive relation. So the combination of “monitoring” and “valuation” forces leads to a unimodal relation.

The effect of office change on firms’ reporting quality is unclear. So, I formally state the second hypothesis below (in the null form):

H2: The change of office assignment does not affect firms’ reporting quality.

Chapter 4: Data, Measurement and Research Design

4.1 Division of Corporation Finance office assignment

The Division of Corporation Finance discloses office assignment for each four-digit SIC code in the SIC code list. This information is also available for each firm from the header information on EDGAR. Figure 2 provides an example for Apple Inc.. Its current SIC code is 3571 and has its filings reviewed by the Office of Technology.

However, we can only get the most recent SIC code list from the SEC website. To obtain the historical version of the SIC code list, I use the Wayback Machine⁹ to get the historical records of the SIC code list. The Wayback Machine crawls the web and downloads web pages, enabling users to see archived versions of web pages across time. From the Wayback Machine, the earliest web page of SIC code I can get was captured on March 3, 2001. The SIC code list on that web page was modified on June 8, 2000. Unlike other studies that use the Wayback Machine (Boulland et al. 2021), I'm relying on the modified date of the SIC code list on the web page rather than the captured date of the web page, which is always late compared to the modified date. Figure 3 shows part of two SIC code lists modified in 2008 and 2011. Comparing two SIC code lists, we can find some SIC codes have different office assignments. For example, a company whose industry was Metal Mining (SIC 1000) would have its filing reviewed by staff in A/D Office 4 (Natural Resources) in 2008 but would be assigned to A/D office 9 (Beverages, Apparel and Mining) based on 2011 version of SIC code list.

Table 1 provides the number of SIC codes assigned to each office. Since 2001, there have been thousands of captures by Wayback Machine. However, there are only 8 unique versions of the SIC code list before the SEC office realignment in September 2019. The changes of office assignment

⁹<http://web.archive.org>

mainly clustered in 2004, 2007, 2011, and 2015. There are 444 unique SIC codes used by the SEC registrants. The majority of them are assigned to one of twelve industry offices. A few of them are assigned to more than one office or have special office assignment (e.g. office code = 99 or Office of structural finance). In my final sample, I drop the firms with SIC codes that are not assigned to one of twelve offices¹⁰. Out of 444 unique SIC codes, 118 SIC codes have experienced reassignment to a new office.

4.2 Firm's SIC code and office assignment

I collect firms' SIC codes from firms' 10-K (and all variants but not amendment) filings. Firms report their SIC code in the header section of all filings filed on EDGAR. Figure 4 shows the header information in Apple's 2019 10-K filing.

For each 10-K filing, I assign the office based on the firm' reported SIC code and the SIC code list as of the filing date of the firm's 10-K (Blackburne 2014). I exclude financial firms (AD office 7 and 12) because in 2011, the DCF split the AD office 7, which is responsible for reviewing the filings of firms in the financial services industry, into two offices (AD office 7 and 12). This change is mainly driven by the financial crisis, which is different in nature from other office changes. Firms' office assignment might change due to the modification of the SIC code list or the change of firms' reported SIC code. Table 2 shows the number of firms that experienced office assignment change. There are 7,222 unique firms in selected full sample (see Table 3 for sample selection). 5,399 (74.8%) of them have not experienced a change of office assignment. 1,823 (25.2%) of firms experienced a change of office assignment at least once between 2000 and 2018¹¹. For 1,823 firms that experienced a change of office assignment, 1,502 (82.4%) of them only changed once.

I provide empirical evidence in Table 2 that a non-trivial number of firms have experienced office change. Studies related to SEC filing review and comment letters often use SEC office or

¹⁰SIC=6029 (office=7&12). SIC=6189 (office=OSF). SIC=7389 (office=2&3). SIC=6770, 9995 (office=All). SIC=8880, 8888, 9721 (office=99).

¹¹The earliest SIC code list I can observe from the Wayback Machine was modified in 2000. The office realignment program in 2019 reassigned all companies previously assigned to AD office to nine industry offices

SEC office-year fixed effect to control for idiosyncratic office factors¹². However, many of these studies simply use SIC code from Compustat or other databases, which are not always the same as SIC code reported by firms on EDGAR and filings. Also, many studies do not recognize the change of SIC code list and simply use the most recent SIC code list at the time of the study. My results highlight the importance of using the historical SIC code list and historical SIC code reported by firms on EDGAR and 10-K filings. This is even more important for future research, because in September 2019, the SEC announced an office realignment program and reduced the number of industry offices from eleven to seven. And in September 2022, the DCF added two new offices to existing seven offices.

There are two types of office changes. The change of the SIC code list can lead to a change of office assignment. This change is a decision by the SEC. According to SEC officials, this change is likely unrelated to individual firms' reporting behavior. I define this type of change as mandatory change. Firms can also choose to change their SIC codes. Sometimes, it could lead to office change. So, I define the change of office assignment due to the change of SIC code reported by firms as voluntary change. Both changes will have filing review offices working with new firms. However, the office change due to the change of reported SIC code is a voluntary choice of the firm. Hence, I will focus on mandatory change and exclude firms that have experienced voluntary change for the main part of this study. For the sample of mandatory change, 623 firms experienced mandatory change once during the sample period. 36 firms have experienced changes twice. For the empirical analysis purpose¹³, I limit the treatment group to firms that only experience mandatory change once during the sample period and define the control firms as firms that have never experienced a change of office assignment. There is a concern that firms might change their SIC code to avoid being assigned to another filing review office and in this case, firms that should be affected by mandatory office change are now included in the control group. However, in my sample, there are only 4 firms that change their SIC code to avoid office change. So they have a

¹²See a recent review about studies on the SEC filing review process in Cunningham and Leidner (2022)

¹³It is not easy to define post-period if there is more than one change. Also, the sample size of firms that experiences more than one change is small. I use a different design that includes all changes in Section 6.7.

limited effect on my empirical analysis. For the rest of the paper, I will mainly focus on 623 firms (treatment group) that experienced a change of office assignment due to the change of the DCF's SIC code list and 5,399 firms (control group) that have never changed their assigned office.

Panel A of Table 4 shows the number of changes by 10-K filing year for these 623 firms. Consistent with Table 1, the changes clustered around 2004-2005, 2007-2008, 2011 and 2015. The staggered nature of office change benefits the empirical analysis.

4.3 Measure of SEC oversight

Unfortunately, the intensity of SEC oversight and the filing review process are not directly observable. The DCF does not discuss the specifics of when and why certain firms are reviewed and does not disclose the firms under reviewed. Prior literature uses different proxies to proxy the SEC's oversight activities. Blackburne (2014) uses proprietary budget and resources allocation data between SEC's disclosure review offices to proxy the intensity of SEC oversight at the filing review office level. Kedia and Rajgopal (2011) use the distance between firms and the SEC regional office and SEC past enforcement activity to indirectly proxy for the SEC enforcement preferences. A few recent studies use comment letters to proxy SEC oversight and study the effect of comment letters on future reporting behavior (Cunningham et al. 2020; Johnston and Petacchi 2017). A comment letter is a direct outcome of the filing review process. If questions arise during a financial-reporting review, the DCF issues a comment letter to the reporting firm.

A comment letter is a joint outcome of the SEC filing review process and a firm's financial reporting quality. The SEC is required to review each registrant's 10-K filing at least once every three years. So if a firm does not receive a comment letter, it might be because (1) the firm has high reporting quality and no issue is found during the review or (2) its filings are not reviewed or not intensively reviewed by the SEC. Consistent with this feature, when investigating the factors that affect the probability of receiving a 10-K comment letter, Cassell et al. (2013) build the models over three year period to keep the probability of being reviewed constant over three years and to mitigate the concerns that the lack of comment letter is due to the lack of filing review. So

receiving a comment letter implies that corresponding filings are reviewed by the SEC and hence is a proxy of SEC oversight. The problem with using comment letters to proxy the intensity of SEC oversight is that it is also affected by the reporting quality of the firms. Theory work by Ewert and Wagenhofer (2019) highlights that the effect of strengthening enforcement on the number of enforcement actions is unclear. There are two effects: a positive direct effect of the higher intensity and a negative indirect effect from mitigating earnings management; which one prevails depends on the strength of the enforcement. If firms change their reporting behavior after the change of office assignments, then the effect of office change on comment letters might be muted.

I use Audit Analytics to obtain all comment letters that reference 10-K filings. As shown in Table 5, 30.6 percent of 10-K filings received a comment letter, which is quite close to the once-every-three-years requirement under SOX Section 408 (which would average to reviewing approximately 33 percent of companies in any given year). This further supports the idea that receiving a comment letter is a valid proxy for SEC oversight.

Besides deciding whether to review a firm's filings, the filing review offices also decide the resources allocated to each review. Kubic (2021) shows that a higher number of accountants (but not lawyers) on the comment letter review team will lead to better filing review quality, measured by error detection rates. Similarly, Hills et al. (2021) find that accountants (lawyers) are more (less) likely to detect errors and comment on financial reporting topics. So, the resources allocated to each filing review also affect the intensity of SEC oversight and filing review quality.

Similar to the review decision, we can't observe the number of accountants and lawyers assigned to each filing review. However, we can identify these numbers for firms that receive comment letters. For the early sample period, I use the data provided in Kubic (2021). For the latter sample period, following Kubic (2021), I merge the name on the first letter the SEC sends to the firm in each comment letter conversation with SEC payroll data to get the occupation of all individuals listed on the comment letter. So the second measure of SEC oversight is the number of accountants and lawyers assigned to a comment letter review.

Prior studies also use comment letter characteristics (e.g. length, the number of topics, firm

responses, error detection rate) to measure comment letter quality (Cassell et al. 2013; Ege et al. 2020; Gunny and Hermis 2020; Kubic 2021; Kubic and Toynbee 2021). However, I choose not to use these characteristics to measure SEC oversight, because these measures are correlated to firms' reporting and disclosure behavior, which is likely affected by office change.

4.4 Measure of reporting quality

I use restatement as my main proxy for reporting quality. I choose to use both unfiltered restatement and severe restatement to proxy for reporting quality. While prior research suggests that a substantial number of restatements are due to unintentional error rather than the result of intentional misrepresentation (Bertomeu et al. 2021b; Hennes et al. 2008), I choose to include all unfiltered restatements in my sample because regulatory oversight should also affect unintentional errors. For severe restatement, I follow the procedure in Bertomeu et al. (2021b) to select material and severe restatement, which consider the income effect of restatement and stock market reaction around restatement announcement. In additional analysis, I also split restatement sample based on the SEC involvement in the restatement process.

In my robust test, I also include alternative measures of reporting quality. These measures include material weakness (Cassell et al. 2013), AAERs (Dechow et al. 2011), and misstatement risk calculated using machine learning method (Bertomeu et al. 2021b).

Additional to the misreporting measure, I also consider the readability of 10-K filings. In 1998, the SEC adopted a rule requiring the use of plain English in certain sections of prospectuses. Also, in 1998, the SEC published a guide, *A Plain English Handbook: How to Create Clear SEC Disclosure Documents*, showing securities lawyers and companies ways to reduce legalese. Prior studies find that readability of annual reports matters in different aspect. The seminal work of Li (2008) finds that the readability of annual reports is related to financial performance. Lo et al. (2017) show that firms with more complex annual reports are more likely to have managed earnings to beat the prior year's earnings. Also, complex 10-K filings may raise more questions and comments from the SEC during the filing review process. Applying processing fluency theory,

Cassell et al. (2019) find that less readable company responses to SEC will more likely lead to unfavorable outcomes from the filing review. As a result, the readability of 10-K filings might be affected by office change. Firms might improve the readability of their 10-K filings to get favorable outcomes from the review. Following Li (2008) and Cassell et al. (2019), I use the Fog Index and the Flesch Reading Ease Index to proxy for readability. Two indices capture text complexity as a function of the number of syllables per word and the number of words per sentence. The Fog Index is calculated as $(\text{the number of words per sentence} + \text{percentage of words with three or more syllables}) * 0.4$. The Flesch Reading Ease Index is calculated as $206.835 - (1.015 * \text{number of words per sentence}) - (84.6 * \text{number of syllables per word})$.

4.5 Sample selection and data source

The sample period is between 2004 and 2016. The sample begins in 2004 because this was the first year that the SEC started making information on comment letters public. It takes a firm some time to file the 10-K and there is also a time lag between the filing date of 10-K and the first comment letter. So the sample ends in 2016, which allows enough time before 2019 to avoid the effect of the office realignment program in 2019. I obtain information on comment letters, restatements and auditors from Audit Analytics. I use AAERs data from Dechow et al. (2011). I get accounting data from Compustat and information about SOX 302 disclosure controls weakness and SOX 404 internal controls weakness from Audit Analytics. Readability data is from WRDS SEC Analytics Suite.

Table 3 summarize the sample selection process. The final sample consists of 45,418 firm-year observations, representing 6,022 unique firms. Panel B of Table 4 provides the sample distribution by year. It also provides information about the frequency of firm-years that receive comment letters or that are subsequently restated.

4.6 Research design

I use Difference-in-Differences model and take advantage of the staggered nature of mandatory office change as discussed in section 4.2 to study the impact of office change on SEC oversight and firms' reporting quality. The regression model to examine the relation between office change and SEC oversight or reporting quality is the following, where the subscript i represents the firm and the t represents the year:

$$Y_{it} = \beta_0 + \beta_1 \text{Treat}_i * \text{Post}_t + \sum_n \beta_n \text{Controls}_{it} + \delta_i + \gamma_{ot} + e_{it}$$

Y_{it} is the measure of SEC oversight and reporting quality. Subscript i refers to firms, subscript o refers to SEC filing review offices, and subscript t represents the year when variables are measured. Treat_i is a dummy variable that equals one for my treatment group and zero otherwise. Post_t is a dummy variable that equals one starting from the first year of office change and zero otherwise. The coefficient of interest is β_1 , which shows the effect of office change on outcome variables.

I include controls that likely affect SEC oversight and reporting quality as studied in prior literature (Cassell et al. 2013), including audited by Big4 auditor (*Big4*), audited by a second-tier auditor (*Second_Tier*), auditor tenure (*AudTenure*), firm size (*Size*), growth expectations (*BM*), leverage (*Leverage*), loss firms (*Loss*), earnings growth (*EarnGrowth*), sales growth (*SalesGrowth*), large discontinued operations (*LargeDiscOps*), external financing (*Ext financing*), large M&A activities (*LargeM&A*), M&A activities (*M&A*), restructuring (*Restructuring*), and firm age (*Age*). Detailed definitions of all variables can be found in Appendix. I choose to *not* include control variables that are measures of firms' reporting quality, because they are also affected by office change as shown in my results. Cassell et al. (2013) show that some corporate governance characteristics affect the likelihood of receiving comment letters. However, including these characteristics will limit the sample size. The main focus of this study is on how the change of office assignment affects comment letters, which should be exogenous to these corporate governance characteristics. Besides, these variables tend to be stable or time-invariant during a relatively

short time period studied in my sample. I choose not to include these variables and use the firm fixed effect δ_i to account for these stable or time-invariant firm characteristics.

In addition to firm fixed effect δ_i , I include SEC office-year¹⁴ fixed effects γ_{ot} to control for idiosyncratic office and time factors that can influence the likelihood of receiving a comment letter (Heese et al. 2017). For instance, Blackburne (2014) suggests that annual SEC office budgets affect the likelihood of receiving a comment letter for all firms reviewed by that office in a particular year. Standard errors are clustered on the filing review office level to ensure the fixed effect structure is nested within the clustering structure¹⁵.

The identifying assumption of the DID design is that treatment and control groups have parallel trends in outcomes in the absence of treatment. I show empirical evidence for this assumption in the dynamic analysis.

For all regressions, when the dependent variable is zero or one, I estimate the regression using a linear probability model because using fixed effects estimators in nonlinear models such as logit and probit specifications produces biased estimates.

4.7 Descriptive statistics

Table 5 reports descriptive statistics for outcome variables and control variables. All continuous variables are winsorized at 1 and 99 percent by year. Consistent with prior literature on comment letters (Heese et al. 2017), Panel A shows that about 30.6 percent of firm-years received comment letters. The untabulated result shows that there is a big difference between treatment and control groups. This is naturally expected. Office change happens at the SIC level. Treated firms and control firms belong to different SIC industries, which naturally leads to a difference in multiple dimensions of firm characteristics. This highlights the importance of including firm fixed effect in the model.

¹⁴I define year as the federal fiscal year of a firm's filing date. Using firms' fiscal year or calendar year of 10-K filing date gets similar results. Each federal fiscal year ends on September 30 of that year.

¹⁵The small number of groups may lead to over-rejection of the null hypothesis. I also calculate standard errors clustered by SIC or firm. The results are similar.

Chapter 5: Main Results

5.1 Office change and SEC oversight

Table 6 shows the results of estimating DID model to test hypothesis H1. Using comment letters as a proxy for SEC oversight, I find a positive and significant coefficient on $Treat * Post$ in column (1) and (2), indicating that firms are more likely to receive a comment letter after they experience a change of office assignment. The effects are economically meaningful. Compared to the unconditional probability of receiving a comment letter, the probability of receiving comment letter increases by around 0.025 for firms that experience a change of office, which is about 8 percent¹⁶ increase. The coefficients on the control variables are consistent with prior research (Cassell et al. 2013; Heese et al. 2017). However, as discussed before, a comment letter is a joint product of SEC oversight and the financial reporting quality of firms. So, if there is no change of reporting quality, an increased probability of receiving comment letters implies more intense SEC oversight. However, as I find in the next section, firms do improve their reporting quality after office change. So in column (3) of Table 6, I add *Restate* as a measure of reporting quality. The coefficient on *Restate* is significantly positive. After controlling *Restate*, the probability of which decreases in the post period for treated firms, the coefficient on comment letter is now 0.027, which is higher than the coefficient in column (2). This implies that the coefficient on $Treat * Post$ in Column (2) might be an underestimate of the effect on SEC oversight.

Another measure of SEC oversight is the number of accountants and lawyers assigned to reviews that result in a comment letter. In Table 7 column (1) and (2), for firm-years that receive comment letters, results show that the number of accountants assigned to reviews increases after office change. However, the number of lawyers decrease following the office change. For firm-

¹⁶From Panel A of Table 5, the pooled mean of comment letter is about 0.306.

years that do not receive comment letters, I can't observe these numbers. So, in column (3) and (4), I assume the number of accountants and lawyers for firm-years that do not receive comment letters as 0. Similar to column (1) and (2), I still find that the number of accountants increases while the number of lawyers decreases following office change. According to Kubic (2021), a higher number of accountants (but not lawyers) on the comment letter review team will lead to better filing review quality. So, the positively significant coefficient on the number of accountants implies that the SEC filing review office will assign more accountants to review the filing of newly assigned firms, because this likely ensures high filing review quality.

5.2 Office change and reporting quality

However, the increased probability of receiving a comment letter does not necessarily imply an increase in SEC oversight intensity. It might be because firms have lower reporting quality following the office change. Table 8 presents the results using restatement as a proxy for reporting quality. Different from a positive effect on the comment letter, I find a negative and significant coefficient on $Treat * Post$ for measures of reporting quality, indicating that firms have higher reporting quality after they experience a change of office assignment. Firm-years after the office change are less likely to be restated and the probability of material and severe restatement is also lower.

Concerning the readability of 10-K filings, the result is consistent with restatement regression. Table 9 shows that 10-K filings filed after office change is more readable. The economic magnitude of the effect is not large, which is around 10% of the standard deviation of readability measures, because the content of 10-K filings is relatively consistent across years.

Combining results from section 5.1 and section 5.2, we can reach a conclusion that firms experience an increase in the intensity of regulatory oversight after office change and will improve their reporting quality by anticipating that change. The results also highlight that receiving comment letters does not necessarily imply poor reporting quality. This is consistent with the conclusion in Johnston and Petacchi (2017). Their results provide little support for the conjecture that the market

interprets the receipt of a comment letter as a signal that the firm has poor reporting quality.

5.3 Dynamic effect of office change

Although firms are more likely to receive comment letters following the change of office assignments, it is unclear whether this is a short-term or long-term effect. I expect that the effects are more prominent in the first year when these firms are assigned to a new office and these firms should become "normal" again after several years. In Figure 5, I plot coefficient estimates by year and 95% confidence interval from a regression by replacing *Post* in the main DID model with year dummy¹⁷. From Figure 5, we can see that point estimates for *year0*, the first year of office change, is positively significant. This implies that the filing review offices pay more attention to newly assigned firms and the effects mainly cluster in the first year. Interesting, the coefficient on Year 1 is almost zero, which is consistent with the idea that the SEC is resource-constrained and only reviews filings once every two or three years. While not significant, the point estimate of *year2* and *year3* is increased again, which might indicate that these firms experience an increase in the intensity of SEC oversight again in *year2* and *year3*. This cycle seems to be consistent with Section 408 of the SOX, which requires the DCF to review U.S. listed-firm filings at least once every three years.

Prior studies show that following receiving and resolution of comment letters, firms will change their reporting behavior (Cunningham et al. 2020; Johnston and Petacchi 2017). The reporting quality after office change might improve because firms are more likely to receive comment letters in the first year. However, if firms anticipate there will be a change of SEC oversight in the first year of office change before they file their 10-K filings, they will change their reporting practice in the first year before they start interacting with new filing review offices.

Figure 6 and 7 show the coefficients estimate by year for restatement regression and readability regression. Using restatement as the dependent variable, all coefficients on years following office change are negative and significant. Most importantly, the coefficient on *year0* is negative and sig-

¹⁷I omit *year - 1* in the regression so *year - 1* is the base year.

nificant, which indicates that firms improve their reporting quality when they know that they will be assigned to a new office and anticipate an increase in the intensity of SEC oversight. Similarly, in Figure 7 that uses the negative Fog index as the dependent variable, the coefficients on years following office change are positive. The coefficient on *year0* is positive and marginally significant¹⁸. Firms also improve the readability of their 10-K filings starting from the first year of office change. These results emphasize that firms will change their reporting behavior by anticipating the change in SEC oversight.

Lastly, non-significant coefficients on the pre-period help support the parallel trend assumption assumed through all analyses.

¹⁸P-value=0.115.

Chapter 6: Additional Analyses

6.1 Cross-sectional test: office tenure

The effects of office change on reporting quality might be affected by office tenure. If the numbers of years that firms stay with their previous office is small, e.g. firms just went public, then the intensity of SEC oversight on these firms is probably still relatively high compared to firms that have stayed with a filing review office for a relatively long time. The fresh-look benefits will be larger for firms with long office tenure. So, I create a dummy variable, *LongTenure*, which equals one for firms that stay with their previous filing review office for more than 5 years when they experience office change¹⁹. In the final sample, about 50% of treated firms stay with their previous office for more than 5 years. I interact *LongTenure* with *Treat * Post* to study how office tenure influences the effects of office change on reporting quality.

Table 10 presents the results. It shows that the effect of office change on improving reporting quality and readability of 10-K filings is stronger for firms that stay with their previous office for a relatively long time. Although the coefficient on *Treat * Post * LongTenure* in Column (4) is not statistically significant, the signs on *Treat * Post * LongTenure* are consistent with the argument that the effect of office change is stronger for firms with long office tenure, suggesting that "fresh-look" benefits are larger.

6.2 Cross-sectional test: busyness

One stated reason for the SEC to change office assignments is to balance the workload between different offices. For example, in the recent office reassignment in Sep 2022, when explaining the reason to add two new industry offices, the SEC stated that "In recent years, the life sciences indus-

¹⁹The choice of cutoff does not matter.

try has experienced significant growth, which has added to the number of filings and companies assigned to that office." Consistent with this argument, Figure 1 shows that the SEC assigned firms from offices that are relatively busy into offices that were relatively not busy. Busy offices tend to have lower filing review quality (Ege et al. 2020; Gunny and Hermis 2020). So the effects of office change might be stronger for firms whose previous office is busier. I create a dummy variable, *Busy*, which equals to one for firms whose previous filing review office is the top 2 busiest office based on Workload. Workload is calculated as the number of firms over the number of staffers in each office. In the final sample, about 67% of treated firms whose previous office is the top 2 busiest. I interact *Busy* with *Treat * Post* to study how busyness level of the previous office influences the effects of office change on reporting quality.

Table 11 presents the results. It provides some evidence that the effect of office change on improving the readability of 10-K filings is stronger for firms that were reassigned from busy offices. However, the coefficients on *Treat * Post * Busy* in Column (1) and (2) are not significant. Overall, the results provide weak support that the effect of office change is stronger for firms reassigned from busier offices.

6.3 SEC involvement in the restatement process

Many restatements are triggered by SEC comment letter or formal or informal SEC inquiry. If office change leads to a more intense SEC oversight on newly assigned firms, the probability of SEC involved restatements might increase while the financial reporting quality of these firms improved. In Table 12, I split the (severe) restatement sample into two groups: SEC involved (severe) restatements and SEC non-involved (severe) restatements. SEC was involved in about 9 percent of restatement and 19.5 percent of severe restatement in my sample. While the probability of restatements decreases after office change as shown in Table 8, the effect of office change on SEC involved restatements is opposite. Column (1) and (3) in Table 12 shows that the probability of SEC triggered restatements increases while the probability of restatements that are not triggered by the SEC decreases as shown in Column (2) and (4). The positive effect of office change on

SEC involved restatements doesn't mean the reporting quality of firms is worse. SEC triggered restatement is a joint product of regulatory oversight and reporting quality. Similar to the results on comment letter, the increased probability of SEC involved restatements implies more intense SEC oversight. While the reporting quality of firms improved, the net effect could still be positive. Also, it eliminates the concern that the decreasing probability of restatement is because the new offices are not good at detecting misstatements. In fact, new offices are more likely to get involved in firms' restatements.

6.4 Comment letter topics

Prior literature often use number of topics discussed in comment letter to measure comment letter review quality (Cassell et al. 2013; Ege et al. 2020; Gunny and Hermis 2020; Kubic and Toynbee 2021). However, the number of topics is also affected by the underlying reporting and disclosure quality of firms' filings. From section 5.2, we know that firms improve their reporting quality after office change, potentially leading to fewer issues raised in the comment letter. However, the intensity of SEC oversight on these firms also increases after office change. More issues and topics will be discussed if more time and resources are allocated to filing reviews. Hence, the effect of office change on comment letter topics is unclear.

Table 13 presents the effect of office change on comment letter topics. I find that the effect of office change on the total number of accounting topics and non-core earnings topics is positive but not significant. At the same time, column (2) shows that the number of core-earnings topics in a comment letter decreases after office change. Core-earnings topics in a comment letter tend to be severe issues (Cassell et al. 2013). These results might imply that new filing review offices tend to ask more about unsevere issues and fewer questions regarding severe issues as firms improve their reporting quality.

6.5 Alternative measures of reporting quality

In Table 14, I use alternative measures of reporting quality, include material weakness (Cassell et al. 2013), AAERs (Dechow et al. 2011), and misstatement risk calculated using machine learning method (Bertomeu et al. 2021b). We should interpret these measures with caution because AAERs sample is not complete in the later sample period and misstatement risk requires more variables to calculate, thus limiting the sample size. Nevertheless, the results are consistent with the conclusion that firms improve their reporting quality after office change.

6.6 Office change due to the change of reported SIC code

The treated firms in the main results section are 623 firms that experienced a change of office assignment only once due to the change of the SIC code list, which is mandatory and not controlled by firms. However, office assignment may also change if firms change their reported SIC code, which is voluntary and a choice of firms. Table 2 shows that 879 firms experienced a change of office assignment once due to the change of reported SIC code between 2000 and 2018. Voluntary office change is an endogenous choice of firms and is related to firms' business operations and reporting behavior. Firms may even strategically select and change SIC codes. Keeping this caveat in mind, it is still interesting to investigate how voluntary changes affect the intensity of SEC oversight and the firms' reporting quality.

I run the same model again but now replace the treatment group with firms that experience voluntary change once during the sample period. In untabulated results, I do not find a significant effect of office change on SEC oversight and reporting quality in the post-period. This is expected because office change is an endogenous choice of firms. For example, firms might change their SIC codes because their primary business is changed. Hence, during years around office change, there might be more issues with firms' financial reporting. In Figure 8, I plot the dynamic effect of office change on the likelihood of restatement²⁰. Unlike the results on mandatory change, I

²⁰I use $year \leq -4$ as the base year to better illustrate the effect around the year of office change

find that firms have a higher probability of restatement around the year of office change. This is consistent with the idea that firms are more likely to have reporting issues when they experience major industry segment changes.

6.7 Multiple changes

Until now, I define the treatment group as firms that only experienced a change of office assignment only *once* between 2000 and 2018. Though this choice benefits the empirical design, it limits the sample size of treated firms. From the dynamic analysis in Section 5.3, we can see that the effect of office change on comment letters clusters in the first year of office change while the effect on reporting quality will persist for several years. Based on this observation, I include firms that have experienced office changes more than one time between 2000 and 2018 in the treated group and then replace *Post* in the main model with *Year0*. This strategy effectively compares the effect of office change on comment letters and reporting quality in the year of office change with all other years, including years before and after office change.

Table 15 presents the results. For the mandatory change, the coefficient on *Year0* is positive and significant for comment letter regression, which is consistent with previous results that firms experienced an increase in the intensity of SEC oversight in the year of office change. The coefficient on *Year0* for voluntary changes is not significant. For restatement regression, I find that the coefficient on *Year0* for voluntary change is significantly positive. It implies that firms have low reporting quality in the year of office change, which is consistent with the finding in Figure 8. However, the coefficient on *Year0* for mandatory change is not significant. This might be because the effects on reporting quality will persist for several years after office change. So, we cannot get significant results when comparing the year of office change with all other years, which include years after office change.

Chapter 7: Conclusion

In this study, I examine whether the change of office assignment affects the intensity of SEC oversight and firms' reporting quality. Focusing on firms that experience a change of office assignment due to the change of the SEC's SIC code list, I find that firms are more likely to receive comment letters and there are more accountants on a comment letter review team after office change. However, their financial reports are less likely to be restated and more readable, indicating that firms improve reporting quality following office changes. These results show that firms improve reporting quality by anticipating and observing the increase in the intensity of SEC oversight following office change. Importantly, the effects start in the first year of office change. Further analyses show that the effects are stronger for firms with long previous office tenure.

My result provides plausibly causal evidence that office change influences SEC oversight and SEC oversight affects firms reporting behavior. Understanding the effect of office change is important for regulators. My results show that regular office change is beneficial. However, this does not necessarily imply that the SEC should change office assignment more often because the potential "fresh-look" benefits will be lower and new offices will have to spend more time and resources to acquire firm-specific knowledge. Also, recent theory works on auditor rotation show that mandatory rotation may change auditors' incentives and effort before rotation (Dordzhieva 2022; Patterson et al. 2019). These results may also imply to filing review office change. If the old office anticipates that some firms will be assigned to another office, they may don't have incentives to conduct high-quality filing review in the first place.

For future research, understanding two major office changes in 2019 and 2022 is one opportunity. In September 2022, the DCF added two new offices to existing seven offices. In September 2019, the DCF reassigned all companies previously assigned to eleven AD offices to nine industry offices. Also, understanding how office changes affect other outcomes is an interesting avenue.

I present evidences that firms improve their reporting quality after office change. However, SEC filing review offices only review mandatory filings. Higher reporting quality of these mandatory filings (10-K filings in my empirical analysis) does not necessarily increase the overall quality of information. Mandatory reporting and disclosure may change firms' incentives to disclose voluntarily (Bertomeu et al. 2021a; Bertomeu et al. 2021c; Friedman et al. 2020; Friedman et al. 2022). Bertomeu and Cheynel (2015) make the more general point that accounting quality does not necessarily mean more investment efficiency. In the UK setting, Christensen et al. (2020) find that increased regulatory scrutiny reduces equity value. So, the effects of office change on other outcomes (e.g. voluntary disclosure, investment efficiency, and shareholder wealth) are worth investigating.

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Figure 1: Workload around office change

Figure 1 plots the workload of the DCF staffers around the year of office change. Workload is calculated as the number of assigned firms over the number of staffers or accountants in each office. Workload is presented by three groups: offices that lose more than 10 firms, offices that have minor or no change, and offices that get more than 10 firms.

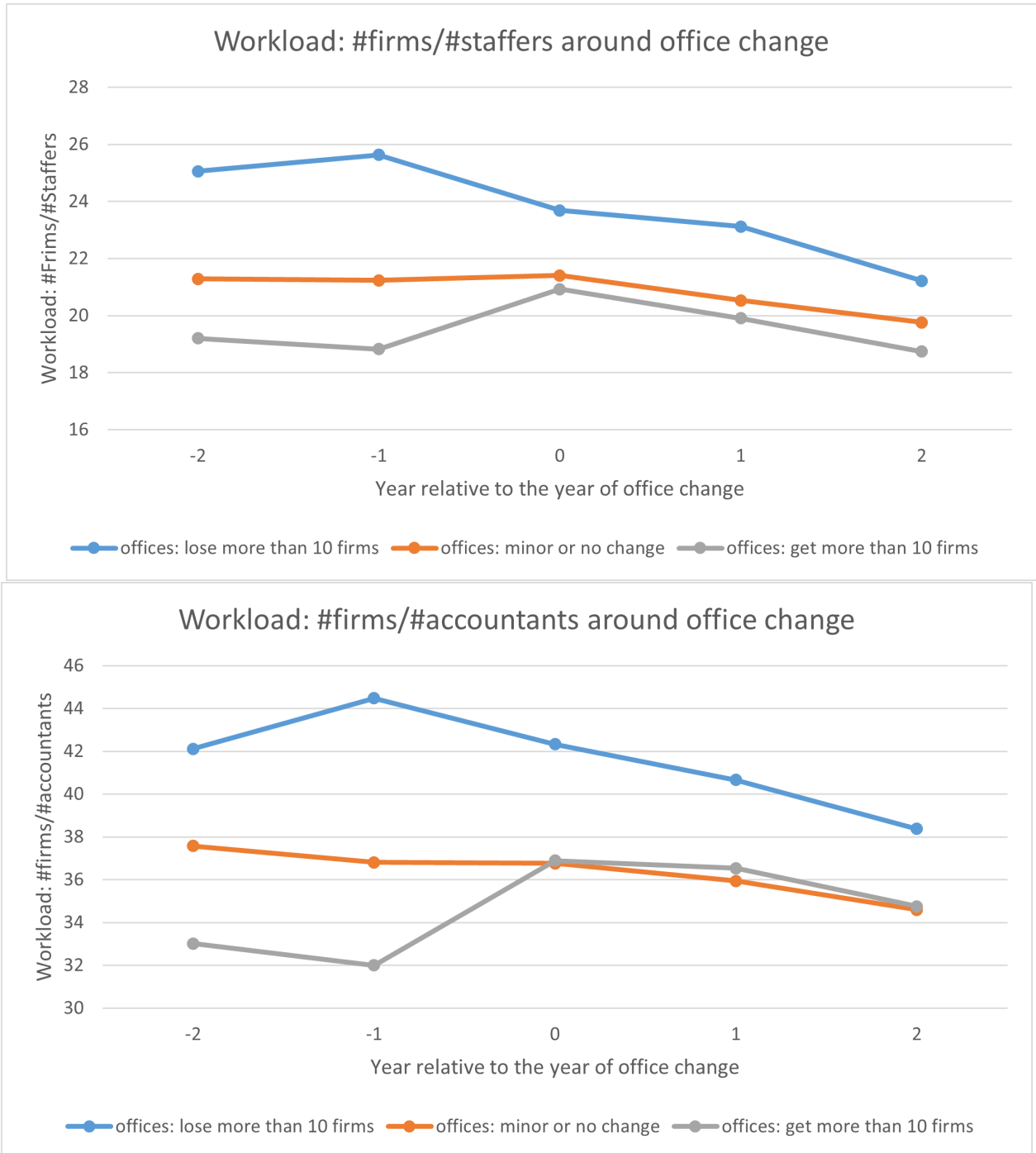


Figure 2: Example of header information on EDGAR

This figure shows the current header information of Apple Inc. on EDGAR, which can be found at <https://www.sec.gov/cgi-bin/browse-edgar?CIK=320193>.



EDGAR Search Results

[SEC Home](#) » [Search the Next-Generation EDGAR System](#) » [Company Search](#) » [Current Page](#)

Apple Inc. CIK#: 0000320193 (see all company filings)
SIC: 3571 - ELECTRONIC COMPUTERS
State location: CA | State of Inc.: CA | Fiscal Year End: 0926
formerly: APPLE COMPUTER INC (filings through 2007-01-04)
formerly: APPLE COMPUTER INC/ FA (filings through 1997-07-28)
formerly: APPLE INC (filings through 2019-08-05)
(Office of Technology)
Get **insider transactions** for this issuer.

Figure 3: Example of SIC code list

The figure shows part of two SIC code lists modified on 05/13/2008 and 01/03/2011. Both are captured by the Wayback Machine from <https://www.sec.gov/info/edgar/siccodes.htm>.

**Division of Corporation Finance:
Standard Industrial Classification (SIC)
Code List**

The Standard Industrial Classification Codes that appear in a company's disseminated [EDGAR filings](#) indicate the company's type of business. These codes are also used in the [Division of Corporation Finance](#) as a basis for assigning review responsibility for the company's filings. For example, a company whose business was Metal Mining (SIC 1000) would have its filings reviewed by staffers in A/D Office 4.

SIC Code	A/D Office	Industry Title
100	9	AGRICULTURAL PRODUCTION-CROPS
200	5	AGRICULTURAL PROD-LIVESTOCK & ANIMAL SPECIALTIES
700	9	AGRICULTURAL SERVICES
800	5	FORESTRY
900	9	FISHING, HUNTING AND TRAPPING
1000	4	METAL MINING
1040	4	GOLD AND SILVER ORES
1090	4	MISCELLANEOUS METAL ORES
1220	4	BITUMINOUS COAL & LIGNITE MINING
1221	4	BITUMINOUS COAL & LIGNITE SURFACE MINING
1311	4	CRUDE PETROLEUM & NATURAL GAS
1381	4	DRILLING OIL & GAS WELLS

8711	6	SERVICES-ENGINEERING SERVICES
8731	1	SERVICES-COMMERCIAL PHYSICAL & BIOLOGICAL RESEARCH
8734	9	SERVICES-TESTING LABORATORIES
8741	8	SERVICES-MANAGEMENT SERVICES
8742	8	SERVICES-MANAGEMENT CONSULTING SERVICES
8744	6	SERVICES-FACILITIES SUPPORT MANAGEMENT SERVICES
8880	99	AMERICAN DEPOSITARY RECEIPTS
8888	99	FOREIGN GOVERNMENTS
8900	11	SERVICES-SERVICES, NEC
9721	99	INTERNATIONAL AFFAIRS
9995	9	NON-OPERATING ESTABLISHMENTS

<http://www.sec.gov/info/edgar/siccodes.htm>

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Modified: 05/13/2008

**Division of Corporation Finance:
Standard Industrial Classification (SIC)
Code List**

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SIC Code	A/D Office	Industry Title
100	5	AGRICULTURAL PRODUCTION-CROPS
200	5	AGRICULTURAL PROD-LIVESTOCK & ANIMAL SPECIALTIES
700	5	AGRICULTURAL SERVICES
800	5	FORESTRY
900	5	FISHING, HUNTING AND TRAPPING
1000	9	METAL MINING
1040	9	GOLD AND SILVER ORES
1090	9	MISCELLANEOUS METAL ORES
1220	9	BITUMINOUS COAL & LIGNITE MINING
1221	9	BITUMINOUS COAL & LIGNITE SURFACE MINING
1311	4	CRUDE PETROLEUM & NATURAL GAS
1381	4	DRILLING OIL & GAS WELLS

8711	6	SERVICES-ENGINEERING SERVICES
8731	1	SERVICES-COMMERCIAL PHYSICAL & BIOLOGICAL RESEARCH
8734	9	SERVICES-TESTING LABORATORIES
8741	8	SERVICES-MANAGEMENT SERVICES
8742	8	SERVICES-MANAGEMENT CONSULTING SERVICES
8744	6	SERVICES-FACILITIES SUPPORT MANAGEMENT SERVICES
8880	99	AMERICAN DEPOSITARY RECEIPTS
8888	99	FOREIGN GOVERNMENTS
8900	11	SERVICES-SERVICES, NEC
9721	99	INTERNATIONAL AFFAIRS
9995	All	NON-OPERATING ESTABLISHMENTS

<http://www.sec.gov/info/edgar/siccodes.htm>

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Modified: 01/03/2011

Figure 4: Example of header information in 10-K filing

This figure shows the current header information of Apple Inc. in its 2019 10-K filings, which can be found at <https://www.sec.gov/Archives/edgar/data/320193/000032019319000119/0000320193-19-000119.txt>.

```
<SEC-DOCUMENT>0000320193-19-000119.txt : 20191031
<SEC-HEADER>0000320193-19-000119.hdr.sgml : 20191031
<ACCEPTANCE-DATETIME>20191030181236
ACCESSION NUMBER:          0000320193-19-000119
CONFORMED SUBMISSION TYPE: 10-K
PUBLIC DOCUMENT COUNT:     96
CONFORMED PERIOD OF REPORT: 20190928
FILED AS OF DATE:          20191031
DATE AS OF CHANGE:         20191030

FILER:

      COMPANY DATA:
      COMPANY CONFORMED NAME:      Apple Inc.
      CENTRAL INDEX KEY:           0000320193
      STANDARD INDUSTRIAL CLASSIFICATION: ELECTRONIC COMPUTERS [3571]
      IRS NUMBER:                   942404110
      STATE OF INCORPORATION:       CA
      FISCAL YEAR END:              0928
```

Figure 5: Coefficient estimates by year: comment letter regression

Figure 5 plots the coefficient estimates by year relative to the year of office change. The dependent variable is an indicator variable equal to one if a firm received a comment letter. The regression model is the same as the main model but the *post* is replaced with the year dummy.

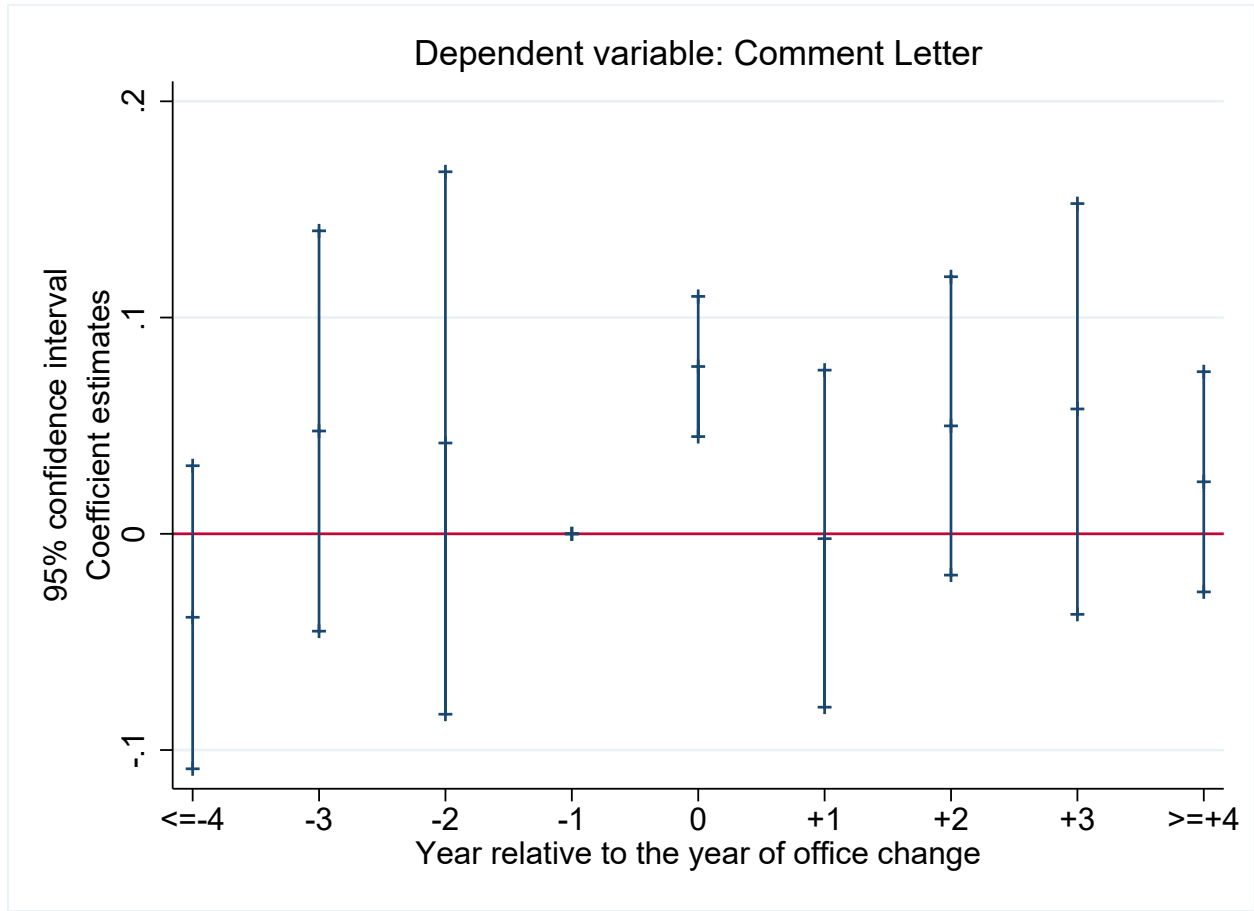


Figure 6: Coefficient estimates by year: restatement regression

Figure 6 plots the coefficient estimates by year relative to the year of office change. The dependent variable is an indicator variable equal to one for firm-years that are late restated as reported in Audit Analytics, and zero otherwise. The regression model is the same as the main model but the *post* is replaced with the year dummy.

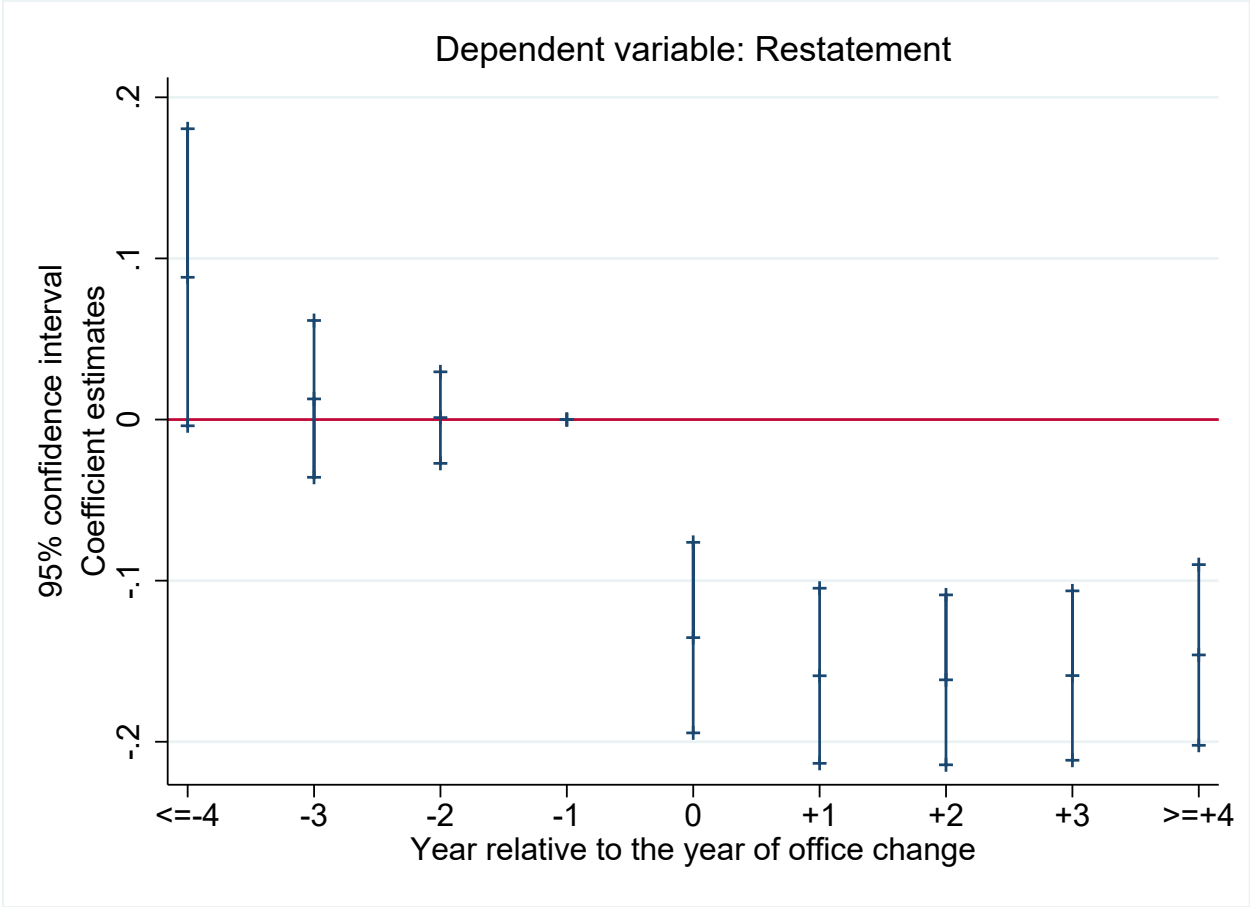


Figure 7: Coefficient estimates by year: readability regression

Figure 7 plots the coefficient estimates by year relative to the year of office change. The dependent variable is the negative Fog index. The regression model is the same as the main model but the *post* is replaced with the year dummy.

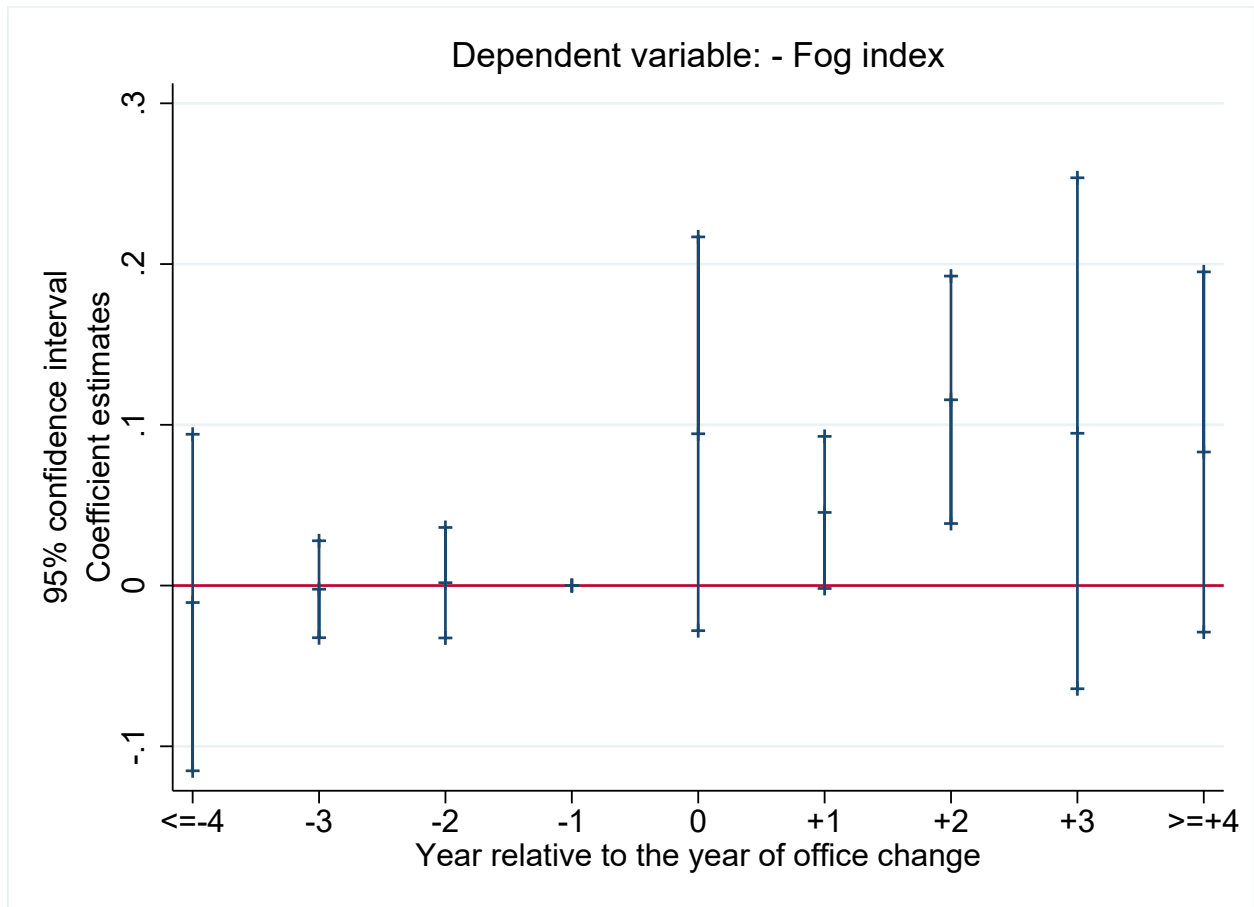


Figure 8: Coefficient estimates by year: voluntary change

Figure 8 plots the coefficient estimates by year relative to the year of office change. The dependent variable is restatement. The regression model is the same as the main model but the *post* is replaced with the year dummy. The *Treat* is equals to one for firms that experience voluntary office change once during the sample period.

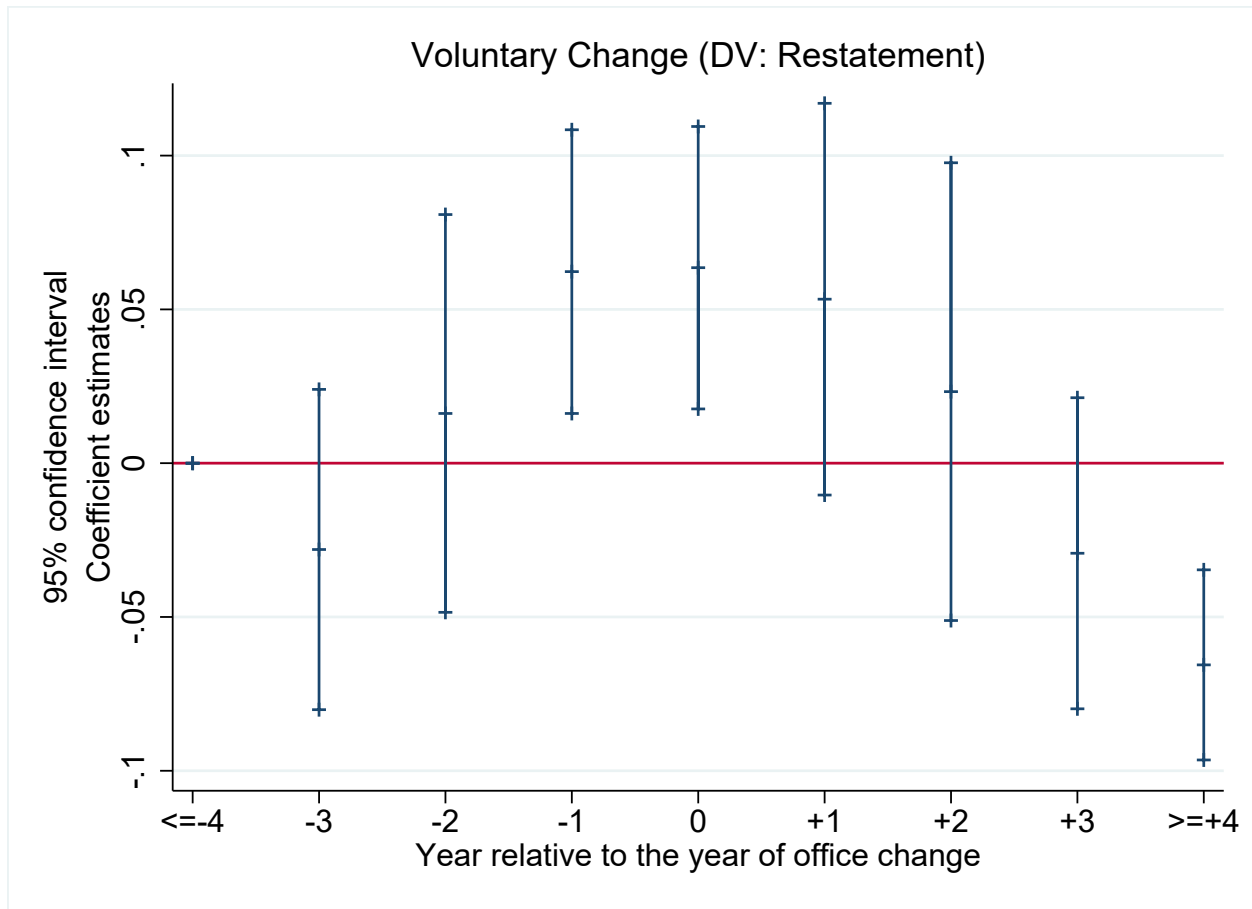


Table 1: Number of SIC codes that are assigned to each office

This table presents the number of SIC codes that are assigned to each filing review office. Data is collected from the historical SIC code list, which is captured by the Wayback Machine from <https://www.sec.gov/info/edgar/siccodes.htm>.

AD Office	Primary Industry	6/8/2000	1/14/2003	4/30/2004	11/9/2004	4/2/2007	10/17/2007	1/3/2011	1/25/2015
1	Healthcare and Insurance	27	27	27	27	27	18	18	12
2	Consumer Products	86	86	65	65	65	48	48	48
3	Information Technologies and Services	15	15	15	15	15	17	17	17
4	Natural Resources	53	52	50	52	42	31	29	29
5	Transportation and Leisure	61	61	61	62	73	73	75	75
6	Manufacturing and Construction	97	97	108	106	109	105	104	104
7	Financial Services I	18	18	18	18	6	14	12	17
8	Real Estate and Commodities	26	26	18	17	17	19	18	17
9	Beverages, Apparel and Mining	1	1	1	1	1	39	36	38
10	Electronics and Machinery	45	45	45	45	45	43	43	43
11	Telecommunications	11	11	31	32	40	33	33	37
12	Financial Services II	1	1	1				3	
99		3	3	3	3	3	3	3	3
2 & 3							1	1	1
7 & 12								1	
All								2	2
OSF	Structured Finance							1	1
Total		444	443	443	443	444	444	444	444

Table 2: Number of firms that experienced a change of office assignment

This table presents information about the number of firms that experienced a change of office assignment between 2000 and 2018. The sample of firms is the sample of 7,222 selected firms in Table 3. Firms are grouped by the total number of changes and the number of mandatory changes between 2000 and 2018. Specifically, each row represents the total number of changes. Each column represents the number of mandatory changes.

	Number of mandatory changes				Total
	0	1	2	Total	
	0	5,399	0	0	5,399
Total	1	879	623	0	1,502
number	2	109	127	36	272
of changes	3	13	17	9	39
	4	2	3	3	8
	5	1	1	0	2
Total	6,403	771	48	7,222	

Table 3: Sample selection

This table provides an overview of sample selection with the number of firm-years and unique firms in the sample selection procedure.

	Firm-years	Firms
10-K filings filed between 2004 and 2017 (fiscal year 2004-2016)	166,344	25,529
Less: Firms that are not assigned to one of twelve offices	99,034	15,699
Less: Firms without a matched GVKEY in Compustat	69,433	9,716
Less: Firms with missing controls	64,438	9,148
Less: 10-K filed more than one year after fiscal year end	62,851	8,937
Less: Financial firms (AD office = 7 or 12)	55,013	7,828
Less: Singleton observations	54,377	7,222
Full sample that includes all types of changes	54,377	7,222
Final sample for analysis: no change or only one mandatory change	45,418	6,022
treatment group (one mandatory change)	5,661	623
control group (no change)	39,757	5,399

Table 4: Sample distribution

Table 4 shows the sample distribution by year. Panel A shows the number of changes due to SIC code list change by filing year of 10-K filings over 2000 and 2018. Panel B shows the number of firms, comment letters, and restatements by fiscal year for the final sample in Table 3 over 2004 and 2016.

Panel A: Number of changes by 10-K filing year

Year	Freq.	Percent
2004	58	9.31
2005	155	24.88
2006	0	0
2007	32	5.14
2008	224	35.96
2009	0	0
2010	1	0.16
2011	107	17.17
2012	0	0
2013	0	0
2014	1	0.16
2015	44	7.06
2016	1	0.16
Total	623	100

Panel B: Number of firms by firm fiscal year

Year	Firm	Comment letter	Restatement	RestateSevere
2004	3,908	935	951	394
2005	4,094	1,141	791	363
2006	3,960	1,060	628	289
2007	3,782	1,300	480	219
2008	3,530	1,410	413	165
2009	3,358	1,404	412	158
2010	3,290	1,092	459	164
2011	3,216	1,167	499	164
2012	3,223	1,118	577	154
2013	3,301	888	531	143
2014	3,392	826	480	134
2015	3,308	845	440	121
2016	3,056	704	331	93
Total	45,418	13,890	6,992	2,561

Table 5: Descriptive statistics

Table 5 shows the summary statistics for all variables used in the regression over the period 2004-2016. Appendix presents variable definitions.

	N	Mean	Std.	P25	Median	P75
Comment letter characteristics						
CommentLetter	45,418	0.306	0.461	0	0	1
NumAccountants	12,200	2.133	0.957	2	2	3
NumLawyers	12,200	0.787	1.001	0	0	2
NumTotalAccTopics	13,890	2.599	2.678	0	2	4
NumCoreTopics	13,890	0.663	1.003	0	0	1
NumNonCoreTopics	13,890	1.938	2.129	0	1	3
Reporting quality measure						
Restate	45,418	0.154	0.361	0	0	0
RestateSevere	45,418	0.056	0.231	0	0	0
Res_SEC	45,418	0.014	0.117	0	0	0
Res_nonSEC	45,418	0.140	0.347	0	0	0
MaterialWeakness	45,418	0.101	0.301	0	0	0
AAER	45,418	0.005	0.068	0	0	0
MisRisk	33,382	0.067	0.085	0.028	0.043	0.067
Fog	45,105	19.966	2.088	19.420	20.026	20.666
Flesch Reading Ease	45,105	24.997	4.220	22.492	24.829	27.357
Control and cross-sectional variables						
LongTenure	5,661	0.548	0.498	0	1	1
Busy	5,661	0.670	0.470	0	1	1
Big4	45,418	0.693	0.461	0	1	1
Second_Tier	45,418	0.109	0.311	0	0	0
AudTenure	45,418	9.847	8.310	4	7	13
Size	45,418	5.952	2.443	4.337	6.152	7.635
BM	45,418	0.390	1.476	0.207	0.432	0.734
Leverage	45,418	0.203	0.255	0.000	0.122	0.319
Loss	45,418	0.373	0.484	0	0	1
EarnGrowth	45,418	-0.038	3.894	-0.591	0.000	0.409
SalesGrowth	45,418	0.171	0.728	-0.029	0.056	0.191
Extfinancing	45,418	0.066	0.436	-0.048	-0.001	0.065
LargeDiscOps	45,418	0.086	0.281	0	0	0
LargeM&A	45,418	0.277	0.447	0	0	1
M&A	45,418	0.329	0.470	0	0	1
Restructuring	45,418	0.256	0.437	0	0	1
Age	45,418	20.889	15.739	9	16	28

Table 6: Office change and comment letter

The table presents results on the relation between office change and comment letter likelihood. The dependent variable is an indicator variable equal to one if a firm-year received a comment letter. Treat*Post is an indicator variable equal to one for firm-years starting from the first year of office change, and zero otherwise. The results use the final sample as defined in Table 3. Robust standard errors are in parentheses. ***, **, and * indicate the significance at the 1%, 5% and 10% level, respectively. Appendix presents variable definitions.

Variables	(1) Comment Letter	(2) Comment Letter	(3) Comment Letter
Treat*Post	0.035*** (7.423)	0.025*** (3.683)	0.027*** (3.677)
Restate			0.012* (2.155)
Big4		0.016 (1.117)	0.016 (1.112)
Second_Tier		-0.012 (-0.843)	-0.012 (-0.837)
AudTenure		0.000 (0.373)	0.000 (0.311)
Size		0.033*** (7.262)	0.033*** (7.250)
BM		0.005** (2.446)	0.005** (2.432)
Leverage		0.038 (1.730)	0.038 (1.715)
Loss		0.011 (1.360)	0.011 (1.333)
EarnGrowth		0.001 (1.406)	0.001 (1.414)
SalesGrowth		0.002 (0.704)	0.002 (0.684)
Extfinancing		-0.014* (-2.005)	-0.014* (-2.003)
LargeDiscOps		0.016** (2.289)	0.016** (2.290)
LargeM&A		0.008 (0.654)	0.008 (0.646)
M&A		0.003 (0.205)	0.002 (0.193)
Restructuring		0.019** (2.673)	0.018** (2.614)
Age		-0.001 (-0.596)	-0.001 (-0.580)
Observations	45,418	45,418	45,418
R-squared	0.200	0.203	0.203
Firm FE	YES	YES	YES
Office*Year FE	YES	YES	YES
SE clustered by	Office	Office	Office

Table 7: Office change and comment letter reviewer

The table presents results on the relation between office change and the number of accountants and lawyers in the comment letter review team. Treat*Post is an indicator variable equal to one for firm-years starting from the first year of office change, and zero otherwise. Column (1) and (2) use the sample with comment letter data. Column (3) and (4) use the final sample as defined in Table 3 and assume the number of accountants and lawyers is zero for firms that don't have comment letter data. Robust standard errors are in parentheses. ***, **, and * indicate the significance at the 1%, 5% and 10% level, respectively. Appendix presents variable definitions.

Variables	(1) #Accountants	(2) #Lawyers	(3) #Accountants	(4) #Lawyers
Treat*Post	0.182*** (3.541)	-0.312*** (-6.464)	0.063*** (5.093)	-0.063*** (-3.854)
Big4	-0.052 (-0.619)	0.003 (0.045)	0.032 (0.930)	0.023 (1.349)
Second_Tier	-0.040 (-0.452)	0.060 (0.788)	-0.018 (-0.452)	0.023 (1.082)
AudTenure	0.005 (1.627)	-0.001 (-0.361)	0.001 (0.598)	-0.000 (-0.583)
Size	0.008 (0.506)	-0.023 (-0.824)	0.063*** (7.014)	0.022*** (4.407)
BM	0.006 (1.252)	-0.000 (-0.019)	0.010* (2.207)	0.004** (2.263)
Leverage	-0.001 (-0.008)	-0.073 (-0.858)	0.082 (1.654)	0.030* (1.904)
Loss	0.032 (0.789)	-0.000 (-0.008)	0.029 (1.218)	0.001 (0.117)
EarnGrowth	-0.001 (-0.285)	0.006* (1.943)	0.000 (0.222)	0.002 (1.691)
SalesGrowth	0.044** (2.356)	-0.015 (-0.566)	0.012* (1.867)	0.002 (0.323)
Extfinancing	-0.068 (-0.841)	0.094 (1.170)	-0.035* (-2.002)	0.003 (0.479)
LargeDiscOps	0.076* (2.090)	-0.022 (-0.543)	0.070*** (3.902)	-0.000 (-0.008)
LargeM&A	-0.045 (-1.022)	0.049 (1.074)	-0.012 (-0.375)	0.019 (1.136)
M&A	0.061* (1.909)	-0.061 (-0.990)	0.034 (1.189)	-0.020 (-1.127)
Restructuring	0.012 (0.493)	-0.027 (-0.795)	0.044** (2.357)	0.026** (2.963)
Age	0.001 (0.070)	-0.004 (-0.469)	-0.002 (-0.456)	-0.005* (-2.237)
Observations	10,754	10,754	45,418	45,418
R-squared	0.406	0.431	0.189	0.187
Firm FE	YES	YES	YES	YES
Office*Year FE	YES	YES	YES	YES
SE clustered by	Office	Office	Office	Office

Table 8: Office change and restatement

The table presents results on the relation between office change and restatement likelihood. Treat*Post is an indicator variable equal to one for firm-years starting from the first year of office change, and zero otherwise. The results use the final sample as defined in Table 3. Robust standard errors are in parentheses. ***, **, and * indicate the significance at the 1%, 5% and 10% level, respectively. Appendix presents variable definitions.

Variables	(1) Restate	(2) Restate	(3) RestateSevere	(4) RestateSevere
Treat*Post	-0.166*** (-7.908)	-0.171*** (-7.995)	-0.097*** (-8.539)	-0.098*** (-8.606)
Big4		0.011 (0.538)		-0.021 (-1.309)
Second_Tier		-0.009 (-0.747)		-0.007 (-0.505)
AudTenure		0.003** (2.870)		0.002* (2.167)
Size		0.014*** (3.737)		0.007** (3.075)
BM		0.003 (1.124)		-0.000 (-0.038)
Leverage		0.026* (1.911)		0.007 (1.361)
Loss		0.023** (2.586)		0.010* (1.971)
EarnGrowth		-0.000 (-0.522)		0.000 (1.172)
SalesGrowth		0.006* (2.177)		-0.000 (-0.038)
Extfinancing		-0.001 (-0.376)		-0.000 (-0.068)
LargeDiscOps		0.007 (0.839)		-0.002 (-0.350)
LargeM&A		0.008 (1.448)		0.003 (0.669)
M&A		0.012** (2.871)		0.006 (1.439)
Restructuring		0.025** (2.842)		0.005 (1.217)
Age		-0.004** (-2.536)		-0.003 (-1.525)
Observations	45,418	45,418	45,418	45,418
R-squared	0.350	0.353	0.407	0.408
Firm FE	YES	YES	YES	YES
Office*Year FE	YES	YES	YES	YES
SE clustered by	Office	Office	Office	Office

Table 9: Office change and readability

The table presents results on the relation between office change and readability. Treat*Post is an indicator variable equal to one for firm-years starting from the first year of office change, and zero otherwise. The results use the final sample as defined in Table 3 with readability data from WRDS SEC Analytics Suite. Robust standard errors are in parentheses. ***, **, and * indicate the significance at the 1%, 5% and 10% level, respectively. Appendix presents variable definitions.

Variables	(1) -Fog Index	(2) -Fog Index	(3) Flesch Ease	(4) Flesch Ease
Treat*Post	0.105*** (3.652)	0.087*** (4.559)	0.426*** (4.599)	0.457*** (6.459)
Big4		-0.076** (-2.865)		-0.375** (-3.121)
Second_Tier		-0.072** (-2.427)		-0.259** (-2.575)
AudTenure		0.003 (1.801)		0.011* (2.082)
Size		0.004 (0.279)		-0.130** (-2.513)
BM		0.008 (1.551)		0.004 (0.352)
Leverage		-0.048 (-1.371)		-0.003 (-0.033)
Loss		-0.069** (-2.768)		-0.152* (-2.110)
EarnGrowth		-0.000 (-0.230)		0.001 (0.357)
SalesGrowth		0.005 (0.757)		0.022 (0.974)
Extfinancing		0.028* (2.177)		0.095** (2.504)
LargeDiscOps		-0.027 (-1.689)		-0.014 (-0.286)
LargeM&A		-0.016 (-1.414)		-0.068** (-2.419)
M&A		-0.027 (-1.514)		-0.143*** (-3.718)
Restructuring		-0.040 (-1.751)		-0.154** (-2.930)
Age		0.026*** (4.455)		0.061** (2.587)
Observations	45,090	45,090	45,090	45,090
R-squared	0.488	0.489	0.693	0.694
Firm FE	YES	YES	YES	YES
Office*Year FE	YES	YES	YES	YES
SE clustered by	Office	Office	Office	Office

Table 10: Cross-sectional analyses on time with previous office

The table presents results analyzing cross-sectional variation in the association between office change and reporting quality. LongTenure is an indicator variable equal to one for firms that stay with their previous filing review office for more than 5 years when they experience office change. Treat*Post is an indicator variable equal to one for firm-years starting from the first year of office change, and zero otherwise. The results use the final sample as defined in Table 3. Robust standard errors are in parentheses. ***, **, and * indicate the significance at the 1%, 5% and 10% level, respectively. Appendix presents variable definitions.

Variables	(1) Restate	(2) RestateSevere	(3) -Fog Index	(4) Flesch Ease
Treat*Post	-0.149*** (-5.046)	-0.076*** (-4.808)	0.040* (2.242)	0.384*** (5.627)
Treat*Post*LongTenure	-0.060* (-2.028)	-0.060*** (-3.546)	0.125** (2.766)	0.195 (1.122)
Big4	0.012 (0.550)	-0.021 (-1.300)	-0.076** (-2.892)	-0.376** (-3.138)
Second_Tier	-0.009 (-0.746)	-0.007 (-0.499)	-0.072** (-2.437)	-0.259** (-2.580)
AudTenure	0.003** (2.861)	0.002* (2.157)	0.003 (1.821)	0.011* (2.094)
Size	0.014*** (3.724)	0.007** (3.045)	0.004 (0.282)	-0.130** (-2.512)
BM	0.003 (1.124)	-0.000 (-0.039)	0.008 (1.552)	0.004 (0.353)
Leverage	0.026* (1.917)	0.007 (1.348)	-0.048 (-1.361)	-0.003 (-0.027)
Loss	0.023** (2.599)	0.010* (1.984)	-0.069** (-2.770)	-0.152* (-2.112)
EarnGrowth	-0.000 (-0.530)	0.000 (1.149)	-0.000 (-0.223)	0.001 (0.362)
SalesGrowth	0.006* (2.193)	-0.000 (-0.013)	0.005 (0.744)	0.022 (0.966)
Extfinancing	-0.001 (-0.343)	-0.000 (-0.022)	0.028* (2.174)	0.095** (2.501)
LargeDiscOps	0.007 (0.840)	-0.002 (-0.350)	-0.027 (-1.688)	-0.014 (-0.286)
LargeM&A	0.007 (1.449)	0.003 (0.662)	-0.016 (-1.406)	-0.068** (-2.407)
M&A	0.012** (2.896)	0.006 (1.457)	-0.027 (-1.524)	-0.143*** (-3.732)
Restructuring	0.025** (2.831)	0.005 (1.197)	-0.040 (-1.742)	-0.154** (-2.923)
Age	-0.004** (-2.541)	-0.003 (-1.528)	0.026*** (4.459)	0.061** (2.586)
Observations	45,418	45,418	45,090	45,090
R-squared	0.353	0.408	0.489	0.694
Firm FE	YES	YES	YES	YES
Office*Year FE	YES	YES	YES	YES
SE clustered by	Office	Office	Office	Office

Table 11: Cross-sectional analyses on busyness of previous office

The table presents results analyzing cross-sectional variation in the association between office change and reporting quality. Busy is an indicator variable equal to one for firms whose previous filing review office is the top 2 busiest office based on Workload. Workload is calculated as the number of assigned firms over the number of staffers in each office. Treat*Post is an indicator variable equal to one for firm-years starting from the first year of office change, and zero otherwise. The results use the final sample as defined in Table 3. Robust standard errors are in parentheses. ***, **, and * indicate the significance at the 1%, 5% and 10% level, respectively. Appendix presents variable definitions.

Variables	(1) Restate	(2) RestateSevere	(3) -Fog Index	(4) Flesch Ease
Treat*Post	-0.149*** (-8.129)	-0.133*** (-5.226)	-0.020 (-1.278)	0.182*** (4.039)
Treat*Post*Busy	-0.052 (-1.531)	0.078 (1.709)	0.242*** (6.965)	0.622*** (6.800)
Big4	0.011 (0.541)	-0.021 (-1.312)	-0.076** (-2.874)	-0.375** (-3.128)
Second_Tier	-0.009 (-0.741)	-0.007 (-0.512)	-0.072** (-2.434)	-0.259** (-2.586)
AudTenure	0.003** (2.866)	0.002* (2.168)	0.003 (1.808)	0.011* (2.087)
Size	0.014*** (3.742)	0.007** (3.045)	0.004 (0.273)	-0.130** (-2.516)
BM	0.003 (1.128)	-0.000 (-0.062)	0.008 (1.545)	0.004 (0.338)
Leverage	0.026* (1.920)	0.007 (1.331)	-0.049 (-1.389)	-0.005 (-0.047)
Loss	0.023** (2.589)	0.010* (1.962)	-0.069** (-2.771)	-0.152* (-2.114)
EarnGrowth	-0.000 (-0.528)	0.000 (1.188)	-0.000 (-0.218)	0.001 (0.371)
SalesGrowth	0.006* (2.176)	-0.000 (-0.032)	0.005 (0.727)	0.021 (0.938)
Extfinancing	-0.001 (-0.395)	-0.000 (-0.027)	0.029* (2.201)	0.096** (2.522)
LargeDiscOps	0.007 (0.838)	-0.002 (-0.347)	-0.027 (-1.691)	-0.014 (-0.287)
LargeM&A	0.008 (1.447)	0.003 (0.669)	-0.016 (-1.413)	-0.068** (-2.417)
M&A	0.012** (2.874)	0.006 (1.434)	-0.027 (-1.516)	-0.143*** (-3.722)
Restructuring	0.025** (2.845)	0.005 (1.208)	-0.040 (-1.756)	-0.154** (-2.936)
Age	-0.004** (-2.537)	-0.003 (-1.523)	0.026*** (4.456)	0.061** (2.586)
Observations	45,418	45,418	45,090	45,090
R-squared	0.353	0.408	0.489	0.694
Firm FE	YES	YES	YES	YES
Office*Year FE	YES	YES	YES	YES
SE clustered by	Office	Office	Office	Office

Table 12: Office change and SEC involvement in the restatement

The table presents results on the relation between office change and SEC involvement in the restatement. The involvement can take form of either SEC comment letter that triggered the restatement; or formal or informal SEC inquiry into the circumstances. Treat*Post is an indicator variable equal to one for firm-years starting from the first year of office change, and zero otherwise. The results use the final sample as defined in Table 3. Robust standard errors are in parentheses. ***, **, and * indicate the significance at the 1%, 5% and 10% level, respectively. Appendix presents variable definitions.

Variables	(1) Restate_SEC	(2) Restate_nonSEC	(3) ResSev_SEC	(4) ResSev_nonSEC
Treat*Post	0.005*** (3.258)	-0.176*** (-8.087)	0.005*** (3.353)	-0.101*** (-8.746)
Big4	-0.007 (-0.875)	0.019 (1.026)	-0.007 (-1.077)	-0.013 (-0.926)
Second_Tier	0.003 (0.530)	-0.012 (-0.814)	0.002 (0.401)	-0.008 (-0.927)
AudTenure	0.000 (0.304)	0.003*** (3.286)	0.000 (0.137)	0.002* (2.034)
Size	0.003* (1.882)	0.011*** (4.229)	0.002 (1.413)	0.003** (2.792)
BM	0.000 (0.493)	0.003 (1.126)	0.000 (0.332)	0.000 (0.264)
Leverage	0.011** (2.396)	0.014 (0.932)	0.012*** (3.510)	-0.008 (-1.171)
Loss	0.003 (1.215)	0.020** (2.804)	0.003 (0.981)	0.007** (2.386)
EarnGrowth	0.000* (1.885)	-0.000 (-1.234)	0.000 (1.219)	-0.000 (-0.507)
SalesGrowth	0.002 (1.369)	0.004* (2.013)	0.000 (0.464)	-0.000 (-0.312)
Extfinancing	-0.001 (-0.413)	-0.001 (-0.225)	-0.002 (-1.398)	0.001 (0.702)
LargeDiscOps	-0.003 (-0.899)	0.010 (1.039)	-0.002 (-0.626)	0.001 (0.383)
LargeM&A	-0.002 (-0.660)	0.009* (2.249)	-0.001 (-0.406)	0.004 (0.951)
M&A	0.004 (1.805)	0.009 (1.744)	0.003 (1.169)	0.004 (1.149)
Restructuring	-0.001 (-0.491)	0.026*** (3.363)	-0.002 (-0.847)	0.006 (1.728)
Age	-0.000 (-0.178)	-0.004** (-2.503)	-0.000 (-0.066)	-0.003 (-1.696)
Observations	45,418	45,418	45,418	45,418
R-squared	0.367	0.342	0.345	0.371
Firm FE	YES	YES	YES	YES
Office*Year FE	YES	YES	YES	YES
SE clustered by	Office	Office	Office	Office

Table 13: Office change and comment letter topics

The table presents results on the relation between office change and comment letter topics. Treat*Post is an indicator variable equal to one for firm-years starting from the first year of office change, and zero otherwise. The results use the sample with comment letter data. Robust standard errors are in parentheses. ***, **, and * indicate the significance at the 1%, 5% and 10% level, respectively. Appendix presents variable definitions.

Variables	(1) #TotalAccTopics	(2) #CoreTopics	(3) #NoneCoreTopics
Treat*Post	0.182 (0.910)	-0.034* (-2.081)	0.216 (1.091)
Big4	-0.291 (-1.291)	-0.018 (-0.168)	-0.273 (-1.288)
Second_Tier	-0.037 (-0.129)	0.001 (0.004)	-0.037 (-0.195)
AudTenure	0.019 (1.443)	0.004 (1.227)	0.015 (1.347)
Size	0.019 (0.331)	0.014 (0.563)	0.005 (0.119)
BM	0.052** (2.271)	0.026** (2.480)	0.025 (0.944)
Leverage	0.759** (3.126)	0.064 (0.498)	0.695*** (4.222)
Loss	0.239* (1.975)	0.083* (2.093)	0.156 (1.750)
EarnGrowth	0.002 (0.270)	-0.001 (-0.424)	0.004 (0.456)
SalesGrowth	0.058 (1.130)	0.040 (1.280)	0.019 (0.604)
Extfinancing	0.174 (0.825)	-0.040 (-0.508)	0.214 (1.353)
LargeDiscOps	0.274*** (3.650)	0.066 (1.172)	0.208*** (3.817)
LargeM&A	0.127 (1.410)	0.011 (0.495)	0.117 (1.372)
M&A	0.135 (1.724)	0.031 (0.867)	0.104 (1.728)
Restructuring	0.120** (2.438)	0.052*** (4.537)	0.068 (1.540)
Age	-0.054 (-1.687)	-0.014 (-1.775)	-0.040 (-1.449)
Observations	12,453	12,453	12,453
R-squared	0.426	0.395	0.413
Firm FE	YES	YES	YES
Office*Year FE	YES	YES	YES
SE clustered by	Office	Office	Office

Table 14: Office change and alternative measures of reporting quality

The table presents results on the relation between office change and alternative measures of reporting quality. Treat*Post is an indicator variable equal to one for firm-years starting from the first year of office change, and zero otherwise. The results use the final sample as defined in Table 3. Robust standard errors are in parentheses. ***, **, and * indicate the significance at the 1%, 5% and 10% level, respectively. Appendix presents variable definitions.

Variables	(1) Weakness	(2) AAER	(3) MisRisk
Treat*Post	-0.023*** (-6.883)	-0.004*** (-4.545)	-0.015*** (-7.296)
Big4	0.058*** (3.915)	-0.007* (-2.086)	-0.005 (-1.009)
Second_Tier	0.026 (1.556)	0.002 (0.394)	-0.012** (-2.907)
AudTenure	-0.001* (-2.206)	0.001** (2.362)	-0.000 (-1.329)
Size	-0.008** (-2.679)	0.003** (3.187)	0.002 (1.610)
BM	-0.007*** (-3.869)	-0.000 (-1.733)	-0.000 (-0.502)
Leverage	0.001 (0.082)	-0.000 (-0.008)	0.020** (2.682)
Loss	0.033*** (6.051)	-0.001 (-1.087)	0.018*** (11.556)
EarnGrowth	-0.000 (-0.377)	-0.000 (-0.313)	0.000 (0.552)
SalesGrowth	0.002 (0.846)	0.000 (0.411)	0.002** (2.301)
Extfinancing	-0.009 (-1.795)	-0.000 (-0.729)	0.007 (0.946)
LargeDiscOps	0.021*** (3.311)	-0.001 (-0.760)	0.005* (1.907)
LargeM&A	-0.004 (-0.605)	0.000 (0.089)	0.001 (1.205)
M&A	0.013*** (4.261)	-0.001 (-0.596)	0.007*** (5.839)
Restructuring	0.006 (1.087)	-0.003** (-2.467)	0.004* (2.192)
Age	-0.010*** (-3.379)	-0.000* (-2.173)	-0.002* (-2.005)
Observations	45,418	45,418	33,140
R-squared	0.417	0.359	0.438
Firm FE	YES	YES	YES
Office*Year FE	YES	YES	YES
SE clustered by	Office	Office	Office

Table 15: Comment letter and restatement in the first year of office change

The table presents results on the relation between office change and comment letter or restatement likelihood in the first year of office change. Year 0 equals one for the year of office change, and zero otherwise. Controls group in all models are firms that have not experienced office change. Treatment group in column (1) and (3) is firms that have experienced office change due to SIC code list change. Treatment group in column (2) and (4) is firms that have experienced office change due to the change of reported SIC code. t-statistics are displayed in parentheses below the coefficient estimate. ***, **, and * indicate the significance at the 1%, 5% and 10% level, respectively. Appendix presents variable definitions.

Treatment Variables	(1) Mandatory CommentLetter	(2) Voluntary CommentLetter	(3) Mandatory Restate	(4) Voluntary Restate
Year0	0.061** (2.968)	0.023 (1.176)	0.011 (0.988)	0.057*** (4.042)
Big4	0.018 (1.322)	0.022 (1.061)	0.011 (0.539)	0.023 (1.416)
Second_Tier	-0.011 (-0.752)	-0.009 (-0.504)	-0.008 (-0.717)	0.007 (0.404)
AudTenure	0.000 (0.285)	0.000 (0.308)	0.003** (2.853)	0.003** (2.492)
Size	0.033*** (7.148)	0.030*** (6.460)	0.014*** (3.554)	0.013*** (3.311)
BM	0.005** (2.473)	0.004** (2.324)	0.003 (1.088)	0.004* (2.116)
Leverage	0.037 (1.702)	0.031* (1.863)	0.027* (1.950)	0.018 (1.230)
Loss	0.011 (1.323)	0.005 (0.608)	0.023** (2.658)	0.023*** (3.652)
EarnGrowth	0.001 (1.268)	0.000 (1.035)	-0.000 (-0.602)	0.000 (1.226)
SalesGrowth	0.003 (0.759)	0.002 (0.600)	0.006* (2.211)	0.006* (2.196)
Extfinancing	-0.014* (-2.003)	-0.008 (-1.498)	-0.001 (-0.219)	-0.005 (-1.347)
LargeDiscOps	0.015** (2.269)	0.005 (0.693)	0.008 (0.945)	0.014 (1.646)
LargeM&A	0.008 (0.683)	0.012 (0.964)	0.008 (1.284)	0.011 (1.757)
M&A	0.002 (0.157)	-0.002 (-0.121)	0.012** (2.361)	0.010 (1.561)
Restructuring	0.020** (2.895)	0.024** (2.857)	0.023** (2.575)	0.018* (2.241)
Age	-0.001 (-0.602)	-0.000 (-0.182)	-0.004** (-2.563)	-0.001 (-0.615)
Observations	45,812	47,062	45,812	47,062
R-squared	0.203	0.214	0.351	0.349
Firm FE	YES	YES	YES	YES
Office_Year FE	YES	YES	YES	YES
SE clustered by	Office	Office	Office	Office

Appendix A: Variable Definition

Variable	Description
Comment letter characteristics	
Comment Letter	1 if a firm has received a comment letter related to its 10-K filing for the fiscal year ended t as reported in Audit Analytics, and 0 otherwise
NumAccountants	The number of team members listed in the first comment letter whose occupation is accountant.
NumLawyers	The number of team members listed in the first comment letter whose occupation is lawyer.
NumAccTopics	The total number of accounting rule and disclosure issue codes, assigned by Audit Analytics, in the first comment letter from the SEC.
NumCoreTopics	The total number of core-earnings topics issue-codes (i.e., revenues, cost of goods sold, SG&A expenses, and other primary operating activities), assigned by Audit Analytics, in the first comment letter from the SEC. For a detailed list of the assignment of issue codes, see Appendix B of Cassell et al. (2013).
NumNonCoreTopics	The total number of non-core earnings topics issue-codes , assigned by Audit Analytics, in the first comment letter from the SEC. For a detailed list of the assignment of issue codes, see Appendix B of Cassell et al. (2013) .
Reporting quality measure	
Restate	1 for firm-years that are late restated as reported in Audit Analytics, and 0 otherwise
RestateSevere	1 for firm-years that have severe restatement as defined in Bertomeu et al. (2021b), and 0 otherwise. They define severe restatements as those that satisfy at least one of the following conditions: (1) has an income effect greater than 1% (relative to average total assets), (2) has a three-day cumulative return around the restatement announcement date that is less than -10%, or (3) is investigated by the SEC or other regulators.
Restate_SEC	1 for firm-years that are late restated and SEC involved in the restatement process as reported in Audit Analytics, and 0 otherwise. The involvement can take form of either SEC comment letter that triggered the restatement; or formal or informal SEC inquiry into the circumstances surrounding the restatement .
Restate_nonSEC	1 for firm-years that are late restated but SEC didn't involve in the restatement process as reported in Audit Analytics, and 0 otherwise.
AAER	1 for firm-years that are misstated based on AAERs, and 0 otherwise
MisRisk	Misstatement risk calculated using machine learning method in Bertomeu et al. (2021b). The measure can be downloaded from https://sites.google.com/site/jeremybertomeu/restatement-risk-measure
MaterialWeakness	1 if the internal control audit opinion (under SOX Section 404) or the management certification (under SOX Section 302) as reported in Audit Analytics is qualified for a material weakness in year t, and 0 otherwise.

(continued on next page)

Variable	Description
Fog	The Fog index is calculated as (the number of words per sentence + percentage of words with three or more syllables) * 0.4. The index indicates the number of years of formal education a reader of average intelligence would need to read the text once and understand it.
Flesch Reading Ease	The Flesch Reading Ease Index is calculated as $206.835 - (1.015 * \text{number of words per sentence}) - (84.6 * \text{number of syllables per word})$. The index indicates how difficult a passage in English is to understand.
Control and cross-sectional variables	
LongTenure	An indicator variable equal to one for firms that stay with their previous filling review office for more than 5 years when they experience office change
Busy	An indicator variable equal to one for firms whose previous filling review office is the top 2 busiest office based on Workload. Workload is calculated as the number of firms over the number of staffers in each office.
Big 4	An indicator variable set equal to 1 if the auditor is a Big 4 audit firm, and 0 otherwise.
Second_Tier	An indicator variable set equal to 1 if the auditor is a second-tier audit firm (i.e., BDO Seidman, Crowe Horwath, Grant Thornton, or McGladrey & Pullen), and 0 otherwise.
AudTenure	The number of consecutive years during which the auditor has audited the company.
Size	The natural log of market capitalization, calculated as shares outstanding at fiscal year-end (CSHO) times the share price at fiscal year-end (PRCC_F), as reported in Compustat
BM	The book value of equity (CEQ) scaled by market value of equity (CSHO*PRCC_F) at the end of fiscal year
Leverage	Long-term Debt/Total Assets (DLTT/AT)
Loss	1 if earnings before extraordinary items (IB) as reported in Compustat are negative and 0 otherwise
EarnGrowth	The percentage change in earnings (IB)
SalesGrowth	The percentage change in annual sales (SALE)
Extfinancing	As defined in Cassell et al. (2013), the sum of equity financing (SSTK – PRSTKC – DV) plus debt financing (DLTIS – DLTR – DLCCH) scaled by total assets (AT).
LargeDiscOps	An indicator variable equal to one if discontinued operations (DO) are greater than 10% of earnings before extraordinary items (IB), and 0 otherwise.
LargeM&A	An indicator variable equal to one if the acquisitions (AQC) in the most recent year were greater than 10% of earnings before extraordinary items (IB), and 0 otherwise.
M&A	Indicator variable set to one for non-zero acquisitions (AQC), and 0 otherwise.
Restructuring	Indicator variable set to one for non-zero restructuring costs, and 0 otherwise.
Age	A firm's age; based on first time appearance in Compustat