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A Tale of Two Courts: Determinants and Consequences of the SEC's Choice of Enforcement Venue After the Dodd-Frank Act

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M.P.S., Cornell University, 2012

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An abstract of a dissertation submitted to the Faculty of the
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Abstract

A Tale of Two Courts: Determinants and Consequences of the SEC's Choice of Enforcement Venue After the Dodd-Frank Act

By

Xin Zheng

The Dodd-Frank Act allows the SEC to choose either an internal administrative proceeding or federal district court as an enforcement venue for resolving alleged violations of federal securities laws, granting both venues equal civil enforcement power. I examine the determinants and consequences of the SEC's choice of enforcement venue after the Dodd-Frank Act. Additionally, I develop a new proxy for political connectedness to measure the frequency and length of meetings between the defendants' congressional representatives and the SEC chair, using data from the SEC chair's daily calendars obtained via the Freedom of Information Act. Results show that (1) more material cases are about 30% more likely to be assigned to federal courts than to administrative proceedings, (2) politically connected defendants are about 9% more likely to be routed to administrative proceedings, and (3) defendants are more likely to be routed to administrative proceedings when the SEC's budgetary constraint is more binding. Moreover, compared to defendants in federal courts, defendants in administrative proceedings are associated with lower monetary penalties. One additional meeting between the defendant's congressional representatives and the SEC chair corresponds to a 50% decrease in additional monetary penalties imposed on defendants in administrative proceedings. Importantly, administrative proceedings are resolved 17 times faster than federal court cases. This study has at least two implications. First, the SEC's private incentives affect its enforcement venue selection and possibly enforcement outcomes. When the political and economic costs (benefits) are greater, the SEC is more likely to route cases to administrative proceedings (federal courts). Second, SEC administrative proceedings impose lower litigation costs on both the SEC and the defendants, in comparison to federal courts.

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1. Introduction

Research in accounting, finance, and economics suggests that the effectiveness of regulation strongly depends on enforcement (e.g., Djankov et al. 2003; Coffee 2007; Jackson and Roe 2009; Christensen, Hail, and Leuz 2013, 2016). Despite an emerging literature in accounting on public enforcement across countries (e.g., Christensen, Hail, and Leuz 2013, 2016), few studies examine within-country variation in public enforcement. This study contributes to the enforcement literature by studying the regulator's choice of public enforcement venue within the United States, a country with arguably one of the best public enforcement regimes.

The Dodd-Frank Act of 2010 grants SEC administrative proceedings the same enforcement power as federal district courts. Prior to the Dodd-Frank Act, the SEC could use its internal administrative proceedings to impose civil penalties on directly regulated entities and personnel only (e.g., securities exchanges, brokerage firms, broker-dealers, investment firms, investment advisors, and auditors). Non-regulated entities and personnel (e.g., most publicly traded companies and their related personnel) had to be prosecuted in federal district courts. The Dodd-Frank Act expanded the SEC's enforcement power by allowing the SEC to use administrative proceedings for nearly all civil cases with alleged violations of securities laws, including those involving non-regulated defendants. To better understand the SEC's discretion over the choice of enforcement venue, my study examines two research questions. First, what are the determinants of the SEC's enforcement venue choice after the Dodd-Frank Act? Second, do enforcement outcomes differ between the two enforcement venues?

Understanding the determinants and consequences of the SEC's enforcement venue choice is important to researchers, policy makers, and regulators for at least two reasons. First, the SEC does not publicly provide clear guidelines for its venue choice. Under heightened public pressure, the SEC's Division of Enforcement issued an "Approach to Forum Selection in Contested Actions" in May 2015 (SEC 2015a). However, the media and legal practitioners have heavily criticized the opacity of this statement (e.g., Bourtin et al. 2015). Although it clarifies a few specific types of cases that must go to administrative proceedings or federal courts, it reserves absolute discretion in venue choice to the SEC. Meanwhile, several lawsuits against the SEC have challenged its authority to choose an enforcement venue (e.g., Gupta v. U.S. SEC 2011, Duka v. U.S. SEC 2015, Timbervest, LLC et al. v. U.S. SEC 2015).

Second, most accounting literature on SEC enforcement pays little attention to the SEC's discretion over enforcement venue (e.g., Dechow et al. 2011; Correia 2014). Prior research also overlooks the SEC's adjudicatory role, which is manifested through the SEC's administrative proceedings and is crucial to the enforcement outcome.[1] The determinants of the SEC's enforcement venue choice are important, because economics literature suggests that regulatory agencies' private incentives can affect regulatory efficiency (e.g., Stigler 1971; Peltzman 1976; Weingast 1984; Weingast and Moran 1983). Economics research shows that public-sector organizations purposefully create and manage their images to retain support from external constituents, such as the U.S. Congress (e.g., Weick 1969; Meyer and Rowan 1977; Meyer 1986). In the short term, the SEC uses its enforcement program to obtain political capital and economic resources (e.g.,

[1] Adjudicatory power refers to the power to make a judgment in a court setting.

monetary funding) from Congress (Bealing 1994). In the long term, SEC employees' behavior is influenced by their consideration of future job opportunities outside of the SEC, as suggested by the revolving door literature (e.g., deHaan et al. 2015).

To look inside the "black box" of SEC administrative proceedings, I first model the determinants of the SEC's enforcement venue choice as a function of case materiality, defendants' political connectedness, and the SEC's budgetary constraint. Then I examine the associations between the SEC's enforcement venue and enforcement outcomes (i.e., the speed of processing a defendant and monetary penalties), conditioned on the venue choice model. My empirical analysis is based on a sample of 220 firm defendants and 264 manager defendants in SEC enforcement actions involving civil violations that could be prosecuted in either an administrative proceeding or federal district court. My sample period is between SEC Fiscal Years (FYs) 2011 and 2015, which follows the 2010 passage of the Dodd-Frank Act.[2] Using a FOIA-obtained data set on the SEC chair's daily calendars, I develop a new proxy for political connectedness that measures the frequency and length of the meetings between the defendants' congressional representatives and the SEC chair.

Given the limited public guidance offered by the SEC regarding its enforcement venue choice, this paper makes some critical first steps toward understanding this choice. The results from the venue choice model suggest that case materiality, defendants' political connectedness, and the SEC's budgetary constraint can influence the SEC's choice of court venue.[3] Specifically, I find evidence that (1) defendants with fraud and bribery allegations, which proxy for case materiality, are 38% and 30% more likely,

[2] The SEC's fiscal year ends on September 30th.

[3] I use enforcement venue and court venue interchangeably in my paper.

respectively, to be assigned to federal courts than to administrative proceedings, (2) politically connected defendants are about 9% more likely to be routed to administrative proceedings than defendants lacking political connections, and (3) defendants are 4% more likely to be routed to administrative proceedings when the SEC's budgetary constraint increases by 1%.[4] These magnitudes are economically significant, given that the unconditional probability of a defendant being routed to administrative proceedings is about 60%. Existing literature shows that the SEC uses material cases to build its political capital (Bealing 1994; Kedia and Rajgopal 2011) and that cases involving politically connected defendants can be costly for the SEC (e.g., Correia 2014; Yu and Yu 2012). Collectively, my findings suggest that the SEC considers its private incentives during venue selection. The SEC is more likely to use federal courts when they can gain more political benefits from a visible enforcement action and to use administrative proceedings when either political or economic costs are high.

Conditioned on the venue selection model, I next conduct tests to compare the speed of processing of the two venues. My key finding is that administrative proceedings resolve cases nearly 17 times faster than federal district courts. On average, complaints are resolved in about 12 days in administrative proceedings versus 202 days in federal courts. The faster processing time in administrative proceedings is likely driven by the higher settlement rate in administrative proceedings (99%) versus federal district courts (83%). These findings suggest that administrative proceedings are more cost efficient both for the SEC and the defendants. Extant research finds that SEC enforcement actions impose significant litigation costs on defendants (e.g., Karpoff et al. 2008, Dechow et al.

[4] Budgetary constraint is calculated as (SEC's actual spending - enacted budget)/enacted budget.

2011). This study suggests that SEC administrative proceedings can reduce such costs. Their faster processing time possibly reduces the uncertainty of litigation outcomes and the eventual litigation and reputation costs borne by the defendants. Furthermore, in response to criticism, the SEC has claimed that its administrative proceedings adjudicate cases quickly and thus more efficiently than federal courts (SEC 2015a). My paper is among the first to provide support of this claim.

Finally, I examine the association between the SEC's enforcement venue choice and monetary penalties, conditioned on the court venue selection model. Monetary penalties issued by administrative proceedings are more than 60% lower than those issued by federal courts, after controlling for case materiality. I also find evidence that politically connected defendants in administrative proceedings are associated with lower monetary penalties in comparison to the defendants lacking connections. Each meeting between a defendant's congressional representatives and the SEC chair is associated with a 50% decline in additional monetary penalties. These results suggest that the political process can affect monetary penalties in SEC enforcement actions, which is consistent with prior research (e.g., Stigler 1971; Peltzman 1976; Correia 2014).

A caveat is warranted in my study. When comparing the speed of processing and monetary penalties between courts, endogeneity may be of concern. To address this issue, I employ a two-stage least squares regression analysis. My results remain robust. Furthermore, my analysis answers Gow et al. (2016), who encourage more in-depth studies in accounting using detailed descriptive statistics of institutional phenomenon to provide important information for evaluating underlying causal mechanisms. The detailed

descriptive statistics in my paper provide a better understanding of the SEC's enforcement venues and are consistent with my multivariate test results.

This study contributes to the literature in several ways. First, it contributes to the enforcement literature by providing one of the first comparisons of SEC administrative proceedings and federal district courts and by modeling the SEC's court selection process (e.g., Correia 2014; Christensen, Hail, and Leuz 2013, 2016; Heese 2015; Jackson and Roe 2009). Results suggest that the availability of SEC administrative proceedings allows the SEC to increase regulatory oversight by pursuing more enforcement actions involving less material violations of the federal securities laws in the post Dodd-Frank era. This is consistent with the SEC's shift in enforcement policy to target smaller cases in the post Dodd-Frank era and the SEC's aim to be an agency that "makes you feel like we are everywhere" (White 2013; Englesham 2016). Second, this study contributes to the regulation literature examining how the political process affects regulatory efficiency by showing that the SEC's private incentives influence its enforcement venue choice and possibly enforcement outcomes (e.g., Stigler 1971; Peltzman 1976). Correia (2014) shows that politically connected defendants receive lower penalties in SEC enforcement actions. My paper suggests that one potential mechanism for these lower penalties is the political influence exerted during the SEC's court assignment process. Furthermore, this paper introduces a new proxy for lobbying activities: the meetings between firms' congressional representatives and the SEC chair. The meeting proxy can directly measure the lobbying activities between firms' congressional representatives and the SEC.

The results in this study can be informative to policy makers. The SEC's use of administrative proceedings has incurred criticisms from the media, federal judges, legal

practitioners, and academics (e.g., Gupta v. U.S. SEC 2011; Duka v. U.S. SEC 2015; Spunaugle 2015; Timbervest, LLC et al. v. U.S. SEC 2015). In response, Congress has sought legislative solutions to ensure legitimacy and fairness for parties involved in SEC administrative proceedings (e.g., Due Process Restoration Act of 2015). This study shows some potential costs and benefits of using administrative proceedings for SEC enforcement actions, and this information can be factored into future policies on SEC administrative proceedings.

The remainder of the paper is organized as follows. The next section develops the hypotheses, and Section 3 describes the proxies, data source, and sample selection process. Section 4 explains my research design. Section 5 presents the results. Section 6 presents sensitivity checks. Section 7 concludes.

2. Background and Hypotheses Development

2.1 SEC Enforcement Actions

I created Figure 1 to illustrate the typical timeline of an enforcement action, based on the SEC's enforcement manual (SEC 2015b). Usually, an SEC enforcement action begins with a Matter Under Inquiry (MUI). SEC staff (assistant director level and below) can open a MUI based on various information sources and triggering events, such as tips from whistleblowers, restatements, referrals from other agencies, and newspaper articles. The threshold for opening a new MUI is low, because its main purpose is to determine whether an investigation is an appropriate use of resources (SEC 2015b, p.12). Within 60 days of starting a MUI, the SEC staff collects information and consults with the associate director to determine whether to convert the

MUI to an investigation. The threshold to launch an investigation is much higher than that for creating a MUI (SEC 2015b, p.15).

During an investigation, the SEC staff may contact corresponding firms or individuals to obtain evidence and then they make an enforcement recommendation (to litigate or not) to the head of the Division of Enforcement. Next, the head of the Division of Enforcement takes the recommendation to the five commissioners, who jointly decide on litigation in closed meetings. If the commissioners choose to litigate, they subsequently select the enforcement venue, either an SEC administrative proceeding or federal district court. Although the SEC staff has more discretion in the initial stages of an enforcement action (e.g., which leads to pursue and whether to launch an investigation), the five SEC commissioners enjoy more discretion in the later stages of an enforcement action (e.g., whether to file an enforcement action or not, and which venue to file an enforcement action).

Prior studies have mostly focused on the investigation stage of SEC enforcement actions. For example, Kedia and Rajgopal (2011) study whether the SEC is more likely to investigate firms located closer to its offices. Heese (2015) examines whether the SEC is less likely to initiate investigations against larger firms. My paper differs from these studies by focusing on the SEC's court venue choice after cases have been selected for litigation. The court venue selection stage occurs after the initial stages of enforcement and is thus subject to the discretion of SEC commissioners.

2.2 History of SEC Administrative Proceedings

Congress created the SEC in 1934 to regulate the U.S. capital markets. The history of SEC administrative proceedings dates back to the founding of the agency. The SEC's use of administrative proceedings, however, only began to gain momentum in 1990, following the passage of the Securities Enforcement Remedies and Penny Stock Reform Act, which for the first

time granted the SEC broad authority to seek or impose civil monetary penalties in enforcement actions. Congress limited administrative proceedings to imposing such penalties on persons and entities that were registered with the SEC, including brokerage firms, investment advisors, investment companies, and other registered entities. For all the non-registered persons and entities, the SEC was required to seek an order from a federal district court in a civil action.

The Dodd-Frank Act removed this restriction in 2010. Section 929P of the act permits the SEC to use administrative proceedings to impose civil monetary penalties along with a cease-and-desist proceeding for any person or entity found to have violated securities laws.[5] Since 2010, an SEC administrative proceeding has had nearly the same adjudicatory power over civil claims as a federal district court. Thus, SEC proceedings can independently impose monetary penalties on all defendants in almost all cases (excluding civil contempt cases) that could previously be prosecuted only in federal court.[6]

The literature comparing SEC administrative proceedings and federal district court focuses very little on the determinants of the court venue choice in the post-Dodd-Frank era. Using four years of observations from before the 2007 financial crisis, Gadinis (2012) finds that big brokerage houses are more likely to end up in SEC administrative proceedings than small brokerage houses. Because his data predate the Dodd-Frank Act, however, the results do not account for the SEC's additional enforcement power or its discretion over enforcement venue. Using descriptive statistics, Pritchard and Choi (2016) document an increase in cases assigned to administrative proceedings since the Dodd-Frank Act. Their study does not attempt to explain the

[5] In this setting, a cease-and-desist proceeding issued by an SEC administrative proceeding is equivalent to an injunction order issued by federal district court.

[6] The only type of case that the SEC administrative proceedings cannot prosecute involves civil contempt claims, meaning that defendants did not adhere to orders issued by an SEC administrative proceeding. In such cases, the SEC must file with the federal district court. Civil contempt cases are not included in my sample. The only type of case that the federal district court cannot prosecute is a delinquent filing case, in which a firm failed to file mandatory periodic filings with the SEC.

determinants for court assignments for the same violations of securities laws. In sum, no study has directly addressed the two research questions investigated in this paper.

2.3 SEC Enforcement Venue Selection

Research in economics and political science has extensively examined the determinants of regulatory agencies' behavior. Laffont and Tirole (1991) categorize the dominant theories on regulation into "public interest" and "interest group" theories. Public interest theories describe regulatory agencies as benevolent maximizers of social welfare (e.g., Baron and Myerson 1982; Laffont and Tirole 1986). On the other hand, interest group theories view regulators as self-interested utility maximizers (Stigler 1971; Peltzman 1976; Becker 1983). This stream of literature argues that small interest groups can form coalitions that aim to maximize their interests by influencing the actions of regulatory agencies. The "congressional dominance" theory extends the interest group theories and examines the relation between Congress and regulatory agencies (Weingast 1984; Weingast and Moran 1983). This theory suggests that regulatory agencies perform their responsibilities in ways that maximize political support from Congress. Additionally, interest groups can affect regulatory behavior through their influence over Congress.

As suggested by the interest group theories, at least two motivations encourage the SEC to consider both costs and benefits when selecting the enforcement venue. First, the SEC is incentivized to obtain economic resources (e.g., congressional funding) to sustain short-term operations as a federal agency (Bealing 1994). Second, the revolving door literature suggests that SEC employees are influenced by their considerations of future job opportunities outside of the SEC (e.g., Che 1995; Salant 1995; deHaan et al. 2015). For example, deHaan et al. (2015) find that the revolving door phenomenon promotes more aggressive regulatory activity, because SEC lawyers want to showcase their enforcement expertise to potential employers. The authors also find some evidence suggesting rent-seeking behavior by SEC lawyers.

During the court venue selection process, the SEC targets more material cases to build its political capital and thus secure future congressional support.[7, 8] With limited resources, the SEC prioritizes its enforcement actions according to their visibility and deterrent effects (e.g., GAO 2002; Cox et al. 2003). Bealing (1994) finds that the intensity of the SEC's enforcement program, measured as the number of enforcement actions per year, is positively associated with its future congressional funding. Kedia and Rajgopal (2011) show that more material SEC enforcement actions draw more media attention and public visibility. These findings suggest that the SEC uses such cases to build political capital and to dispute the image that it is lax in prosecuting corporate misconduct.

Additionally, federal district courts have more accessible court records and thus higher public visibility than SEC administrative proceedings (Davison 2015). There are 94 federal district courts with more than 2,700 district court judges in the United States, but only one SEC administrative court with five administrative law judges. In comparison to SEC administrative proceedings, federal courts have a better information dissemination infrastructure. Federal court materials related to civil cases, including court transcripts, evidence admitted to the case, and court orders, are available to the public within days or even hours of filing in most federal district courts. In contrast, certain case materials related to SEC administrative proceedings are available only through a Freedom of Information Act (FOIA) process within the SEC, which can take several months.[9, 10, 11] The SEC also can reject FOIA requests under certain circumstances.[12] The

[7] Following Seyd and Whitely (1997), I view political capital as "the extent to which the institution is regarded as legitimate and trustworthy" by its external constituents (e.g., Congress).

[8] I define materiality as the degree of economic damage or harm that is caused by the violation of the law.

[9] Complaints, judgments, and settlement information for most SEC administrative proceedings are available on the SEC's website. However, certain materials in administrative proceedings (e.g., evidence admitted to the case, transcripts of depositions) are available only through the FOIA.

[10] The SEC has received an overwhelming number of requests for documents related to its administrative proceedings. At the end of 2015, the SEC proposed a new rule aimed at improving the accessibility of the materials related to administrative proceedings.

[11] According to the SEC's annual FOIA report for its FY 2015 (https://www.sec.gov/foia/arfoia15.pdf), the average *response time* for simple, complex, and expedited processing FOIA requests are 15, 91, and 136

costs of obtaining timely local news stories on SEC enforcement actions for journalists is, therefore, lower for cases tried in federal district courts. Subsequently, cases filed in federal courts are more likely to be broadly disseminated to the public. This suggests that the SEC is more likely to route more material cases to federal courts, which is the more visible enforcement venue, to maximize the gain in political capital in front of Congress.

> ***H1a****: The SEC is more likely to route defendants associated with more material cases to federal district courts than to administrative proceedings.*

One potential cost for the SEC arises from dealing with politically connected defendants. Defendants' political connections can create future problems for the SEC, such as reduced funding and unfavorable votes. Correia (2014) shows that firms making more political contributions are less likely to experience SEC enforcement actions. Using a sample of class action lawsuits involving fraud, Yu and Yu (2012) demonstrate that firms incurring higher lobbying expenses are associated with longer class action periods, which suggests that lobbying delays the detection of fraud. Heese (2015) finds that larger firms are less likely to be subjected to an SEC enforcement action. Moreover, Mehta and Zhao (2015) find that firms in jurisdictions served by powerful congressional representatives receive preferential treatment in SEC enforcement actions. Collectively, these findings suggest that it is costly for the SEC to deal with politically connected firms and that the SEC considers the political costs of its enforcement actions.

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days, respectively. In the same report, the average *processing time* for simple, complex, and expedited processing FOIA requests are 27, 408, and 181 days, respectively.

[12] The SEC can reject FOIA requests based on nine exemptions and three exclusions, which can be found here: https://www.sec.gov/Article/foia-reference-guide.html#foia8. The 7th exemption allows the following documents to be exempted from FOIA requests: documents "compiled for law enforcement purposes, the release of which (a) could reasonably be expected to interfere with law enforcement proceedings, …, or (e) would disclose techniques, procedures, or guidelines for investigations or prosecutions."

Congressional representatives' reputations are at risk when firms in their districts are litigated (Mehta and Zhao 2015). To minimize reputation damage, congressional representatives can align their interests with those of the firms in their districts by lobbying the SEC to route cases to a less visible court (i.e., SEC administrative proceedings). Lower visibility can reduce reputation damage for congressional representatives and their constituents. By considering the congressional representatives' lobbying requests, the SEC can accumulate political capital in front of Congress. The SEC, therefore, has incentives to route politically connected defendants to a less visible court venue.

***H1b**: The SEC is more likely to route politically connected defendants to administrative proceedings than to federal district courts.*

As a federal regulatory agency, the SEC has limited resources and faces budgetary constraints (e.g., GAO 2002; Cox et al. 2003). It must allocate its limited resources to achieve the greatest impact from its enforcement actions (GAO 2002). Prior literature suggests that the SEC is sensitive to enforcement costs when deciding whether to litigate (e.g., Cox et al. 2003; Kedia and Rajgopal 2011; Correia 2014; Heese 2015), but these studies do not investigate how resource constraints affect the court venue selection.

In comparison to federal district courts, SEC administrative proceedings incur lower litigation costs for the SEC for two reasons. First, pre-trial discovery procedures usually take much longer in federal courts than in SEC administrative proceedings (SEC 2015b). Second, hearings are generally held more quickly in SEC administrative proceedings than in federal court actions (SEC 2015a). In years when the SEC experiences a larger budgetary constraint (i.e., the difference between the actual spending and the enacted budget, scaled by the enacted budget), the SEC will be more likely to route cases to administrative proceedings.

***H1c**: The SEC is more likely to route defendants to administrative proceedings when its budgetary constraint is more binding.*

2.4 Speed of Processing

The speed of processing an enforcement action is defined as the number of days from filing to ending a litigation, and it is important to both the SEC and the defendants. In the economics and law literature, the speed of processing a case is a commonly accepted measure of court efficiency and litigation costs (e.g., Posner 1973; Levin and Colliers 1984). Lengthy litigations impose significant litigation costs for the SEC (Cox et al. 2003) and defendants (e.g., Karpoff et al. 2008).

An administrative proceeding starts with the filing of an Order Instituting Proceedings (OIP). Once an OIP is filed, the administrative judge has 120, 210, or 300 days from the commencement of a proceeding to issue a decision, depending on the complexity of the case. If the deadline is 300 days, the hearing must begin within four months of the OIP filing. This means that for any administrative proceedings, the maximum amount of time for discovery is four months. Although this shorter discovery time reduces litigation costs for both parties, it can be a disadvantage for defendants who need time to collect and analyze evidence.

Unlike SEC administrative proceedings, parties involved in most civil cases filed in federal courts usually work under a deadline for each motion they file. There is no general deadline for a judge to adjudicate a case. The median legal discovery period before going to trial for all civil cases filed in federal district courts is about 12 months, according to the Federal Judicial Caseload Statistics (U.S. District Courts 2015b). The average time from filing a civil lawsuit to starting the trial is about 21 months (U.S.

District Courts 2015a). It takes another 25 months, on average, to finish the trial (U.S. District Courts 2015a). Overall, for tried cases, it takes about two years from filing a case to receiving a court order.

Administrative proceedings can be faster than federal court cases, but only if the cases complete the trial process. It is unclear how quickly cases settle in each court venue. Nevertheless, the speed of processing is important to defendants in settled cases, because defendants choose to settle only when the expected costs of a trial exceed the expected payouts from court orders (Reinganum and Wilde 1986). Griffin et al. (2000) show that firms, on average, can experience cumulative abnormal returns of about -6.2% within the first 15 days of filing class action lawsuits. Defendants thus have incentives to settle cases quickly. Additionally, the longer the litigation lasts and the more motions are filed in court, the more likely the details of the lawsuits will be disclosed in court and subsequently publicized, which can be costly to defendants' reputations. Therefore, defendants also have incentives to be litigated in the court that processes cases faster.

***H2**: The SEC administrative proceedings are associated with faster speed of processing, in comparison to federal district courts.*

2.5 Monetary penalties

SEC administrative proceedings and federal district courts are structurally different. The SEC pays all administrative law judges (Eaglesham 2015b). During an administrative proceeding, the SEC simultaneously serves as a litigator and an adjudicator (SEC 2015b). Moreover, jury trials are prohibited in administrative proceedings (SEC 2015b). If defendants are dissatisfied with a judgment, they must first appeal to the SEC's five commissioners (SEC 2015b). The main

criticism of these institutional features is that the SEC may have a "home court advantage" in its administrative proceedings (e.g., Spunaugle 2015).

However, SEC administrative law judges are supposed to make decisions based on the same principles as federal judges. In SEC enforcement actions, the SEC (as plaintiff) bears the burden of proving its case by a preponderance of evidence ("Office of Administrative Law Judges" n.d.).[13] Some anecdotal evidence challenges this claim, however. During a media interview in May 2015 (Eaglesham 2015a), former SEC administrative law judge Lillian McEwen publicly stated that SEC administrative law judges are expected to work on the assumption that "the burden was on the people who were accused to show that they didn't do what the agency said they did." This statement suggests that defendants are at a disadvantage in an SEC administrative proceeding. *Ex ante*, it is unclear whether monetary penalties differ across courts. I, therefore, make the following null prediction on monetary penalties:

> ***H3 (null)****: Monetary penalties from SEC enforcement actions do not differ by the enforcement venue.*

3. Data, Sample Selection, and Proxies

3.1 Data and Sample Selection

I use the SEC's website (www.sec.gov) to identify SEC enforcement actions from SEC FYs 2011 to 2015.[14] My sample period follows the passage of the Dodd-Frank Act in July 2010. Complaints and judgments for most cases are obtained through the SEC website (www.sec.gov),

[13] Preponderance refers to the evidentiary standard necessary for a victory in a civil case: more than 50% of the evidence supports a claim ("Preponderance of Proof" n.d.).

[14] Although provision 929P in the Dodd-Frank Act, which granted SEC administrative proceedings the same adjudicatory power as federal district court, became effective on July 22, 2010, the first administrative proceeding using this power was filed in FY 2011.

and the rest are obtained through Bloomberg Law. I collect information at the defendant level.[15] Defendants in these enforcement actions could be assigned either to federal district court or SEC administrative proceedings, which ensures a congruous comparison. Defendants from follow-on proceedings are excluded from my sample.[16]

Panel A of Table 1 presents the time series distribution of all SEC enforcement actions between SEC FYs 2011 and 2015 (i.e., October 1, 2010, to September 30, 2015) by court type. Two observations can be made. First, cases steadily increase after the Dodd-Frank Act, except in FY 2013. Second, the number of cases sent to federal district courts has decreased over time, whereas cases sent to SEC administrative proceedings have increased. In FY 2015, 298 cases (65.5% of total cases in that year) were processed by administrative proceedings, which is about 2.5 times more than the amount in FY 2011. Only 157 cases (34.5% of total cases) were routed to federal district court in FY 2015, which decreased by about 50% in volume, compared to FY 2011. I create Figure 2 to visually illustrate this shift. Figure 3 presents the time series distribution of aggregated total penalties for resolved defendants by enforcement venue. We observe a decrease of aggregated total penalties from FY 2011 to FY 2015. In FY 2011, monetary penalties issued in SEC administrative proceedings were only about 8% of the total penalties. By the end of FY 2015, monetary penalties issued in SEC administrative proceedings accounted for nearly 89% of total penalties in SEC enforcement actions. Collectively, Figures 2 and 3 suggest that the SEC has increased the use of administrative proceedings after the Dodd-Frank Act.

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[15] Following the legal literature on settlement (e.g., Cox et al. 2008), I collect data at the defendant level. For some SEC enforcement actions, more than one firm defendant and one manager defendant, sometimes different firms and different managers from different firms, are sued simultaneously. These defendants may have different allegations. Especially in federal courts, defendants may file different motions at the same time and be processed at different speeds and thus have different ending times and different monetary penalties. Therefore, my sample is at the defendant level to best preserve data authenticity (e.g., Cox et al. 2008).

[16] There are two types of administrative proceedings: stand-alone proceedings and follow-on proceedings. Follow-on proceedings are cases that follow up on other cases and do not issue any monetary penalties. For example, sometimes a case is judged by federal judges and is subsequently sent to an SEC administrative proceeding seeking industry disbarment. Follow-on cases are excluded from any analysis because the nature of these cases does not permit an congruous comparison with cases brought to federal district court.

Panel B of Table 1 summarizes the sample selection process at the defendant level. I begin with firm and manager defendants prosecuted in all SEC enforcement actions between FYs 2011 and 2015. I first drop unresolved defendants. Manager defendants must be at least at the director level to be included in the final sample. Additionally, I require all defendants to have relevant financial information in Compustat.[17] SEC chair's calendars cover only 2010, January 2012 to August 2012, and April 2013 to July 2015, so I drop all defendants whose cases were initiated outside of the these ranges. Since H3 concerns monetary penalties, I further exclude defendants who were dismissed or who won their cases. Therefore, the final sample for testing H3 includes: 43 (84) firm defendants and 51 (66) manager defendants in federal courts (SEC administrative proceedings).

3.2 Resolutions and Monetary penalties

Table 2 Panel A presents descriptive statistics for resolutions by defendants and enforcement venues. Defendants are more likely to settle with the SEC in administrative proceedings than in federal courts. Specifically, 100% (97.9%) of the firm (manager) defendants settled in administrative proceedings, whereas 88.3% (80%) of firm (manager) defendants settled in federal courts. Such difference in settlement rates is statistically significant at the univariate level. Additionally, defendants are more likely to be tried in federal courts. 3.2% (7.1%) of the firm (manager) defendants are tried in federal courts, but none (1%) of them are tried in administrative proceedings.

Table 2 Panel B and Panel C describe monetary penalties for firm and manager defendants, respectively, across courts. The mean and median total penalties are higher for defendants in federal courts. The univariate test in Panel C finds that all types of monetary penalties are significantly higher for manager defendants in federal courts than in administrative

[17] For manager defendants, I use their corresponding companies' financial information. If a defendant is a wholly owned subsidiary, I use its parent company's financial information.

proceedings. Specifically, the average total penalties for manager defendants in administrative proceedings are $334,578, which are statistically lower than the average total penalties for manager defendants in federal courts, $2,464,612.

3.3 SEC's Budgetary Constraint

To measure the SEC's budgetary constraint, I create the variable *BudgetConstraint*, which is the difference between the SEC's actual spending and enacted budget, divided by the enacted budget. The SEC's actual spending and enacted budget for each fiscal year are obtained from the SEC's annual reports, which are publicly available on the SEC's official website. Panel A of Table 3 presents the SEC's actual spending and its enacted budget for each fiscal year. In FY 2011, the SEC spent 6% more than its enacted budget. After FY 2012, the SEC's actual spending is lower than enacted budget. From FY 2012 to 2015, the gap between actual spending and enacted budget is getting closer.

3.4 Political Connectedness

The political connectedness of an institution or individual is often measured by political contributions in extant research (e.g., Correia 2014). One caveat of this proxy is that political contributions may not capture the tangible mechanism through which lobbying occurs (e.g., Milyo et al. 2000). For example, one cannot identify whether candidates who have received political contributions have lobbied on behalf of donors. I use *TotalMeeting* and *TotalMLength* to measure the defendant's political connectedness. *TotalMeeting* is the aggregated number of meetings between defendants' congressional representatives (i.e., congressmen and senators) and the SEC chair within the three months before litigation. *TotalMLength* represents the total length of these meeting in minutes (after taking natural log plus one to account for the skewness in distribution) between defendants' congressional representatives and the SEC chair within three months before litigation. In comparison to existing proxies for political contributions, the meeting

proxy can provide additional assurance that the defendants' congressional representatives have met with the important decision maker within the SEC.

I obtained the SEC chair's daily calendars through a Freedom of Information Act (FOIA) request. The calendars indicate with whom the SEC chair met and when the meetings occurred in calendar year 2010, from January 2012 to August 2012, and from April 2013 to July 2015.[18] No information is available on the meetings' content, which could be one caveat of this proxy. I hand-coded all meetings into a machine-readable format and selected the meetings between the SEC chairs and politicians. The SEC chooses a litigation venue after the enforcement recommendation date and before the litigation starting date. Thus, to capture this decision, I investigated meetings between defendants' congressional representatives (i.e., congressmen and senators) and the SEC chair in the three months prior to the litigation date.[19] Table 3 Panel B shows the top 10 states with the most meeting time with the SEC chairman. New York, California and Alabama take the top three spots, respectively.[20]

3.5 PAC Contributions

A Political Action Committee (PAC) is a political committee that raises and spends money to elect or defeat political candidates. PACs can donate money to any candidate committee, national party committee, or other PACs. PAC contribution is a widely used proxy for political connections (for a literature review, see Milyo et al. (2000)). The data on PAC contributions are downloaded from the Federal Election Commission's website (www.fec.gov). My paper uses two PAC related variables, *PACToCandid* and *PAC_LT*. *PACToCandid* is the total PAC contribution from the defendant's PAC to their congressional representatives who have met

[18] The SEC chair spends about 8% of working hours meeting with politicians. Among the politicians who met with the SEC chair, the proportions of senators and congressmen are nearly equal.

[19] I also use alternative specifications of one month and two months prior to the litigation date. Results remain similar.

[20] My regression results remain similar when excluding the top three states with the most enforcement actions (i.e., New York, California, and Texas), individually, from the sample.

with the SEC chair, aggregated for the year before the meeting. To determine *PACToCandid*, I first identify the candidate committee ID for each congressional representative who met with the SEC chair. Then, I match the political contributions from the defendants' PACs to the candidate committee ID. The second PAC related variable, *PAC_LT*, is the total PAC contributions two years before the litigation starting date. *PAC_LT* differs from *PACToCandid* in that *PAC_LT* includes all forms of PAC contributions (i.e., contributions to all candidates, national parties, and other political action committees), whereas *PACToCandid* includes only the PAC contribution to the defendants' congressional representatives who met with the SEC chair.

Panel C of Table 3 shows the defendants' PAC contributions to their congressional representatives who have met with the SEC chair for one year before and after the meeting took place. Out of the 150 (96) defendants with calendar data in administrative proceedings (federal courts), 52 (28) defendants' PACs made direct contributions to their congressional representatives who met with the SEC chair one year before or after the meeting. The average PAC contributions to congressional representatives who have met with the SEC chair are statistically higher for defendants in SEC administrative proceedings than in federal courts. For defendants in administrative proceedings, their PACs contribute, on average, $1,337 ($1,654) to their congressional representatives one year before (one year after) their congressional representative met with the SEC chair.[21] This amount is statistically higher than the average of $71 donated by the defendants' PACs for defendants in federal courts. This finding helps validate my use of the meeting proxy for political connectedness.

3.6 Descriptive Statistics

[21] A PAC can contribute up to $5,000 to a candidate committee per election year. Correia (2014) finds that on average a PAC contributes $39,756 to 32 candidates per year, which suggests that a PAC donates about $1,242.4 to a political candidate per year. The amount of PAC contributions in Panel C Table 3 may seem low. It at least signals the relationship between the defendant and their congressional representatives.

Panel D of Table 3 provides the descriptive statistics for variables used in my regression analyses. Notably, SEC administrative proceedings process a defendant's case in about 12 days (*DaysToFinish*), or about 17 times faster than federal district courts. Interestingly, the median of *DaysToFinish* is zero, which suggests that more than half of the defendants in administrative proceedings settled with the SEC within the same day. Regarding meeting frequency (*TotalMeeting*) and meeting length (*TotalMLength*), congressional representatives for defendants in administrative proceedings have higher meeting frequencies and longer meeting times than those in federal courts. Turning to *PACToCandid* and *PACL_LT*, PAC contributions from defendants in administrative proceedings are larger than those in federal courts.

4. Research Design

4.1 Enforcement Venue Selection Model

My H1 models the SEC's enforcement venue choice as a function of case materiality, defendant's political connectedness and the SEC's budgetary constraint. The following logit regression represents the model:

$$Pr\,(SEC\ Administrative\ Proceeding) = f(case\ materiality, political\ connectedness, budgetary\ constraint, controls) \quad (1)$$

where the dependent variable *SEC Administrative Proceeding* equals 1 if a defendant is routed to an SEC administrative proceeding, and 0 if a defendant is assigned to a federal district court. Prior research has shown that fraud and bribe allegations are considered as more material violations of the securities laws (e.g., Bonner et al. 1998). To measure case materiality, I create two indicator variables, *Fraud* and *Bribe*, which equal 1 when defendants experience fraud or bribery allegation, respectively. Two proxies, *TotalMeeting* and *TotalMLength*, measure

defendants' political connectedness. I use *BudgetConstraint* to measure the SEC's budgetary constraint.

In equation (1), I create two variables, *PACToCandid* and *PAC_LT*, to control for the short-term and long-term PAC contributions, respectively. I include *TotalDef* (total number of defendants in each case) and *TotalViolation* (total number of alleged allegations for a given defendant) to control for case specific information. *LogAT*, *LogCash*, and *Leverage* control for the defendant's financial information. *Distance* (the natural log of the geographic distance between the defendant's state or country capital and Washington D.C.) is included as a control variable, because Kedia and Rajgopal (2011) find that the SEC is more likely to investigate defendants who are geographically close to them. A stream of literature finds that institutions act opportunistically at the end of the fiscal year (e.g., Collins et al. 1984; Das & Shroff 2002; Jacob & Jorgensen 2007). I thus create an indicator variable, *September*, which equals 1 if the case is filed in the last month of the SEC's fiscal year. To account for the fixed effects for the SEC chairman, I create a variable, *White*, which equals 1 if a case is filed during Mary Jo White's tenure.[22] *Foreign* is included to control for whether a defendant is foreign. To control for the SEC's case load, I create the variable *CaseLoad*, which is the total number of cases for a given fiscal year. Because my sample is at the defendant level, I use an indicator variable, *Firm*, to signal whether the observation is a firm or a manager defendant.[23] Standard error are clustered by case. Year fixed effects are added.

4.2 Speed of Processing and Monetary penalties Model

[22] The time range of my sample includes the tenures of three SEC chairpersons: Mary Schapiro (January 27, 2009 to December 14, 2012), Elisse Walter (December 15, 2012 to April 9, 2013), and Mary Jo White (April 10, 2013 to present).

[23] Following the legal literature on settlement (e.g., Cox et al. 2008), I run all my regressions by pooling both firm and manager defendants together. I also run all regressions using firm and manager samples separately. All results remain similar. For parsimony, I report only results from pooled regressions.

My second and third hypotheses compare the speed of processing and monetary penalties of SEC enforcement actions between SEC administrative proceedings and federal district court. I run the following OLS regression to test H2 and H3:

$$log\ (1 + Outcome\ Variable) = f(SEC, controls) \qquad (2)$$

where the outcome variable on the left-hand-side can be either the speed of processing or the monetary penalties. When testing H2, the outcome variable is the number of days from the litigation starting date to the litigation ending date. When testing H3, the outcome variable is the amount of monetary penalties for a defendant. Natural log plus 1 is used to transform the dependent variable. The variable of interest in equation (2) is *SEC*, which equals 1 if the defendant is prosecuted in an administrative proceeding, and 0 if the defendant is prosecuted in federal court. Control variables in equation (1) are used in equation (2). Additionally, I add resolution fixed effects to control for judgment types (*Settled*, *Default*, and *Summary*) and an indicator variable signaling whether monetary penalties are waived (*Waive*).[24]

5. Results

5.1 Enforcement Venue Selection

Table 4 reports the results for the enforcement venue choice model. Panel A of Table 4 provides the coefficient estimates of logit regressions. Panel B presents the average marginal effects. Model 1 provides a benchmark by including variables measuring case materiality (*Fraud* and *Bribe*) with control variables in place. Model 2 and Model 3 further include measures for political connectedness and the SEC's budgetary constraint. The total number of observations in

[24] A default judgment is sometimes issued when defendants fail to respond to court summons or fail to appear before a court within a given deadline. A court sometimes issues a summary judgment when no factual issues remain to be tried.

Models 2 and 3 differs from that in Model 1 because I dropped defendants whose case starting dates are outside of the available SEC chair calendar dates.

I first interpret the signs of coefficient estimates in Panel A of Table 4. I find that defendants with fraud (*Fraud*) and bribery (*Bribe*) allegations are more likely to be assigned to federal district courts, as evidenced by the negative and significant coefficients across three models. These results suggest that more material cases are more likely to be pursued in federal courts than in administrative proceedings. In Models 2 and 3, I add two variables to proxy for defendants' political connectedness: *TotalMeeting* and *TotalMLength*. *TotalMeeting* (*TotalMLength*) has a positive and significant coefficient, which means defendants with more meetings (longer meeting times in minutes) are more likely to be assigned to an administrative proceeding. These findings suggest that politically connected defendants are more often routed to SEC administrative proceedings than to federal courts. Next, *BudgetConstraint*, the proxy for the SEC's budgetary constraint, has positive and significant coefficients in both Models 2 and 3, which suggests that a defendant is more likely to be routed to SEC administrative proceedings when budgetary constraints are more binding.

The average marginal effects reported in Panel B of Table 4 suggest the findings are economically significant. Defendants with *Fraud* (*Bribe*) allegations are about 38% (31%) more likely to be assigned to federal court. The average marginal effect of *TotalMeeting* (*TotalMLength*) is 0.09 (0.001), which suggests that each additional meeting (30 additional minutes in meetings) leads to about 9% (4%) increase in the probability of being assigned to an administrative proceeding. An increase in *BudgetConstraint* by 1% leads to an increase in the likelihood of being routed to an SEC administrative proceeding by about 4%. The economic magnitude of these marginal effects is considerable given that the average likelihood of being assigned to administrative proceedings is about 60%.

A few observations can be made for control variables in Panel A of Table 4. The long-term political contribution variable *PAC_LT* has positive and significant coefficients across three models, which suggest that defendants associated with PACs that make more long-term political contributions are more likely to be routed to SEC administrative proceedings than to federal courts. These findings also support my *H1b*, which predicts that politically connected defendants are more likely to be routed to SEC administrative proceedings. Additionally, the positive and significant coefficients of *September* across three models suggest that if defendants' cases are filed in September (the last month of SEC's fiscal year), they are about 20% more likely to be routed to an SEC administrative proceeding.

Combining all findings in Table 4, it is evident that case materiality, defendants' political connectedness, and the SEC's budgetary constraint are factored into the SEC's choice of enforcement venue. Additionally, all three models in Table 6 seem to explain the SEC's court venue choice reasonably well, as evidenced by the high pseudo r^2 values of approximately 60%.

5.2 Speed of Processing

Table 5 reports the OLS regression results for testing H2, which compares the processing speeds of SEC administrative proceedings and federal district courts. The variable of interest on the right-hand-side is *SEC*, which equals 1 if the defendant is prosecuted in an SEC administrative proceeding and 0 otherwise. Across four models, *SEC* has significant and negative coefficients between −1.9 and −2.5, which indicates that SEC administrative proceedings process defendants much faster than federal district courts. Interpreting these coefficients in economic language, SEC administrative proceedings resolve cases approximately 15 times faster than federal district courts, after considering all the control variables.

As expected, settled defendants take less time to process by court, as suggested by the significantly negative coefficients on *Settled* in Models 1 to 3 in Table 5. I also find a positive

coefficient on *TotalDef* in Models 2 and 3, which suggests that when there are more defendants involved in a case, it takes more time to process them from start to finish.

5.3 Monetary Penalties

Table 6 presents the results for testing H3, which concerns the association between the SEC's venue choice and monetary penalties imposed on defendants. In addition to accounting for all variables in the court choice model in Table 4, I add a variable indicating whether monetary penalties are waived (*Waive*) and fixed effects for judgment types (*Settled*, *Default*, and *Summary*).

Model 1 in Table 6 provides a benchmark. The negative and marginally significant coefficient of *SEC* in Model 1 suggests that monetary penalties imposed by SEC administrative proceedings are over 60% less than those imposed by federal courts.[25] Meanwhile, the positive coefficient of *LogCash* implies that defendants with more monetary resources are associated with higher monetary penalties. *Bribe* loads positively, suggesting that defendants associated with bribery allegations incur higher total monetary penalties. The variable *Settled* has a negative and significant coefficient, which means that if defendants settle with the SEC, they tend to experience lower monetary penalties.

In Models 2 and 3 of Table 6, I interact *SEC* with *TotalMeeting* and *TotalMLength* to examine how meetings between defendants' congressional representatives and the SEC chair affect monetary penalties in SEC administrative proceedings. The negative and significant coefficients on the interaction terms, −0.853 and −0.016, suggest that more meetings (in frequency and in minutes) between defendants' congressional representatives and the SEC chair are associated with lower total monetary penalties in administrative proceedings. One additional

[25] This is calculated as 1-exp(-1.137)=0.679.

meeting leads to a decrease in additional monetary penalties by about 50%, and an additional 10 minutes of meeting length corresponds to a reduction in additional penalties by about 16%.[26]

After adding variables for lobbying activities in Models 2 and 3, coefficients for *LogAT* and *Leverage* become significant, suggesting that defendants associated with larger and more leveraged firms are correlated with higher monetary penalties. Defendants with bribery allegations are also associated with higher penalties, as evidenced by the positive coefficients of *Bribe.*

The results in Table 6 suggest that defendants in SEC administrative proceedings are associated with lower total monetary penalties. Moreover, lobbying activities seem to reduce the monetary penalties for defendants in SEC administrative proceedings.

6. Sensitivity Checks

Endogeneity may be of concern when comparing the speed of processing and monetary penalties between the SEC administrative proceedings and federal district courts. To check the robustness of my results, I employ two-stage least squares method (2SLS), which is widely used in accounting research to address endogeneity (e.g., DeFond et al. 2002).

The endogeneity problem is rooted in the selection issue. Larcker and Rusticus (2010), therefore, encourage researchers to justify their selection of instruments using economic theory because the selection issue in the first stage can affect test results in the second stage. I re-run my tests for H2 and H3 using variables in H1 as instruments in the first stage. Specifically, Model 1 and 2 in Table 7 use *TotalMeeting*, *BudgetConstraint*, *Fraud*, and *Bribe* as instruments in the first

[26] To control for the powerfulness of a politician, I follow Mehta and Zhao (2015) and include an indicator variable to signal whether a politician serves as a chairman or ranking member of any congressional committees. I re-run the regressions with this variable in place. Results remain similar.

stage. Models 3 and 4 swap out *TotalMeeting* with *TotalMLength*. The use of these instruments is grounded by economic theories, as described in Section II of this paper. In the second stage, I plug in the fitted value from the first stage model predicting court venue.

Panel A of Table 7 presents the 2SLS results for H2 (speed of processing). As evidenced by the negative and significant coefficients across the models, cases in the SEC administrative proceedings are processed faster than those in the federal courts. These results are consistent with the results in Table 5. Panel B presents the 2SLS results for H3 (monetary penalties). In Models 1 and 3, the coefficients for *SEC_fitted* are negative and significant, which means the defendants in the SEC administrative proceedings are associated with lower monetary penalties, in comparison to defendants in federal courts. The interaction term between *SEC_fitted* and *TotalMLength* in Model 4 is negative and significant. This suggests that for defendants in administrative proceedings, the longer meeting times between the defendants' congressional representatives are associated with lower monetary penalties. Although the interaction term in Model 2 is not significant, its *p-value* is about 0.104. Overall, results in Panel B of Table 7 are consistent with the findings in Table 6.

7. Conclusion

Using data on SEC enforcement actions from SEC FYs 2011 to 2015, I first examine the SEC's choice of enforcement venue, either an SEC administrative proceeding or federal district court. Then, I assess the relations between the enforcement venue and the enforcement outcomes (i.e., the speed of processing and monetary penalties). I combine the enforcement data with a novel data set of meetings between defendants' congressional representatives (i.e., senators and congressmen) and the SEC chair as a new proxy for the defendants' political connectedness.

I model the SEC's venue choice as a function of case materiality, defendants' political connectedness, and the SEC's budgetary constraint. My results show that defendants associated with more material cases are more likely to be routed to federal district courts than to SEC administrative proceedings. I also find that the SEC is more likely to route politically connected defendants to administrative proceedings than to federal courts. Furthermore, when the SEC's budgetary constraint is more binding, defendants in enforcement actions are more likely to be routed to SEC administrative proceedings.

When comparing the speed of processing between the two venues, I find that administrative proceedings resolve cases nearly 17 times faster than federal district courts do. On average, administrative proceedings resolve a defendant's claims in about 12 days, whereas federal district courts resolve a defendant's claims in about 202 days. These findings suggest that administrative proceedings are more cost efficient both for the SEC and the defendants. The difference in processing speeds across enforcement venues may explain why defendants prefer SEC administrative proceedings. Perhaps the shorter processing time reduces litigation costs and prevents sensitive information from being released to the public.

The tests on monetary penalties show that defendants in SEC administrative proceedings are associated with lower monetary penalties than defendants in federal courts. Additionally, in comparison to defendants in federal courts, defendants in SEC administrative proceedings are associated with lower monetary penalties when their congressional representatives met with the SEC chair more frequently and longer before the litigations start. My results remain robust when using the two-stage least squares method. These findings suggest that SEC administrative proceedings appear to be more favorable to politically connected defendants.

Taken together, my results show that the SEC's private incentives and the political process seem to affect the enforcement process and possibly the outcomes of SEC enforcement.

When the political and economic costs (benefits) are greater, the SEC is more likely to use its internal administrative proceedings (federal courts). Although SEC administrative proceedings allows the agency to pursue more litigations overall in the Dodd-Frank Act era, defendants in administrative proceedings are associated with lower monetary penalties and faster processing time. My findings suggest that a potential mechanism for these lower monetary penalties is the political influence exerted during the SEC's court assignment process. These findings can be informative to legislators and regulators when considering the use of SEC administrative proceedings.

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Figure 1: SEC enforcement timeline

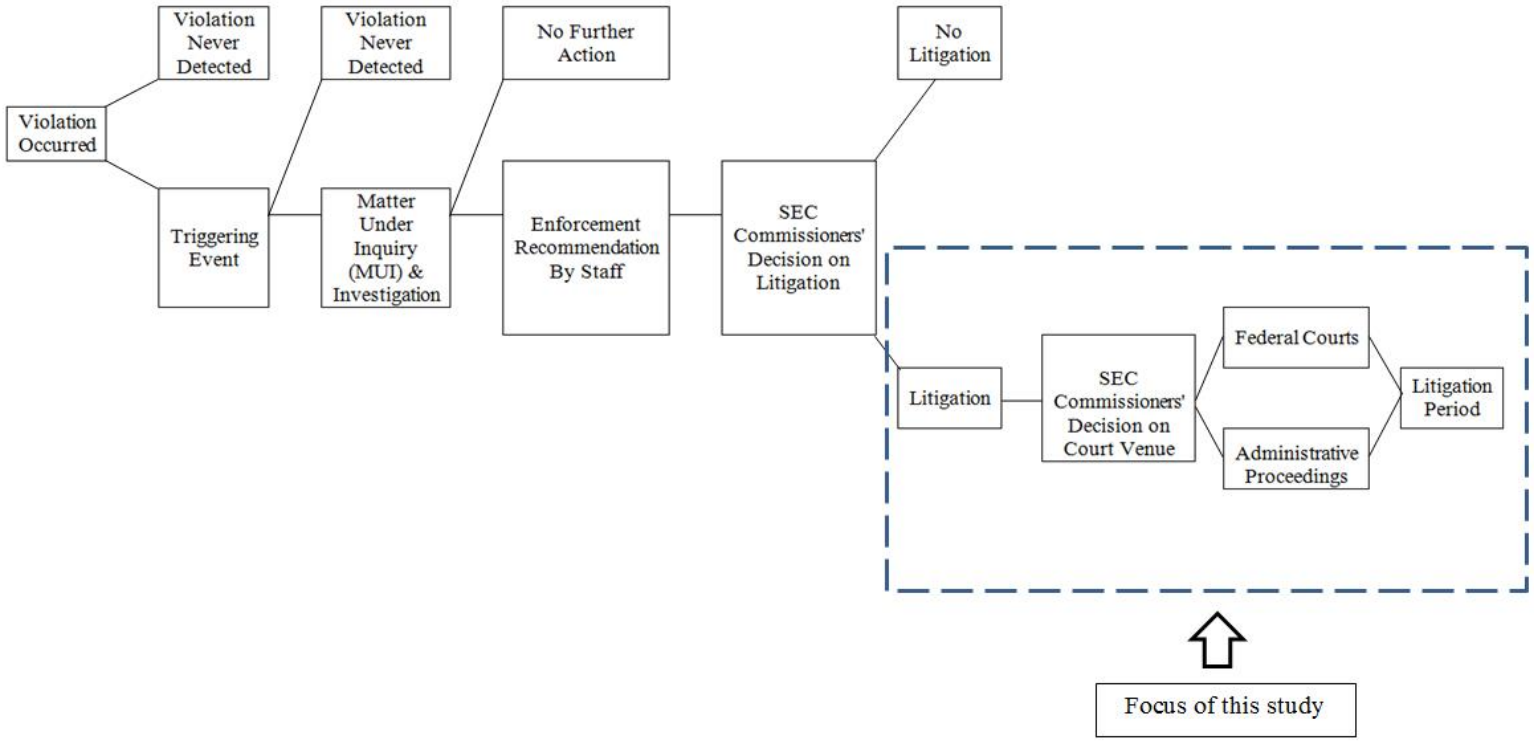

Figure 2: Distribution of total cases by enforcement venue

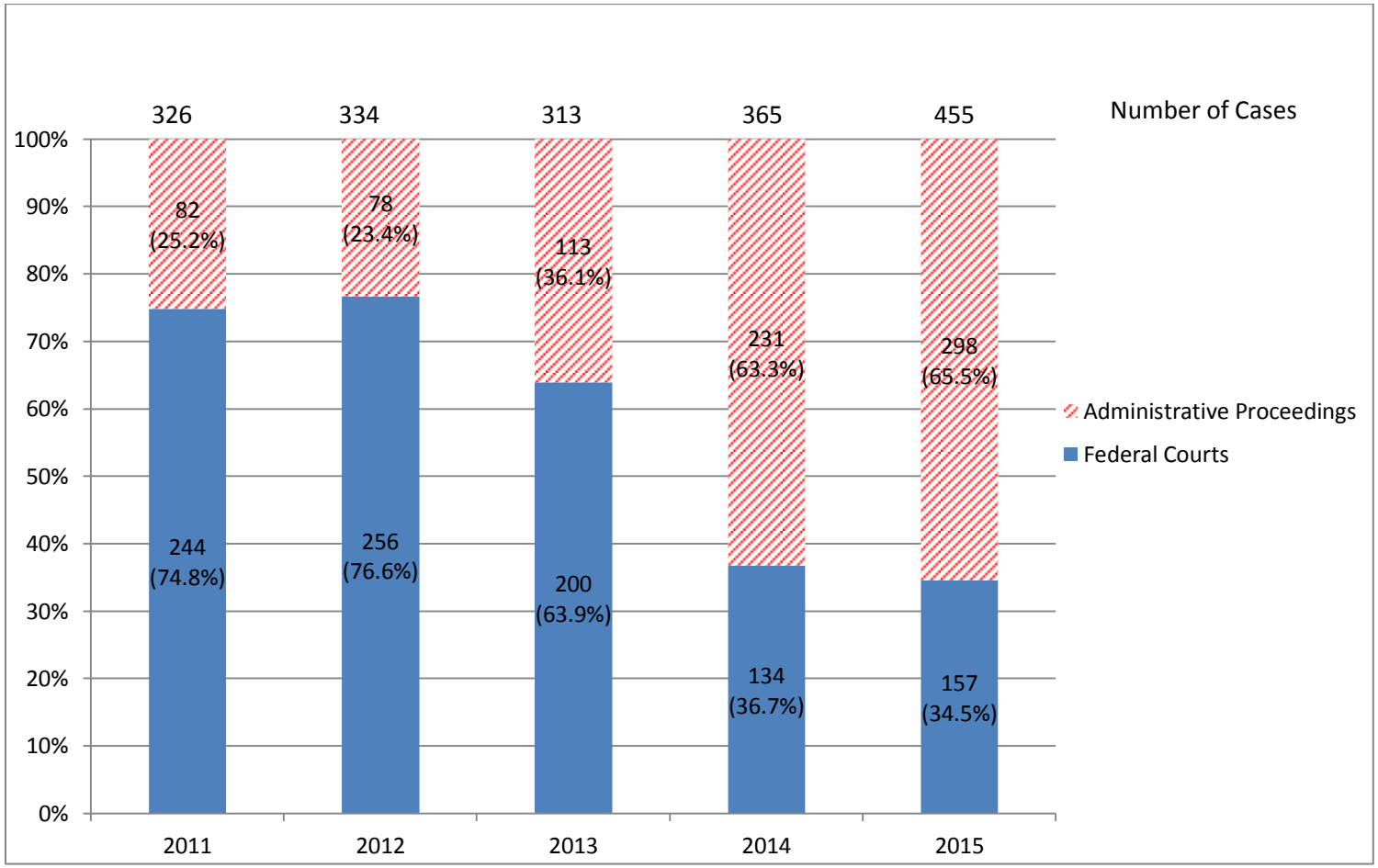

Figure 3: Distribution of aggregated total penalties for resolved defendants by enforcement venue

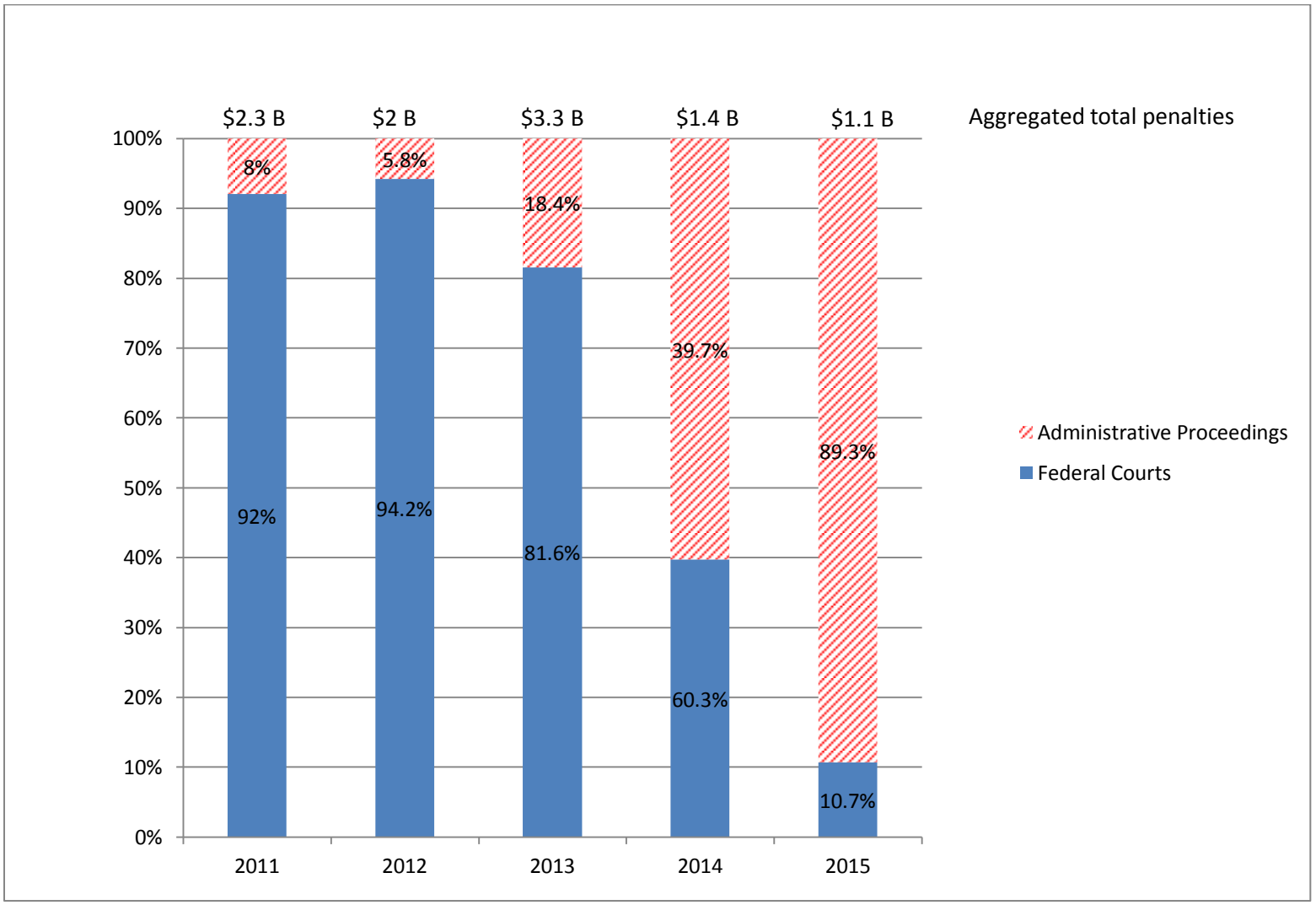

Table 1: Descriptive Statistics for SEC Enforcement Actions between FY 2011 and 2015 & Sample Selection

Panel A: Distribution of cases by year

Fiscal Year	Total cases	Federal Courts		Administrative Proceedings	
		# of cases	Percentage	# of cases	Percentage
2011	326	244	74.8%	82	25.2%
2012	334	256	76.6%	78	23.4%
2013	313	200	63.9%	113	36.1%
2014	365	134	36.7%	231	63.3%
2015	455	157	34.5%	298	65.5%

Panel B: Sample Selection

	Federal Courts		Administrative Proceedings	
	Firm	Manager	Firm	Manager
Total defendants	925	1838	628	595
Unresolved defendants	(422)	(648)	(54)	(89)
Non-management		(666)		(153)
No Compustat record	(409)	(344)	(447)	(257)
Sample Used for Model 1 of H1 & H2	94	180	127	96
Defendants won or dismissed	(1)	(11)	(0)	(1)
Sample used for Model 1 of H3	93	169	127	95
No meeting data	(50)	(118)	(43)	(30)
Sample Used for Models 2 & 3 of H3	43	51	84	66
Defendants won or dismissed, but have meeting data	(0)	2	(0)	(0)
Sample Used for Models 2 & 3 of H1 & H2	43	53	84	66

Table 2: Descriptive statistics for resolutions and monetary penalties

Panel A: Resolutions

	Firm Defendants					Manager Defendants				
	Federal Courts		*Administrative Proceedings*			*Federal Courts*		*Administrative Proceedings*		
	Frequency	Percentage	Frequency	Percentage	P-value	Frequency	Percentage	Frequency	Percentage	P-value
N	94	100	127	100		180	100	96	100	
Settled	83	88.3	127	100	<0.01	143	80	94	97.9	<0.01
Trial	3	3.2	0	0	0.04	14	7.8	1	1	0.02
Summary judgment	0	0	0	0	NA	2	1	0	0	0.30
Default judgment	7	7.4	0	0	0.00	10	5.6	0	0	0.02
Dismissed	1	1.1	0	0	0.24	11	5.6	1	1	0.07

Panel B: Monetary penalties for firm defendants (only for cases won by the SEC)

	Federal Courts (N = 93)					*Administrative Proceedings (N=127)*					P-value
	Min	Median	Max	SD	Mean	Min	Median	Max	SD	Mean	
Pre-judgment Interests	0	$0	$30,000,000	$4,005,413	$1,641,279	0	$0	$64,300,000	$6,559,470	$1,693,953	0.941
Disgorgements	0	$308,000	$160,000,000	$21,900,000	$10,100,000	0	$0	$175,000,000	$24,000,000	$7,228,252	0.361
Civil Penalties	0	$46,903	$525,000,000	$57,100,000	$12,900,000	0	$375,000	$200,000,000	$25,900,000	$7,232,785	0.374
Total Penalties	0	$4,550,000	$525,000,000	$65,300,000	$24,600,000	0	$800,000	$200,000,000	$38,900,000	$16,200,000	0.268

Panel C: Monetary penalties for manager defendants (only for cases won by the SEC)

	Federal Courts (N = 169)					*Administrative Proceedings (N = 95)*					P-value
	Min	Median	Max	SD	Mean	Min	Median	Max	SD	Mean	
Pre-judgment Interests	0	$0	$8,796,350	$1,140,678	$226,394	0	$0	$1,647,865	$169,046	$19,690	0.022
Disgorgements	0	$10,000	$66,900,000	$8,328,728	$1,734,760	0	$0	$9,690,000	$1,025,611	$156,442	0.016
Civil Penalties	0	$60,000	$27,000,000	$2,343,548	$503,459	0	$47,250	$9,690,000	$991,955	$158,445	0.097
Total Penalties	0	$145,460	$75,700,000	$10,200,000	$2,464,612	0	$50,000	$21,000,000	$2,164,175	$334,578	0.010

* Pre-judgment interests refer to the interests accrued on the amount of a legal award from the time of the damage to the time the judgment is entered by the court. Disgorgement is the repayment of ill-gotten gains that the court imposes on wrong-doers. Civil penalties are financial penalties imposed by the court as restitution for wrongdoing. Total penalties are the sum of pre-judgment interests, disgorgements, and civil penalties.

Table 3: Descriptive Statistics

Panel A: SEC spending and enacted budget (dollars in thousands) by fiscal year

Fiscal Year	Actual Spending	Enacted Budget	Budgetary Constraint
2011	$1,212,859	$1,143,855	6.0%
2012	$1,179,912	$1,359,781	-13.2%
2013	$1,276,158	$1,417,514	-10.0%
2014	$1,415,814	$1,463,659	-3.3%
2015	$1,550,548	$1,574,424	-1.5%

* Budgetary constraint is calculated as (actual spending - enacted budget)/enacted budget

Panel B: Top 10 states with the most meeting time with the SEC chair

Rank	State	# of Meetings	Total meeting length in minutes
1	NY	30	2402
2	CA	18	1340
3	AL	11	975
4	PA	15	920
5	LA	7	780
6	NJ	10	695
7	VA	8	695
8	CO	10	675
9	MA	8	660
10	DE	9	630

Panel C: PAC contributions to congressional representatives

	Federal Courts (total defendants = 96)		*Administrative Proceedings* (total defendants = 150)		P-value of t-test for difference in PAC contributions
	Mean PAC contribution	N	Mean PAC contribution	N	
1 year before the meeting with the SEC chair	$71.40	28	$1,336.54	52	0.0278
1 year after the meeting with the SEC chair	$71.42	28	$1,653.84	52	0.0092

Panel D: Descriptive statistics for variables used in regression analyses

	Federal Courts (N=96)			*Administrative Proceedings (N=150)*		
Variable	Median	SD	Mean	Median	SD	Mean
DaysToFinish	41.5	305.24	201.07	0	56.66	11.13
TotalMeeting	0	0.85	0.46	0	1	0.61
TotalMLength	0	64.2	31.61	0	81.5	44.07
PACToCandid	0	$204	$21	0	$1,848	$463
PAC_LT	0	$256,527	$71,085	0	$219,707	$116,449
Fraud	1	0.47	0.69	0	0.33	0.13
Bribe	0	0.37	0.17	0	0.32	0.11
Accounting	0	0.47	0.33	0	0.49	0.39
TotalDef	2	1.64	2.4	1	1.18	1.65
TotalViolation	2	1.75	2.91	2	1.23	2.11
Firm	0	0.5	0.45	1	0.5	0.56
LogAT	6.07	3.51	6.44	7.95	3.63	8.36
LogCash	3.45	2.86	3.86	5.27	3.22	5.48
Leverage	0.12	0.16	0.16	0.09	0.65	0.18
Distance	6.8	1.68	6.82	6.32	1.65	6.28
Foreign	0	0.44	0.26	0	0.34	0.13
September	0	0.4	0.2	0	0.42	0.22
White	1	0.49	0.61	1	0.28	0.91

Panel D provides descriptive statistics for variables used in regression analyses. *DaysToFinish* measures the number of days from the litigation starting date to the litigation ending date. *TotalMeeting* measures the number of meetings between politicians representing the defendants' geographical states and the SEC chair within 3 months prior to the litigation starting date. *TotalMLength* is the length of meetings, defined as aggregated minutes, between politicians representing the defendants' states and the SEC chair within 3 months prior to the litigation starting date. *PACToCandid* is the natural log of total PAC contributions to their congressional representatives who have met with the SEC chair. The total PAC contribution is the aggregated amount in the year before the meeting. *PAC_LT i*s the natural log of total PAC contributions in the two years before the litigation starting date. *Fraud* is an indicator variable that equals 1 if the defendant allegedly committed a fraud violation, and 0 otherwise. *Bribe* is an indicator variable that equals 1 if the defendant allegedly committed a bribery violation, and 0 otherwise. *Accounting* is an indicator variable that equals 1 if the defendant allegedly committed an accounting violation, and 0 otherwise. *TotalDef* is the total number of defendants in an enforcement action. *TotalViolation* is the total amount of violations experienced by the defendant. *Firm* is an indicator variable that equals 1 if the defendant is a firm, and 0 if the defendant is an individual. *LogAT* is the natural log of total assets, as obtained from Compustat, in the last year of the violation period. *LogCash* is the natural log of total cash, as obtained from Compustat. *Leverage* is the ratio of total debt over total assets, as obtained from Compustat. *Distance* is the natural log of the geographic distance between the defendant's state and the SEC's Washington

D.C. office. *Foreign* is an indicator variable that equals 1 if the defendant is a foreign firm or personnel, and 0 otherwise. *September* is an indicator variable for the last month of the SEC's fiscal year that equals 1 if the defendant is filed in September, and 0 otherwise. *White* is an indicator variable that equals 1 if the enforcement action is filed after April 10, 2013, and 0 otherwise.

Table 4: Logit regressions predicting enforcement venue assignment

Panel A: Coefficient Estimates

Variables	Exp. Sign	Model 1	Model 2	Model 3
Fraud	-	-3.419*** [0.541]	-4.859*** [1.050]	-4.677*** [0.989]
Bribe	-	-2.047*** [0.565]	-3.888*** [1.050]	-3.825*** [1.034]
TotalMeeting	+		1.149** [0.470]	
TotalMLength	+			0.015** [0.006]
BudgetConstraint	+		47.201** [18.911]	51.597*** [19.947]
PACToCandid			-0.053 [0.137]	-0.04 [0.133]
PAC_LT		0.088* [0.049]	0.137* [0.072]	0.120* [0.068]
Accounting		0.667 [0.570]	1.072 [0.877]	1.041 [0.888]
TotalDef		-0.389*** [0.145]	-0.256 [0.279]	-0.277 [0.276]
TotalViolation		-0.006 [0.175]	0.132 [0.291]	0.06 [0.284]
Firm		0.176 [0.304]	0.339 [0.531]	0.369 [0.543]
LogAT		0.009 [0.150]	-0.068 [0.232]	-0.064 [0.242]
LogCash		-0.071 [0.180]	0.036 [0.284]	0.062 [0.294]
Leverage		-0.181 [0.251]	-0.467** [0.232]	-0.464** [0.224]
Distance		-0.275** [0.117]	0.054 [0.183]	0.04 [0.184]
Foreign		0.661 [0.458]	0.705 [0.752]	0.693 [0.736]
September		1.328** [0.646]	2.505* [1.354]	2.416* [1.358]
White		-1.075 [0.812]	4.703 [2.866]	5.471* [2.943]
CaseLoad		0.023***	0.025*	0.022

	[0.007]	[0.015]	[0.015]
Constant	-3.504	-10.655**	-10.016**
	[3.004]	[4.988]	[4.905]
Observations	497	246	246
Year FE, Cluster by Case	Yes	Yes	Yes
Pseudo R2	0.562	0.625	0.621

Panel A presents the coefficient estimates of the logit estimation of equation (1): Pr (*SEC administrative proceeding*)= f (*case materiality*, *political connectedness*, *budgetary constraint*, controls). The dependent variable equals 1 if a defendant is routed to an SEC administrative proceeding, and 0 if the defendant is routed to a federal court. *Fraud* and *Bribe* measure case materiality. *TotalMeeting* and *TotalMLength* measure political connectedness. *BudgetConstraint* is a proxy for the SEC's budgetary constraint. Model 1 provides a benchmark by including case materiality measures and controls. In Models 2 and 3, I further include proxies for political connectedness and budgetary constraint. The total observations decreased in Models 2 and 3, because the SEC chair's calendar covers only 2010, January 2012 to August 2012, and April 2013 to July 2015. Defendants whose cases did not start within these time ranges are excluded in Models 2 and 3. Robust standard errors are reported in the brackets. *, **, and *** denote significance at the 0.1, 0.05, and 0.01 levels, respectively.

Panel B: Marginal Effects

Variables	Exp. Sign	Model 1	Model 2	Model 3
Fraud	-	-0.325***	-0.382***	-0.373***
		[0.541]	[1.050]	[0.989]
Bribe	-	-0.195***	-0.306***	-0.305***
		[0.565]	[1.050]	[1.034]
TotalMeeting	+		0.090**	
			[0.470]	
TotalMLength	+			0.001***
				[0.006]
BudgetConstraint	+		3.712**	4.110***
			[18.911]	[19.947]
PACToCandid			-0.004	-0.003
			[0.137]	[0.133]
PAC_LT		0.009*	0.011*	0.010*
		[0.049]	[0.072]	[0.068]
Accounting		0.061	0.084	0.083
		[0.570]	[0.877]	[0.888]
TotalDef		-0.038***	-0.020	-0.022
		[0.145]	[0.279]	[0.276]
TotalViolation		0.000	0.010	0.005
		[0.175]	[0.291]	[0.284]
Firm		0.016	0.027	0.029
		[0.304]	[0.531]	[0.543]
LogAT		0.001	-0.005	-0.005
		[0.150]	[0.232]	[0.242]
LogCash		-0.006	0.003	0.005
		[0.180]	[0.284]	[0.294]
Leverage		-0.017	-0.037**	-0.037**
		[0.251]	[0.232]	[0.224]
Distance		-0.025**	0.004	0.003
		[0.117]	[0.183]	[0.184]
Foreign		0.059	0.055	0.055
		[0.458]	[0.752]	[0.736]
September		0.125**	0.197*	0.192*
		[0.646]	[1.354]	[1.358]
White		-0.096	0.370	0.436*
		[0.812]	[2.866]	[2.943]
CaseLoad		0.003***	0.002*	0.002
		[0.007]	[0.015]	[0.015]
Observations		497	246	246
Year FE, Cluster by Case		Yes	Yes	Yes
Pseudo R2		0.562	0.625	0.621

Panel B presents the average marginal effects of the logit estimation of equation (1): Pr (*SEC administrative proceeding*)= f (*case materiality, political connectedness, budgetary constraint,* controls). The dependent variable equals 1 if a defendant is routed to an SEC administrative proceeding, and 0 if the defendant is routed to a federal court. *Fraud* and *Bribe* measure case materiality. *TotalMeeting* and *TotalMLength* measure political connectedness. *BudgetConstraint* is a proxy for the SEC's budgetary constraint. Model 1 provides a benchmark by including case materiality measures and controls. In Models 2 and 3, I further include proxies for political connectedness and budgetary constraint. The total observations decreased in Models 2 and 3, because the SEC chair's calendar covers only 2010, January 2012 to August 2012, and April 2013 to July 2015. Defendants whose cases did not start within these time ranges are excluded in Models 2 and 3. Robust standard errors are reported in the brackets. *, **, and *** denote significance at the 0.1, 0.05, and 0.01 levels, respectively.

Table 5: Regression analyses of speed of processing

Dependent variable = log(1+# of days to finish the case for each defendant)			
Variables	Model 1	Model 2	Model 3
SEC	-2.492***	-1.952***	-1.910***
	[0.327]	[0.539]	[0.535]
*SEC*TotalMeeting*		0.346	
		[0.262]	
TotalMeeting		-0.326	
		[0.285]	
*SEC*TotalMLength*			0.003
			[0.004]
TotalMLength			-0.002
			[0.004]
PACToCandid	-0.04	-0.043	-0.049
	[0.033]	[0.059]	[0.058]
PAC_LT	0.028	-0.005	-0.006
	[0.027]	[0.032]	[0.032]
BudgetConstraint	-11.53	4.292	4.161
	[7.025]	[11.526]	[11.809]
Fraud	0.332	0.379	0.342
	[0.317]	[0.468]	[0.463]
Bribe	-0.485	-0.750**	-0.757**
	[0.322]	[0.336]	[0.338]
Accounting	0.177	-0.412	-0.388
	[0.270]	[0.330]	[0.335]
TotalDef	0.059	0.388**	0.395***
	[0.102]	[0.151]	[0.150]
TotalViolation	0.039	0.026	0.031
	[0.083]	[0.119]	[0.122]
Firm	-0.122	0.355*	0.378*
	[0.190]	[0.206]	[0.205]
LogAT	0.037	-0.1	-0.088
	[0.099]	[0.102]	[0.102]
LogCash	-0.034	0.11	0.099
	[0.109]	[0.114]	[0.114]
Leverage	0.077	-0.079	-0.066
	[0.127]	[0.102]	[0.099]
Distance	0.115*	0.032	0.029
	[0.058]	[0.087]	[0.089]
Foreign	0.163	0.199	0.246
	[0.341]	[0.413]	[0.414]
September	-0.051	-0.313	-0.292
	[0.294]	[0.488]	[0.490]

White	-0.672	0.861	0.876
	[0.550]	[1.519]	[1.541]
Settled	-3.105***	-4.463***	-4.427***
	[0.507]	[0.706]	[0.720]
Waive	0.211	1.214***	1.200***
	[0.413]	[0.401]	[0.412]
CaseLoad	-0.002	-0.006	-0.006
	[0.003]	[0.006]	[0.006]
Constant	5.771***	7.895***	7.723***
	[1.406]	[1.927]	[1.950]
Observations	497	246	246
Adj. R-squared	0.549	0.606	0.603
Year FE, Cluster by Case, Resolution FE	Yes	Yes	Yes

This table presents the results of the OLS estimation of equation (2): log (1+ *Outcome Variable*)= f (*SEC*, controls). The outcome variable here is the total number of days to finish a case from the litigation starting date to the litigation ending date. The dependent variable takes the natural log transformation to address the skewness. Model 1 provides a benchmark using all the sample observations. In Models 2 and 3, I interact *SEC* with meeting proxies, *TotalMeeting* and *TotalMLength*. The total observations decreased in Models 2 and 3, because the SEC chair's calendar covers only 2010, January 2012 to August 2012, and April 2013 to July 2015. Defendants whose cases started outside of these time ranges are not included in Models 2 and 3. Robust standard errors are reported in the brackets. *, **, and *** denote significance at the 0.1, 0.05, and 0.01 levels, respectively.

Table 6: Regression analyses of monetary penalties

Dependent Variable = log(1+total monetary penalties for each defendant)			
Variables	Model 1	Model 2	Model 3
SEC	-1.137*	-0.329	-0.326
	[0.649]	[0.909]	[0.888]
*SEC*TotalMeeting*		-0.853*	
		[0.512]	
*SEC*TotalMLength*			-0.016**
			[0.006]
TotalMeeting		1.015**	
		[0.504]	
TotalMLength			0.017***
			[0.006]
PACToCandid	0.097	0.062	0.072
	[0.092]	[0.123]	[0.123]
PAC_LT	-0.011	-0.079	-0.082
	[0.056]	[0.068]	[0.068]
BudgetConstraint	-1.462	23.415	26.093
	[13.032]	[20.683]	[20.492]
Fraud	-0.651	-0.668	-0.661
	[0.660]	[0.966]	[0.937]
Bribe	3.192***	4.416***	4.387***
	[0.810]	[0.739]	[0.735]
Accounting	-0.562	-0.168	-0.15
	[0.582]	[0.714]	[0.710]
TotalDef	0.141	0.296	0.263
	[0.146]	[0.218]	[0.213]
TotalViolation	0.049	0.264	0.244
	[0.174]	[0.251]	[0.248]
Firm	0.598	0.756	0.806
	[0.603]	[0.676]	[0.673]
LogAT	0.23	0.438**	0.440**
	[0.169]	[0.198]	[0.195]
LogCash	0.340*	0.211	0.212
	[0.194]	[0.226]	[0.225]
Leverage	0.558	0.542**	0.520**
	[0.341]	[0.244]	[0.233]
Distance	-0.076	-0.055	-0.065
	[0.149]	[0.172]	[0.169]
Foreign	-0.042	-1.483	-1.426
	[0.861]	[1.268]	[1.252]
September	0.592	1.291	1.222
	[0.525]	[0.840]	[0.835]

White	1.364	3.109	3.788
	[1.061]	[2.602]	[2.586]
Settled	-3.762**	1.418	1.84
	[1.682]	[2.342]	[2.131]
Waive	-1.551	-3.102***	-3.209***
	[1.179]	[1.161]	[1.135]
CaseLoad	-0.007	-0.012	-0.013
	[0.005]	[0.010]	[0.010]
Constant	14.299***	7.265*	6.864*
	[2.910]	[4.019]	[3.946]
Observations	484	244	244
Year FE, Cluster by Case, Resolution FE	Yes	Yes	Yes
Adj. R-squared	0.235	0.324	0.332

This table presents the results of the OLS estimation of equation (2): log (1+ *Outcome Variable*)= f (*SEC*, controls). The outcome variable here is total monetary penalties for a defendant. The dependent variable takes the natural log transformation to address the skewness. Model 1 provides a benchmark using all the sample observations. In Models 2 and 3, I interact *SEC* with meeting proxies *TotalMeeting* and *TotalMLength*. The total number of observations decreased in Models 2 and 3, because the SEC chair's calendar covers only 2010, January 2012 to August 2012, and April 2013 to July 2015. Defendants whose cases started outside of these time ranges are not included in Model 2 and 3. Robust standard errors are reported in the brackets. *, **, and *** denote significance at the 0.1, 0.05, and 0.01 levels, respectively.

Table 7: Robustness check – two-stage least squares

Panel A: Two-stage least squares – second stage results for speed of processing

Variables	Model 1	Model 2	Model 3	Model 4
SEC_fitted	-3.631***	-3.641***	-3.344***	-3.389***
	[0.980]	[1.026]	[1.073]	[1.106]
*SEC_fitted*TotalMeeting*		0.181		
		[0.354]		
TotalMeeting		-0.121		
		[0.342]		
*SEC_fitted*TotalMLength*				0.001
				[0.005]
TotalMLength				0.005
				[0.005]
PACToCandid	-0.045	-0.052	-0.046	-0.052
	[0.058]	[0.056]	[0.059]	[0.058]
PAC_LT	0.018	0.017	0.015	0.015
	[0.034]	[0.035]	[0.035]	[0.036]
BudgetConstraint	12.729	12.863	11.432	11.845
	[11.426]	[11.793]	[11.446]	[11.938]
Fraud	-0.512	-0.468	-0.368	-0.379
	[0.647]	[0.684]	[0.699]	[0.727]
Bribe	-1.440***	-1.430***	-1.333***	-1.342***
	[0.466]	[0.472]	[0.478]	[0.486]
Accounting	-0.144	-0.139	-0.178	-0.162
	[0.309]	[0.324]	[0.306]	[0.324]
TotalDef	0.358**	0.362**	0.366**	0.369**
	[0.145]	[0.144]	[0.147]	[0.143]
TotalViolation	0.018	0.011	0.017	0.015
	[0.122]	[0.121]	[0.124]	[0.124]
Firm	0.424*	0.407*	0.437*	0.438*
	[0.223]	[0.220]	[0.224]	[0.222]
LogAT	-0.083	-0.09	-0.077	-0.078
	[0.099]	[0.101]	[0.099]	[0.100]
LogCash	0.089	0.097	0.081	0.082
	[0.114]	[0.117]	[0.114]	[0.116]
Leverage	-0.105	-0.102	-0.099	-0.094
	[0.086]	[0.088]	[0.088]	[0.088]
Distance	0.033	0.039	0.032	0.034
	[0.092]	[0.094]	[0.095]	[0.097]
Foreign	0.351	0.331	0.346	0.355
	[0.430]	[0.434]	[0.432]	[0.435]
September	0.094	0.083	0.041	0.046
	[0.444]	[0.451]	[0.455]	[0.460]

White	1.989	1.955	1.825	1.872
	[1.567]	[1.586]	[1.590]	[1.610]
Settled	-4.753***	-4.791***	-4.909***	-4.909***
	[0.705]	[0.729]	[0.712]	[0.737]
Waive	1.679***	1.680***	1.643***	1.635***
	[0.501]	[0.512]	[0.522]	[0.548]
CaseLoad	-0.003	-0.003	-0.003	-0.003
	[0.005]	[0.005]	[0.005]	[0.005]
Constant	7.154***	7.321***	7.352***	7.378***
	[1.761]	[1.767]	[1.773]	[1.780]
Observations	246	246	246	246
Adj. R-squared	0.589	0.586	0.58	0.576
Year FE, Cluster by Case, Resolution FE	Yes	Yes	Yes	Yes

Panel B: Two-stage least squares – second stage results for monetary penalties

Variables	Model 1	Model 2	Model 3	Model 4
SEC_fitted	-4.474***	-0.734	-4.643***	-1.024
	[1.449]	[1.810]	[1.492]	[1.832]
*SEC_fitted*TotalMeeting*		-1.054		
		[0.651]		
TotalMeeting		1.155**		
		[0.581]		
*SEC_fitted*TotalMLength*				-0.017**
				[0.007]
TotalMLength				0.018**
				[0.007]
PACToCandid	0.04	0.074	0.042	0.079
	[0.124]	[0.125]	[0.124]	[0.123]
PAC_LT	-0.016	-0.07	-0.014	-0.068
	[0.072]	[0.073]	[0.072]	[0.072]
BudgetConstraint	40.439*	24.538	41.339*	27.783
	[20.710]	[20.823]	[21.347]	[20.769]
Fraud	-2.741***	-0.962	-2.802***	-1.088
	[0.918]	[1.164]	[0.910]	[1.154]
Bribe		4.298***		4.241***
		[0.914]		[0.903]
Accounting	0.579	-0.187	0.603	-0.14
	[0.709]	[0.783]	[0.717]	[0.783]
TotalDef	0.062	0.285	0.062	0.259
	[0.215]	[0.217]	[0.217]	[0.212]
TotalViolation	0.145	0.292	0.141	0.28
	[0.250]	[0.249]	[0.252]	[0.249]
Firm	0.937	0.798	0.945	0.844
	[0.689]	[0.669]	[0.687]	[0.669]
LogAT	0.223	0.439**	0.224	0.427**
	[0.195]	[0.199]	[0.196]	[0.195]
LogCash	0.442*	0.195	0.441*	0.203
	[0.227]	[0.227]	[0.226]	[0.225]
Leverage	0.338	0.523**	0.336	0.498**
	[0.250]	[0.247]	[0.255]	[0.237]
Distance	0.039	-0.064	0.038	-0.071
	[0.161]	[0.175]	[0.162]	[0.173]
Foreign	-1.217	-1.422	-1.22	-1.371
	[1.133]	[1.283]	[1.136]	[1.266]
September	1.685*	1.388	1.718*	1.379
	[0.995]	[0.966]	[0.996]	[0.959]
White	3.907	3.264	4.024	3.938
	[2.577]	[2.494]	[2.685]	[2.525]

Settled	1.79	1.226	1.512	1.309
	[2.947]	[2.329]	[3.041]	[2.258]
Waive	-1.71	-2.914***	-1.777	-3.024***
	[1.323]	[1.100]	[1.301]	[1.093]
CaseLoad	-0.004	-0.01	-0.004	-0.011
	[0.011]	[0.011]	[0.011]	[0.010]
Constant	7.900*	7.129*	8.129*	7.127*
	[4.499]	[4.124]	[4.540]	[4.057]
Observations	244	244	244	244
Adj. R-squared	0.261	0.323	0.261	0.327
Year FE, Cluster by Case, Resolution FE	Yes	Yes	Yes	Yes

This table presents the results of the two-stage least squares estimation of equation (2): log (1+ *Outcome Variable*)= f (*SEC*, controls). In panel A (B), the outcome variable is the total number of days to finish a case (total monetary penalties). The dependent variable takes the natural log transformation to address the skewness. Model 1 provides a benchmark using all the sample observations. In Models 1 and 2, I use *TotalMLength*, *BudgetConstraint*, *Fraud*, and *Bribe* as instruments in the first stage. In Models 3 and 4, I use *TotalMeeting*, *BudgetConstraint*, *Fraud*, and *Bribe* as instruments in the first stage. In the second stage, I plug in the fitted value from the first stage and name it *SEC_fitted*. Robust standard errors are reported in the brackets. *, **, and *** denote significance at the 0.1, 0.05, and 0.01 levels, respectively.

Appendix1: Variable definitions

SEC	*SEC* is an indicator variable that equals 1 if the defendant is prosecuted in an SEC administrative proceeding, and 0 if the defendant is prosecuted in a federal district court.
TotalMeeting	*TotalMeeting* measures the number of meetings between the politicians representing the defendants' geographical states and the SEC chair within three months prior to the litigation starting date. For firm defendants, I use the firm's headquarter state. For manager defendants, I use the headquarter state of the manager's firm.
TotalMLength	*TotalMLength* is the length of meetings, defined as aggregated minutes, between politicians representing the defendants' states and the SEC chair within 3 months prior to the litigation starting date. For firm defendants, I use the firm's headquarter state. For manager defendants, I use the headquarter state of the manager's firm.
PACToCandid	*PACToCandid* is the natural log of total PAC contributions to their congressional representatives who have met with the SEC chair. The total PAC contribution is the aggregated amount in the year before the meeting.
PAC_LT	*PAC_LT* is the natural log of total PAC contributions in the two years before the litigation starting date. *PAC_LT* includes all forms of PAC contributions (i.e., contributions to all candidate, national party, and other political committees).
BudgetConstraint	*BudgetConstraint* for a given fiscal year is calculated as (SEC's actual spending - enacted budget)/ enacted budget.
Fraud	*Fraud* is an indicator variable that equals 1 if the defendant allegedly committed a fraud violation, and 0 otherwise.
Bribe	*Bribe* is an indicator variable that equals 1 if the defendant allegedly committed a bribery violation, and 0 otherwise.
Accounting	*Accounting* is an indicator variable that equals 1 if the defendant allegedly committed an accounting violation, and 0 otherwise.
TotalDef	*TotalDef* is the total number of defendants in an enforcement action.
TotalViolation	*TotalViolation* is the total amount of violations experienced by the defendant.
Firm	*Firm* is an indicator variable that equals 1 if the defendant is a firm, and 0 if the defendant is an individual.
LogAT	*LogAT* is the natural log of total assets, as obtained from Compustat, in the last year of the violation period.
LogCash	*LogCash* is the natural log of total cash, as obtained from Compustat.
Leverage	*Leverage* is the ratio of total debt over total assets, as obtained from Compustat.
Distance	*Distance* is the natural log of the geographic distance in miles between the defendant's state and the SEC's Washington D.C. office.
Foreign	*Foreign* is an indicator variable that equals 1 if the defendant is a foreign firm or personnel, and 0 otherwise.

September	*September* is an indicator variable for the last month of the SEC's fiscal year that equals 1 if the defendant is filed in September, and 0 otherwise.
White	*White* is an indicator variable that equals 1 if the enforcement action is filed after April 10, 2013, and 0 otherwise.
CaseLoad	*CaseLoad* is the number of total litigations in each SEC fiscal year.
Settled	*Settled* is an indicator variable that equals 1 if the defendant settles with the SEC, and 0 otherwise.
Default	*Default* is an indicator variable that equals 1 if a default judgment is issued to the defendant, and 0 otherwise. A default judgment is issued when the defendant fails to respond to a summons by the court's deadline.
Summary	*Summary* is an indicator variable that equals 1 if a summary judgment is issued to the defendant, and 0 otherwise. A summary judgment is sometimes issued when no factual issues remain to be tried.
DaysToFinish	*DaysToFinish* measures the number of days from the litigation starting date to the litigation ending date.
Waive	*Waive* is an indicator variable that equals 1 if monetary penalties are waived, and 0 otherwise.