

# Corporate Communications with Politicians: Evidence from the STOCK Act

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## Abstract

This study investigates how firms respond to restricted access to government information. Specifically, the Stop Trading on Congressional Knowledge (STOCK) Act, which limits the stock trading activities of government officials (hereafter referred to as politicians), reduces the willingness of politicians from federal executive branches to engage with firms. Utilizing this exogenous disruption in private communication, we employ a difference-in-differences approach to demonstrate that firms with significant government customers decrease the frequency of management forecasts more than other firms due to the STOCK Act. This reduction is more pronounced for firms where government sales are crucial to their performance and for those that serve as suppliers and government contractors. Further, the positive impact of the STOCK Act on voluntary disclosures is more significant for firms that ex-ante rely heavily on direct political engagements, as indicated by their discussions of political risk and political contributions, and for those expecting government support, as evidenced by higher competition levels within their industry. Conversely, the STOCK Act does not significantly affect the non-financial disclosures of these firms. Finally, consistent with findings on executive branch officers, our results indicate that congressmen are also involved in corporate communications and are effectively regulated on information exchange by the STOCK Act. Overall, these results justify the powerful supervisory impact of the STOCK Act on the U.S. government and capital market and help to facilitate a new U.S. government information disclosure policy for a fairer investment environment.

**Keywords:** the STOCK Act, major government customers, management forecast, private communication

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# 1. Introduction

Politicians can benefit substantially from insider trading (Ziobrowski et al., 2004, 2011), widely regarded as unethical (Moore, 1990). The public has increasingly called for more regulation to address these practices. In response, the U.S. government introduced the Stop Trading on Congressional Knowledge (STOCK) Act in 2012 to increase regulation and transparency. This legislation mandated timely and transparent disclosure of stock trades by all government officials. However, due to various pressures<sup>1</sup>, one of the key regulations for government officials lasted only one year. Despite this setback, the STOCK Act remains a significant step in curbing unethical trading practices by prohibiting government officials from using material non-public information for personal gain.

This study examines how the STOCK Act's restrictions on insider trading by government officials impact corporate voluntary disclosure. Using a difference-in-differences approach, we analyze how the disruption of private communication between federal executive branch officials and firms affects the issuance of management guidance. The existing literature has used political connections as proxies for information flows between politicians and firms(e.g., Wellman, 2017; Ovtchinnikov, Reza, and Wu, 2020), often indicating preferential treatment for politically connected firms(e.g., Gao and Huang, 2016; Christensen et al., 2017)<sup>2</sup>. These studies suggest that such firms make better corporate decisions and benefit from their political relationships. Extending this research, our study investigates the implications of information exchanges between politicians and firm management for the voluntary disclosures of firms primarily serving government customers. In government contracting, government officers and corporate managers must discuss ongoing business, creating opportunities for information exchange. Executive branch officers, in particular, must examine the economic effects on contractors' industries and have access to proprietary information about the award process. This unique setting allows us to focus on communications with executive branch officers, an aspect largely overlooked in prior studies on the STOCK Act.

We argue that implementing the STOCK Act, which limits access to government-sourced information,

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<sup>1</sup>Including privacy concerns, the administrative burden of compliance, and lobbying by affected officials, see <https://thehill.com/policy/finance/147637-obama-signs-stock-act-modification/> for more details.

<sup>2</sup>Research in this area shows that politically connected firms can make better corporate decisions (Wellman, 2017; Ovtchinnikov, Reza, and Wu, 2020; Christensen et al., 2023, 2022) and benefit from the advantages embedded in political relationships (Gao and Huang, 2016; Christensen et al., 2017; Jagolinzer et al., 2020; Brown and Huang, 2020).

will lead firms involved in government business to reduce their voluntary disclosures compared to firms without such business. The reduced access to politicians post-STOCK Act complicates managers' ability to predict firm performance in government dealings. This increased uncertainty about securing government contracts and the associated pricing and quantities hinders accurate earnings forecasts (e.g., [Anantharaman and Zhang, 2011](#); [Guay, Samuels, and Taylor, 2016](#)). Consequently, this communication disruption is expected to affect firms' voluntary disclosures in government transactions significantly.

However, despite this argument, the STOCK Act's implementation may not necessarily reduce the frequency of voluntary disclosures. Theoretical research suggests that management is incentivized to provide more disclosures to reduce investor uncertainty and improve the firm's information environment (e.g., [Verrecchia, 1990](#); [Diamond and Verrecchia, 1991](#)). Empirical studies further support a positive correlation between investor uncertainty and the prevalence of voluntary disclosures by management (e.g., [Balakrishnan, Core, and Verdi, 2014](#); [Nagar, Schoenfeld, and Wellman, 2019](#)). Suppose restricted access to government information heightens investor uncertainty about firm performance, especially for firms with government business. In that case, management might respond by increasing voluntary disclosures to meet investor demands for more information. Thus, the effect of government business on voluntary disclosure practices remains an empirical question in the context of the 2012 STOCK Act.

Our sample includes all U.S. public firms that existed four years before and after the implementation of the STOCK Act in 2012 under the Obama administration. We use management forecasts as the dependent variable, assigning a value of zero for years without such forecasts. Treatment firms are defined as those with major government customers for at least three years before the STOCK Act. Due to their strong business relationships with the government, these firms are more significantly impacted by the STOCK Act compared to others.

Consistent with our prediction, firms with major government customers experience a significant decrease in the frequency of management forecasts compared to those without, after controlling for various determinants of firms' voluntary disclosure. This result remains robust when using an alternative sample period of six years around the STOCK Act, an alternative annual window for management forecast frequency, a database covered only by I/B/E/S, a group of firms excluding regulated industries, and a group of select control firms that have never reported any major government customers.

In additional analyses, we find that firms with government business ties reduce the issuance of annual and quarterly forecasts and non-EPS forecasts. Still, the frequency of EPS forecasts remains unchanged. We also calculate the calendar days with at least one management forecast and find similar results to our main findings. Furthermore, treatment firms become more inclined to issue a range of future EPS (i.e., an interval of EPS) instead of a point forecast (i.e., a single number) in their management earnings forecasts. This suggests that the main effect of the STOCK Act is not attributable to another regulation, Reg FD.<sup>3</sup>

We further conduct several cross-sectional and additional analyses to enrich our findings. First, as private access to politicians facilitates the flow of firm-specific information from the government to firm management, this communication channel is crucial for firms that rely heavily on government business. We predict, and our results confirm, that the decrease in voluntary disclosures due to the STOCK Act is more pronounced for firms with a higher reliance on government sales. Using the government's disclosure of major contracts, we find a more pronounced effect of the STOCK Act on the voluntary disclosure of firms recognized as recipients of major government contracts and firms' disclosure of government customers.

Second, private communication with politicians can be seen as a degree of mutual trust, especially trust from politicians. Our results show that the adverse impact of the STOCK Act on the voluntary disclosure of firms with major government customers is more pronounced for firms disclosing greater political risk in annual reports, firms making more political contributions, and firms operating in less concentrated industries.

Next, we examine the change in the sample firms' voluntary disclosure of non-financial information. Specifically, we identify non-financial information disclosed in company conference calls using the environmental and social dictionaries developed by [Henry, Jiang, and Rozario \(2021\)](#) and [Zhang \(2021\)](#). In contrast to the main findings regarding management forecasts, the enactment of the STOCK Act is not associated with a significant change in firms' disclosure of non-financial information. This suggests that the information obtained through private interactions with politicians primarily benefits firms' financial performance rather than non-financial performance.

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<sup>3</sup>Reg FD mandates the public disclosure of any private information revealed to politicians in private communication. Thus, more frequent private interactions may lead to more voluntary disclosures provided by firm management, according to Reg FD. Although this alternative explanation can also predict a decrease in voluntary disclosure when the STOCK Act disrupts the frequency of private interactions, its premise is that management conveys private information to politicians, not vice versa, since Reg FD only applies to information revealed by management. The decreased precision of earnings forecasts by firms in the post-STOCK Act period supports the notion that management obtains private information from politicians. Hence, our findings cannot be entirely attributed to the effect of Reg FD.

Finally, we add Congressmen into the discussion and follow [Huang and Xuan \(2023\)](#) to use OpenSecret data to identify their equity holdings. Our results suggest that the STOCK Act also monitors Congressmen's private information exchange behavior, although the regulatory impact is weaker than that on government executive members.

Our paper makes several contributions to the existing literature. First, we add to the nascent body of work on the determinants of voluntary disclosure. Our research contributes to the debate about the relationship between uncertainty and firms' voluntary disclosure. On the one hand, the lack of precise information has been associated with less frequent disclosures ([Anantharaman and Zhang, 2011](#); [Guay, Samuels, and Taylor, 2016](#)). On the other hand, increased uncertainty can lead to stronger information demand from investors, incentivizing management to make more voluntary disclosures ([Verrecchia, 1990](#); [Balakrishnan, Core, and Verdi, 2014](#); [Nagar, Schoenfeld, and Wellman, 2019](#)). This study focuses on the government-sourced information obtained from private communication with politicians. Our results suggest that disrupted access to government information hinders managers' ability to predict future firm performance. However, this lack of government-sourced information does not significantly increase investors' uncertainty to a level that would induce more voluntary disclosures. These findings highlight the unique role of government-sourced information in influencing firms' disclosure decisions.

Second, our paper complements the literature on political connections by emphasizing the information advantage embedded in direct business with the government. Prior studies have examined how maintaining major government customers and obtaining government contracts impact firms' decision-making ([Cohen and Li, 2020](#); [Cohen et al., 2022](#); [Samuels, 2021](#)). These studies typically focus on the monitoring role of the government and often explain their findings from a supply chain perspective (e.g., [Shi et al., 2020](#)). In contrast, our study views business ties with the government as an information mechanism whereby firms with government businesses can gain private information from politicians, including government executive branch officials and members of Congress. Using the unique setting of the STOCK Act, we first examine the private behavior of executive branch officials regarding information exchange for government contracts. Our findings provide insights into the nature and usefulness of the information conveyed by politicians to the capital market and cover different types of government participants, such as executive officers and Congress members, in the context of government contracts.

This study also provides policy implications by extending our understanding of policies disciplining the behaviors of government officials. Although the STOCK Act effectively prohibits insider trading by politicians (Huang and Xuan, 2023), we highlight an unintended consequence of this regulation. Specifically, we first consider the STOCK Act's impact on federal officers rather than Congress members, inferring that information exchange can occur when bidding for or receiving government contracts. Despite being specific to the STOCK Act, our findings shed light on the broader effectiveness of other regulations regulating government-sourced information. For instance, Nagy and Painter (2012) shows that implementing the Fairer Government Disclosure proposal enhances transparency in government disclosures and alleviates policy-based insider trading concerns. Our results suggest that while this improved transparency may reduce insider trading, it could also reduce information richness in government disclosures.

The rest of the paper is organized as follows. Section 2 reviews the STOCK Act and develops the hypothesis. Section 3 describes the sample and data. Section 4 introduces the research design, reports the main results, and discusses the additional analyses. Section 5 concludes.

## **2. Background and Hypothesis Development**

### **2.1. The STOCK Act**

On April 4, 2012, President Obama signed the Stop Trading on Congressional Knowledge (STOCK) Act into law to prohibit Congress members and government officials from using non-public information for personal gain, specifically through insider trading. The act was prompted by a 2008 incident where Congressmen Spencer Bachus and Senators John Boehner and Dick Durbin attended a confidential meeting with the Secretary of the Treasury and the Chair of the Federal Reserve, subsequently using this information for their financial transactions. The STOCK Act mandates that all major government officers, including Congress members, the President, judges, and executive branch officials, disclose their periodic transaction reports within 30 to 45 days on their websites. This replaces the previous annual transaction reports required by the Ethics in Government Act of 1978 and includes disclosing home mortgages.

Although the STOCK Act does not directly restrict private communication between politicians and corporations (Christensen et al., 2023), its primary goal is to prevent the exploitation of privileged

positions for personal gain. Therefore, it is reasonable to assume that such regulation would impose a degree of restraint on government officials, thereby reducing risky behaviors and private information flows or transactions with public firms. The STOCK Act's regulatory framework initially applied to around 28,000 government officers, including executive branch officials. However, in 2013, the mandatory periodic transaction disclosure requirements for a significant portion of executive branch officials were revoked due to the amendment of the STOCK Act (S.716).

Using the STOCK Act as an exogenous shock, our study aims to examine its monitoring effect on government officials to reduce information exchange through private communication via the government's major customer channel. [Huang and Xuan \(2023\)](#) indicated that the STOCK Act effectively curbed politicians' insider trading, leading to a decrease in their abnormal returns related to mergers and acquisitions and earnings surprises. Given this success, it is pertinent to explore whether the act can limit political information flow and corruption stemming from covert coordination. Executive branch officials, less publicly exposed than Congress members, are more likely to engage in private profit exchanges, yet such private communication is challenging to observe.

Our research assumes that government politicians communicate privately with their major supplier firms. The major customer channel offers unique advantages for our investigation. Firstly, deeper coordination can be expected when firms do business with the government. Secondly, government spending accounts for nearly 20% of the US GDP ([Mills, Nutter, and Schwab, 2013](#)), and firms are highly selective in winning government contracts ([Samuels, 2021](#)). These strong ties between firms and the government foster trust and potential private exchanges.

[Huang and Xuan \(2023\)](#) documented that politician-owned firms lost significant procurement contracts and government grants after the STOCK Act, suggesting that politicians might have obtained government revenue information through this major customer channel. Before the STOCK Act, reciprocal exchanges of favors between government revenue information and firm M&A information were plausible. Our study finds that government customers remain stable, so business fundamentals did not change significantly after the STOCK Act compared to politician-holding firms. The case of the former president of Nova Datacom LLC, who pled guilty to corrupt dealings with government officials from the Department of the Army and various contractors, supports our assumption of the complex relationship between government

and firms in business cooperation.<sup>4</sup> Additionally, academic research has linked restrictions on insider trading to report quality (Zhang and Zhang, 2018) and senior management's welfare (Roulstone, 2003), suggesting that politicians might use their information advantage in trading, affecting firms' voluntary disclosure quality.

In 2023, U.S. Senator Gillibrand proposed the STOCK Act 2.0, an amendment to regulate government trading transparency further. This new version emerged because, in early 2023, Business Insider reported that 78 members of Congress failed to comply with the rules. One reason for this non-compliance is the relatively low violation fine of \$200. However, from 2012 to 2016, no violations were reported, indicating that the STOCK Act initially had a significant regulatory impact, although this effect has diminished in recent years.

## **2.2. Communication Channels and Disclosure Regulations**

Public firms can communicate with external stakeholders, such as government agencies and the financial market, through voluntary disclosures and other activities. One of the most common public communication methods is issuing management forecasts to provide firm-specific information to external stakeholders. Specifically, in our setting, firms first choose to exchange information with government officials through private communication and then decide whether to disclose the private information to the public.

Prior researchers have discussed the two main information dissemination channels, public and private communication, without reaching consistent agreements. On the one hand, some researchers consider private communication as a substitute for public communication, meaning that when public firms can communicate privately, they will reduce their incentive for public communication. Empirical evidence shows that small firms prefer bank loans over public debt financing because they can inform fewer lenders to adjust their capital structure (Fama and Jensen, 1985). Moreover, concentrated institutional ownership hinders voluntary disclosure because institutions gain information advantages and may not press firms for public disclosures (Ajinkya, Bhojraj, and Sengupta, 2005). Additionally, firms with more coordination through strategic alliances may have more private communications, reducing their public disclosure

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<sup>4</sup>The anecdotal evidence link is as follows: <https://www.justice.gov/usao-dc/pr/nova-datacom-llc-and-its-former-president-plead-guilty-bribery-scheme-involving>



(Kepler, 2021).

On the other hand, the notion that private communication is a substitute for public communication is not always true. Firms can disclose more information when they absorb more private information from different coordinators and market participants. First, private and public information do not always have a pure substitute relationship. Public management forecasts are more credible than private communications due to potential litigation problems and reputation considerations (Skinner, 1997). Second, Verrecchia (1983) predicts that managers with more private information choose to disclose more, thus improving their external reporting quality voluntarily. Finally, researchers have also addressed our core question of how political information flow is transferred in the financial market. Christensen et al. (2023) support that politically active firms are more willing to issue management forecasts and spread political information via voluntary disclosure.

Researchers are uncertain whether public firms, when possessing more private information, will choose to increase or decrease voluntary disclosures such as management forecasts. We believe that the outcomes of disclosure decisions will depend on the incentives of both parties and the regulatory environment.

Returning to our setting, when the private communication between politicians and company personnel is restricted by the STOCK Act, the frequency of private information exchange through the government's major customer channel is reduced. Consequently, public firms may optimally choose to mitigate their corresponding voluntary disclosures and make fewer management forecasts due to changes in demand uncertainty and the level of government compliance (Anantharaman and Zhang, 2011; Guay, Samuels, and Taylor, 2016; Hassan et al., 2019; Christensen et al., 2023). This suggests that firms with major government customers find it harder to receive high-quality information and must exert more effort to obtain it. In addition, Reg FD may also play a role in conjunction with the STOCK Act. Researchers have proposed the Fairer Government Disclosure (FGD) and believe combining the STOCK Act and Reg FD can effectively maintain market fairness and transparency in government information dissemination (Nagy and Painter, 2012). In conclusion, regarding the changes in incentives from both exchange parties and the corresponding regulations, we propose our first hypothesis:

**H1:** *Public firms with major government customers will reduce their management forecasts to a greater*

*extent when the STOCK Act hinders their private communication with politicians.*

It is plausible that when public firms know that politicians are under pressure and reluctant to engage in private communication with firms, these firms may reduce their voluntary disclosures because they are less likely to receive high-quality information through private channels. For example, scrutinizing government firm misbehaviors would lead to stricter corporate governance and greater attention to disclosure quality (Ahmed, Li, and Xu, 2020). On the one hand, firms with major government customers inherently face less demand uncertainty due to lower default risk and less competition (Cohen and Li, 2020). Similarly, firms with government contracts disclose under less uncertainty due to internal information supervision processes (Samuels, 2021). Therefore, it is apparent that private communication with the government leads to less uncertainty. However, when senior managers cannot obtain precise information due to blocked effective communication, they cannot alleviate demand uncertainty. They may remain silent to reduce the risk of uncertainty (Anantharaman and Zhang, 2011; Guay, Samuels, and Taylor, 2016). Additionally, even if government-related firms face a similar degree of external uncertainty, their overall lower level of demand volatility will lead to more significant marginal effects for them to suffer. As a result, given the nature of uncertainty for firms with major government customers, our second hypothesis is as follows:

**H2:** *The reduction in the frequency of management forecasts by firms with major government customers is more pronounced when these firms face higher business uncertainty after the enactment of the STOCK Act.*

On the other hand, firms with political information can enjoy special benefits through different access channels. The literature has shown relationships between hedge funds and lobbyists (Gao and Huang, 2016), analysts and politically connected brokerage houses (Christensen et al., 2017), politicians and managers (Jagolinzer et al., 2020), and White House visitors (Brown and Huang, 2020). Christensen et al. (2023) show that political connections help firms gain more government information and issue more management forecasts. These results suggest that government relationships can be seen as a measure of firms' reliance on the government.

Therefore, to favor politicians, firms may face higher politically-oriented costs when they actively discuss government-related information through voluntary disclosure channels (Hassan et al., 2019;

Christensen et al., 2023) and participate in political election campaigns (Correia, 2014). Additionally, firms under higher competitive pressure in red ocean industries expect to face higher government reliance because they need more government support to enhance their comprehensive competitiveness (Li, 2010; He et al., 2024). Accordingly, we propose our third hypothesis:

**H3:** *The reduction in the frequency of management forecasts by firms with major government customers is more pronounced when these firms focus more on political risk and make more political contributions.*

### 3. Data and Variable Construction

#### 3.1. Management Forecasts

Prior literature has documented the usage of different types of management forecasts, such as overall forecasts, earnings forecasts, sales forecasts, cash forecasts, and capital expenditure forecasts, among others (Han and Wild, 1991; Wasley and Wu, 2006; Beyer et al., 2010; Cheng and Lo, 2006; Richard Lu and Wu Tucker, 2012). In this paper, we examine the annual frequency of management forecasts (Frequency), which includes all types of forecasts the management team provides. The data for management forecasts is obtained from the I/B/E/S Guidance. Since the STOCK Act was passed by President Obama on April 4, 2012, with strong bipartisan support, our data period spans from 2008 to 2015, covering the entirety of Obama's presidency with four years before and after the Act's enactment. To measure the yearly voluntary disclosures corresponding to the pre- and post-regulation periods, we define the firm-year as the one-year ending on April 4th of the respective calendar year. For example, all management forecasts made between April 4, 2011, and April 4, 2012, are used to measure a firm's voluntary disclosure for 2011. The timeline of firm-year measures is depicted in Figure 1.

To develop the sample of firms for this study, we first retrieve all firms in the COMPUSTAT database with continuous yearly performance data for all eight years from 2008 to 2015. This yields a preliminary sample of 52,464 firm-years for 6,558 unique firms. The management forecasts for these firms are obtained from the I/B/E/S Guidance database, and those samples without any management forecasts are assigned a frequency of zero. The key variable, Frequency, is the natural logarithm of one plus the aggregate frequency of all types of forecasts, including annual or quarterly earnings and non-earnings forecasts (e.g., sales forecasts and CAPEX forecasts). We also winsorized Frequency at both the 1% and 99%

levels for all tests.

### **3.2. Firms With Major Government Customers**

Listed firms are mandated to report the sales from major customers. According to FAS 131, a major customer contributes more than 10% of the focal firm's total revenues. We obtain the lists of major customers for our sample firms from the customer files of the COMPUSTAT segment database. To construct the sample of treatment firms in this study, we identify firms that reported major government customers for at least three years during the four years of 2008-2011, before the STOCK Act was enacted. These firms are considered to have had more intense communications with politicians before 2012 and thus are affected by the STOCK Act to a greater extent. The remaining firms form the control group in the research design. Next, we delete firms with foreign major government customers and those in industries (measured by two-digit SIC codes) for which none of the firms ever report the government as a major customer.

Additionally, we require that each sample firm has financial data for all eight years of the sample period (i.e., 2008-2015). These additional data requirements significantly reduce the sample size to 17,432 firm-years for 2,179 unique firms. Lastly, we delete observations with missing values for the control variables in the main regressions. The final sample comprises 12,074 firm-years, with 15.4% of these defined as the treatment group.

Figure 2 plots the natural logarithm of the frequency of management forecasts for the treatment and control groups, respectively, from 2008 to 2015. In the pre-STOCK Act period of 2008-2011, the frequency shows an upward trend for both groups. Starting from 2012, the first year after the enactment of the STOCK Act, the treatment firms experienced a significant decrease in the frequency of management forecasts, while the change is not salient for the control firms. In sum, comparing firms' inclination to issue forecasts demonstrates that the STOCK Act has a more adverse impact on the issuance of management forecasts by firms with major government customers.

### 3.3. Descriptive Statistics

Table 1 contains our primary test sample, constructed using COMPUSTAT and CRSP data from 2008 to 2015. There are 12,074 firm-year observations for management guidance during the sample period. Specifically, on average, 36% of firms issue some management forecasts, and the overall average logarithm of frequency reaches 0.87 per year. We use government customers as a proxy for private communication between firms and politicians for independent measures. In general, 15% of firms in our sample can communicate with government officials through private channels, equivalent to 15% of firms having at least three of the four years claiming themselves as a government major supplier before the passage of the STOCK Act (mean Treatment = 0.15). In the controls part, our sample firms have an average size of 6.52 at the logarithm of market value level, a leverage ratio (*LEV*) of 0.18, a book-to-market ratio (*BM*) of 0.01, a return-on-assets (*ROA*) of -0.05, an operating loss (*LOSS*) of 0.34, an earnings volatility (*EarnVol*) of 0.15, a stock return (*Ret*) of 0.02, a stock turnover (*Turnover*) of 0.16, and a stock return volatility (*StkVol*) of 0.03 over the sample period.

## 4. Research Design and Empirical Results

### 4.1. Research Design

To examine our main hypothesis, we use a difference-in-difference design to test our predictions, employing the following OLS model:

$$Frequency_{it} = \alpha + \beta_1(Post_i \times Treatment_t) + \chi_{it} + \phi_i + \phi_t + \varepsilon_{it}, \quad (1)$$

where  $i$  denotes the firm,  $t$  denotes the year, and  $\varepsilon$  represents the error term. The dependent variable is the overall management forecasts, defined as the annual frequency of all types of management forecasts (*Frequency*). It is a continuous measure, calculated as the natural logarithm of one plus the annual overall management forecasts issued in a fiscal year. The independent variables include *Treatment* and *Post*, both dummy variables. The *Treatment* variable equals one when the government becomes the company's major customer for more than half of the ex-ante four years, meaning at least three years from 2008 to

2011. This significant business relationship allows us to reasonably infer that public companies can easily communicate privately with politicians. The *Post* variable equals one for management forecasts issued after the passage of the STOCK Act from fiscal year 2012 to 2015. The model also includes firm fixed effects ( $\phi_i$ ), year fixed effects ( $\phi_t$ ), and nine firm-year controls ( $\chi_{it}$ ) to account for heterogeneity across different public firms and years.

Following Kim et al. (2018) and Chen, Ng, and Yang (2021), we include the following control variables: total debt (*LEV*) and income before extraordinary items (*ROA*), both scaled by total assets. We also include controls for the natural logarithm of one plus the value of market equity (*Size*), the ratio of the book value of equity to the market value of equity (*BM*), the incidence of loss (*LOSS*), the standard deviation of the annual return on assets over the past 10 years (*EarnVol*), the buy-and-hold size-adjusted return in one fiscal year (*Ret*), the ratio of the total trading volume divided by the total number of shares outstanding (*Turnover*), and the standard deviation of daily stock returns within one fiscal year (*StkVol*).

## 4.2. Baseline Results

Table 2 presents the results from Equation (1), examining the effect of private communication between politicians and public firms on the frequency of overall management forecasts. Columns (1) and (2) show the outcomes without firm and year-fixed effects. The coefficients on *Post*×*Treatment* are negative and weakly significant. However, when we add firm and year-fixed effects into the regression model in Columns (3) and (4), the results are much stronger and significant, maintaining the same direction as the first two columns. Specifically, the coefficient on *Post*×*Treatment* is -0.075 and significant at the 0.05 level. This result suggests that after the STOCK Act, the overall management guidance for firms with influential government businesses decreased by 0.075 units compared to the control group, which consists of firms without significant government business. This change is substantial, representing around a 9% reduction of the average frequency (0.87), indicating that the STOCK Act affects public, voluntary disclosure for strongly government-connected firms and reduces their market exposure.

### **4.3. Robustness Tests**

To address potential concerns in [Section 4.2](#), we designed a series of follow-up tests to ensure robustness. First, because the date of the STOCK Act passage is not aligned with the end of the fiscal year, we use two other time measures to alleviate this problem. Second, given the difficulty in evaluating how long this act could restrict politicians' activities, we also examine results using the commonly used three years before and after the act's passage. Third, when selecting treatment and control groups, we first choose firms that never possess a major customer as a benchmark, replacing some firms with less than half of four years of major government experience. Additionally, we separate data by highly regulated industries and other industries to mitigate the government communication channel for different reasons. Finally, to understand which types of management forecasts are most affected by the STOCK Act, we divide management forecasts into quarterly and annual levels, earnings forecasts, and non-earnings forecasts. We also examine the prediction frequency at the day rather than the time level. Collectively, these findings provide additional evidence to justify the outcome of our primary hypothesis, revealing that the decrease in private communication between firms and politicians due to the STOCK Act leads to a reduction in voluntary disclosure behavior.

#### **4.3.1. Date Measurement**

First, we use the commonly adopted fiscal year method, deleting all observations from when the STOCK Act was passed (2012) and retaining data for four years before and after. Second, we employ the same method as [Section 4.2](#) but replace 2012/04/04 with 2012/04/30, commonly considered the fiscal year-end for many firms. [Figure 3](#) and [Figure 4](#) illustrate these two different time measurements. [Table 3](#), Panel A, columns (1) and (2) show that both results remain valid, with negative and significant outcomes.

#### **4.3.2. Period Length Measurement**

We examine the commonly used six-year period, excluding the 2008 and 2015 fiscal years, instead of the overall eight years in our primary result. [Table 3](#), Panel A, column (3), shows the outcome is significant and consistent with our main result, confirming that the supervisory power of the STOCK Act roughly covers the entire Obama administration period. Additionally, in Panel B, column (1), we exclude

firms that never issue management forecasts in our primary test sample to avoid potential non-coverage issues. The coefficient on  $Post \times Treatment$  is -0.156 with a significance level of 0.05. [Figure 5](#) exhibits the result measured by absolute frequency, providing a nearly perfect justification for the act's influence on voluntary disclosure.

#### 4.3.3. Treatment and Benchmark Measurement

[Figure 6](#) adjusts the control group from firms with less than three out of four years as a major government customer to firms with less than two out of four years, and finally to firms with no government customer. Because most companies with government customers in a particular year generally renew their government business, the control group changes very little in the figure, as the proportion of discontinuous major government customers in the entire sample is deficient. In short, the results are significant and valid in all three scenarios<sup>5</sup>. [Table 3](#), Panel B, column (2), presents the pure no customer control group results.

[Table 3](#), Panel B, column (3) highlights the results for unregulated industries, excluding SIC codes 6000-6999, 4900-4999, and 8000-8099, which correspond to the financial, utility, and pharmaceutical industries, respectively. Public companies in these industries are always supervised by the US Securities and Exchange Commission (SEC), the US Department of Energy, and the US Food and Drug Administration (FDA). These regulated firms can be considered both potential firms communicating privately with the government and heavily regulated firms. Therefore, we separate the data to avoid potential attribution concerns. As shown in the last column of Panel B, the coefficient on  $Post \times Treatment$  is significant at the 0.1 level. This result confirms to a certain extent that unregulated industry firms are affected mainly by the STOCK Act. In contrast, regulated firms might be continuously monitored under the Obama administration, limiting the feedback mechanism of the STOCK Act<sup>6</sup>.

#### 4.3.4. The Effect of Reg FD

The effects of the STOCK Act might be attributed to the impact of Regulation Fair Disclosure (Reg FD), which has been in place since 2000, as discussed previously. Specifically, Reg FD mandates the public

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<sup>5</sup>The result tables for the three types of control measures are available upon request due to space limitations. In [Table 3](#), we selected the clean benchmark, which consists of firms with non-government customers in the ex-ante four years, as control firms to demonstrate the robustness of our test. Compared to other control types, this one is the cleanest in terms of research design and shows the most significant change in sample size.

<sup>6</sup>The results for regulated industry firms are insignificant.



disclosure of any private information revealed by management to politicians in private communications. According to this regulation, it naturally leads to the expectation that the more frequently management interacts with politicians, the more likely the firm must make a voluntary public disclosure of firm-specific information. Hence, the reduced interactions between firm management and politicians due to the STOCK Act are expected to lead to a lower frequency of voluntary disclosures. The essential premise of this expectation is that there is an information flow from management to politicians. Still, it does not address whether there is an information flow from politicians to management.

To disentangle our expectations from the above argument, we examine the forecast precision of management forecasts after the STOCK Act. Precisely, we classify earnings forecasts into range forecasts (i.e., an interval of future EPS) and point forecasts (i.e., a single number of future EPS) and investigate whether firms become more inclined to issue range forecasts. Panel C of [Table 3](#) presents the results. We find that firms with government customers are more likely to issue the interval of future EPS after the STOCK Act was enacted. The decreased precision of earnings forecasts by firms in the post-STOCK Act period supports the notion that management obtains private information from politicians. Hence, our findings cannot be entirely attributed to the effect of Reg FD.

#### **4.4. Additional Types of Management Forecasts**

[Table 4](#) presents three different types of management forecasts, including quarterly forecasts versus annual forecasts, earnings forecasts versus non-earnings forecasts, and the frequency based on forecasting days. For the last type, we measure the yearly frequency of overall management forecasts by counting how many days the public firm issues at least one management forecast and then take the logarithm of that number. For instance, if a company makes three different types of forecasts—sales forecast, CAPEX forecast, and earnings forecast—on the same day, by our new day-based definition, we count this frequency as one instead of the previously defined three and calculate the logarithm of two.

The results in [Table 4](#) columns (1) and (2) illustrate that annual forecasts drive the majority of the reduction in forecast frequency. The decrease in frequency for annual forecasts (-0.056 units) is nearly twice that of quarterly forecasts (-0.033 units). This result is reasonable because firms tend to offer more predictions in their last quarter to summarize the entire year's performance, likely covering multiple

dimensions. Additionally, compared to a single quarter, full-year forecasts are more valuable for long-term investment and attract more public attention. In columns (3) and (4), the coefficients of *Post*×*Treatment* on non-EPS forecasts contribute to the reduction in management forecasts, with a value of -0.074 at the 0.05 significance level. This behavior can be explained in two main ways. First, EPS forecasts are considered one of the most routine types of voluntary disclosure, so generally, public firms choose not to withhold this information to avoid other issues. Second, non-EPS forecasts cover different types of direct profitable and non-direct indicators, such as CAPEX for corporate development. These indicators are perhaps more closely monitored by the government and are relatively difficult to quantify and estimate, which aligns with our two cross-sectional hypotheses. The last column shows a similar result for management forecast frequency as the main result. These results indicate that when public companies and the U.S. government cannot communicate privately for mutual benefit due to higher potential costs, companies will reduce some annual management and indirect profitability forecasts that the government might scrutinize and make fewer predictions measured by different days annually. These empirical results confirm that the STOCK Act has a powerful supervisory impact on the U.S. government and a deterrent effect on the capital market.

#### **4.5. Cross-Sectional Tests**

According to our primary results, there is a clear negative correlation in our difference-in-difference test. Next, we aim to understand which mechanisms may be responsible for this result. The most direct explanation is the synergy of two different existing policies: the STOCK Act and Regulation Fair Disclosure (Reg FD), or in other words, the proposed Fairer Government Disclosure (FGD). As Reg FD promotes the transparency of information exchange between public firms and external stakeholders, and the STOCK Act makes it difficult for politicians to seek personal benefits through political-business relations directly, it is evident that after the government and companies reduce the frequency of private communication, there is a corresponding reduction in voluntary disclosure. Additionally, other Acts, including the Freedom of Information Act (FOIA) on information transparency between companies and the U.S. government and the Federal Acquisition Regulation (FAR) on contract disclosure, also support our conjecture of the synergistic outcome of multiple regulations on information transparency

and political-business relationships (Cordis and Warren, 2014; He et al., 2024; Samuels, 2021).

#### 4.5.1. Demand Uncertainty on Government Tests

Although these acts have legally impacted the voluntary disclosure decisions of public companies, it remains challenging to determine that these acts solely cause a negative correlation. Therefore, it is possible that public companies are not primarily influenced by rules and regulations but rather by having less valuable information obtained through the government communication channel. This reduction in valuable details could lead to increased operating business uncertainty regarding government interactions, prompting firms to reduce voluntary disclosures. Admittedly, we do not aim to conclude which specific cause is responsible, as it is challenging to capture this fact objectively from an outsider's perspective.

#### 4.5.2. Major Government Customers and Government Contractors

To test our second hypothesis related to demand uncertainty, we use the following variables: the proportion of the company's government sales divided by overall sales (*Gov\_Sales\_Ratio*), the number of government major customers (*Gov\_Custom\_Num*), government annual sales volatility (*Gov\_Sales\_Vol*), and whether the firm has a government contract (*Both*). These variables measure the high and low levels of uncertainty. The logic of our argument is that stronger government business relationships and less government supervision lead to more significant uncertainty after the STOCK Act's passage, thereby reducing overall management forecasts. The following OLS model is used to test the second hypothesis:

$$\begin{aligned} Frequency_{i,t} = & \alpha + \beta_1 Post_t \times High\_Gov\_Sales\_Ratio_i + \beta_2 Post_t \times Low\_Gov\_Sales\_Ratio_i \\ & + \chi_{it} + \phi_i + \phi_t + \varepsilon_{it} \end{aligned} \quad (2)$$

where  $\chi_{it}$ ,  $\phi_i$ ,  $\phi_t$ , and  $\varepsilon_{it}$  are same as Equation (1). *High\_Gov\_Sales\_Ratio* is a dummy variable equal to one when treatment firms have no less than the median ratio of government sales divided by overall sales in the ex-ante defined four years. *Low\_Gov\_Sales\_Ratio* is a dummy variable equal to one when treatment firms have less than the median ratio of government sales divided by overall sales in the ex-ante defined four years.

Table 5 column (1) presents the results from estimating Equation (2). The coefficients on  $Post \times High\_Gov\_Sales\_Ratio$  are negative and significant at the 0.01 level. At the same time, the  $Post \times Low\_Gov\_Sales\_Ratio$  interactions are insignificant. In column (2), we replace  $High\_Gov\_Sales\_Ratio$  ( $Low\_Gov\_Sales\_Ratio$ ) with  $High\_Gov\_Custom\_Num$  ( $Low\_Gov\_Custom\_Num$ ), which is a dummy variable equal to one when treatment firms have no less than (less than) the median of the total number of different types of major government customers in the ex-ante defined four years. In column (3), we replace  $High\_Gov\_Sales\_Ratio$  ( $Low\_Gov\_Sales\_Ratio$ ) with  $High\_Gov\_Sales\_Vol$  ( $Low\_Gov\_Sales\_Vol$ ), which is a dummy variable equal to one when treatment firms have no less than (less than) the median of the annual volatility of government sales in the ex-ante defined four years. All results are consistent.

These results indicate that when treatment firms possess a more significant proportion of government sales ( $Gov\_Sales\_Ratio$ ), more government partners ( $Gov\_Custom\_Num$ ), and greater income uncertainty ( $Gov\_Sales\_Vol$ ), their frequency of overall management forecasts decreases after the STOCK Act is passed. Compared to the low group, their reliance on the government is more substantial. Thus, when this tie is affected by strong monitoring, the information loss is greater, and overall uncertainty increases even more. The proportion of government sales ( $Gov\_Sales\_Ratio$ ) shows the most significant difference among all three cross-sectional tests. This may be because sales are one of the most direct indicators of a company's profitability, and external investors pay close attention to it. After the information transfer is blocked, public firms are likely to reduce the dissemination of valuable information with high uncertainty because external investors, such as fund managers, will choose to decrease investments in firms with low-quality information (Chen et al., 2018).

In Table 6, we replace  $High\_Gov\_Sales\_Ratio$  ( $Low\_Gov\_Sales\_Ratio$ ) with  $Both$  ( $Only\_Custom$ ) in Equation (2).  $Both$  is a dummy variable that equals one when treatment firms become government contractors for over half the ex-ante four years.  $Only\_Custom$  is a dummy variable that equals one when treatment firms do not become government contractors for over half the ex-ante four years. The  $Post \times Both$  coefficient is -0.061 at the 0.1 significance level.

The main differences between these two types of business relationships may be due to two factors: First, the government contractor can be seen as having a weaker connection. On one hand, its sales share is not large enough to reach the 10% sales threshold as a major customer. On the other hand,

the overall amount can be spread over multiple years instead of once a year for disclosure. As a result, a firm can be considered a contractor, but its annual sales contribution is not qualified to become a major customer. Second, major customers must be disclosed at the company level, while the government discloses government contractors. To some extent, who chooses to disclose the relationship and who ultimately becomes a partner are equivalently important.

Firms and government institutions with a high degree of mutual recognition are likelier to conduct more private communications before the STOCK Act. Therefore, public firms with both major customers and contract relationships must have had a more substantial ex-ante reliance on the government. Overall, our collective empirical results justify our second hypothesis, suggesting that the relationship between public firms with major government customers and their management forecasts is more pronounced when their private communication with politicians is hindered by the STOCK Act and their business has higher uncertainty.

#### **4.6. Political Activity Engagement Tests**

In our private communication setting between firms and the government along the supply chain, we interpret political activity engagement as compliance with the government. We argue that when firms actively disclose more political events or policies and participate in political contribution activities, they express their incentives to favor their government partners through direct costs. On the other hand, if firms compete in a highly competitive market, they are more likely to seek government assistance to gain competitive advantages as indirect political engagements. These arguments support our third hypothesis.

##### **4.6.1. Direct Political Activity Engagements**

To test direct political activity engagements, we use the following two measures to proxy for active connections to the government: (i) political-related risk disclosures in conference calls (*Political Risk*) from [Hassan et al. \(2019\)](#), and (ii) political contributions during elections (*Federal Contribution*) from [Correia \(2014\)](#). The ex-ante median value of the two measures is used to separate our data sample into high and low groups.

[Table 7](#) presents the results of the political activity engagement tests. The high group in columns (1)

and (3) contributes to the significant results. The coefficients on  $Post \times Treatment$  are -0.128 and -0.112, respectively, both significant at the 0.01 level, while the coefficients are insignificant in the low group with opposite directional values. Regarding between-group differences, all direct political engagement tests show significant results. These two tests suggest that strong political incentives lead to a more substantial reduction in management forecasts after the STOCK Act, indicating that public companies have limited information to share through voluntary disclosure channels, considering their costs when they cannot directly benefit from politicians.

#### **4.6.2. Indirect Political Activity Engagements**

Unlike direct interaction with the government, the company's competitive environment is another incentive for firms to seek government business cooperation (Kepler, 2021). Similarly, we calculate the sales-based Herfindahl-Hirschman Index (HHI) to capture industry concentration. A higher HHI indicates lower competition, equivalent to lower coordination benefits and proprietary costs. Table 8 presents our indirect political activity engagement test's cross-sectional results. In column (1), the coefficient on  $Post \times Treatment$  is significantly negative at the 0.05 level. Regarding the between-group result, the frequency is nearly doubled with significance. Our results indicate that higher competition leads to treatment firms disclosing less due to their potential higher government business compliance.

#### **4.7. Private Communication**

One major threat to our argument is that critics may claim the STOCK Act does not officially ban private communication. To address this concern, we conducted three additional tests. First, we examined the pre-post frequency of overall management forecasts. We found that 693 firms issued forecasts during the eight years, with 386 firms increasing their forecast frequency and 300 firms decreasing it. These results indicate that the change in management forecasts is driven by most firms rather than a few extreme cases, which supports the notion that outliers do not skew the average effect. The act can impact most issuing firms. Second, given our focus on the government's customer channel, we expect the STOCK Act to affect sales information primarily. Due to the disruption of business collaboration, senior management

teams may find it more challenging to receive accurate government sales information post-STOCK Act<sup>7</sup>. Finally, because politicians cannot easily use trading information from firms due to the increased frequency of equity holding disclosures, we expect that the STOCK Act does not significantly impact nonfinancial disclosure<sup>8</sup>. To further support this argument, we draw from the methodologies of [Henry, Jiang, and Rozario \(2021\)](#) and [Zhang \(2021\)](#) to examine private communication on environmental and social topics through conference calls.

In [Table 9](#), columns (1) and (2) show that both environmental and social information is not significantly affected under our private communication setting. This supports the argument that there was some financial information exchange between firms and the government before the STOCK Act for trading purposes. Overall, these three additional tests help address concerns about the narrative and demonstrate that the STOCK Act likely hinders private communication of crucial financial information.

#### **4.8. The STOCK Act, Congressmen, and Corporate Communications**

[Huang and Xuan \(2023\)](#) documented that the STOCK Act limited insider trading by congressmen. Examining whether firms previously held by these congressmen changed their voluntary disclosure behaviors is also important. Congressmen might privately exchange firm-specific information to benefit their portfolios through capital market rewards. Suppose it becomes riskier for congressmen to meet with firms for such information. In that case, these sources can no longer benefit firms through private channels, and some information may be disclosed for direct market reward.

Congressmen can intervene in contract awards in rare cases<sup>9</sup>. Therefore, if they hold a stake in a firm negotiating a government contract, they might interact with executive branch officers and influence final decisions.

To examine how congressmen affect corporate disclosure behaviors under the STOCK Act, we obtained data on politician holdings from OpenSecrets and created a new variable, *Congress\_dummy*, which

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<sup>7</sup>This is a follow-up test for [Table 4](#). Apart from earning information, sales information is the most affected in the non-EPS category. The table is upon request.

<sup>8</sup>Around the year 2012, it was uncommon for investors to use ESG information for trading. The results show that the lack of significant impact on ESG information exchange supports our conclusion in Chapter Two. Firms with government business ties must still fulfill ESG duties and provide ESG information. It would be more effective to use ESG forecast information to compare better with management forecasts in this test.

<sup>9</sup>For example, Blue Origin's bid protest against a contract awarded to SpaceX, see <https://edition.cnn.com/2021/07/30/world/nasa-spacex-blue-origin-hls-scn/index.html> for more details.

equals one if a firm was held at least once by any congressman from 2008 to 2011 before the STOCK Act was enacted. We first applied the same difference-in-differences setting, replacing treatment with *Congress\_dummy*. Next, we created a triple interaction term,  $post \times treatment \times Congress\_dummy$ , to examine the differences between firms held by congressmen and those that were not.

Table 10, column (1), shows that firms previously held by congressmen significantly reduced their management forecasts after the STOCK Act. The coefficient is significant at the 10% level, slightly weaker than our main results. We interpret this as congressmen being more cautious about initiating private communications due to high media exposure, while their stronger connections make them less likely to be penalized by the STOCK Act. In column (2), the triple interaction term is nearly significant at the 10% level, consistent with our prediction that congressmen rarely intervene in contract-awarding procedures to maintain power independence. Our findings show that congressmen played an important role in private communication before the STOCK Act, but their engagement was more limited than executive officers.

## 5. Conclusion

Prior literature highlights the relationship between firms' private communication and voluntary disclosure behavior. This paper leverages the STOCK Act of 2012 as an exogenous shock to examine the effects of private communication between politicians and public firms on overall management forecasts. We posit that close business ties, particularly with major government customers, facilitate private communication between public companies and executive branch officers. Our empirical results indicate that the enactment of the STOCK Act, which restricts such communications, leads public firms to reduce their overall management forecasts.

Consistent with our primary findings, we observe that when public companies can no longer obtain government information seamlessly, the relationship between private communication and voluntary disclosure is more pronounced for firms with higher demand uncertainty from government sources and those involved in more political activities. Additionally, the precision of their EPS forecasts is affected, mitigating potential concerns related to the synergy of Regulation Fair Disclosure (Reg FD). Our findings also show that firms previously held by congressmen reduced their management forecasts following the



STOCK Act. Collectively, these results provide robust evidence supporting our hypotheses and underscore the significant supervisory impact of the STOCK Act on the U.S. government and capital market.

Regarding the limitations of our study, like many investigations into private communication, we cannot capture direct evidence such as phone calls or criminal records. Nevertheless, the primary contribution of this article is its exploration of the impact of private communications between politicians, particularly executive branch officers, and firms on voluntary disclosure. We offer an in-depth interpretation of the relationship between major government customers and contractors, yielding surprising results that differ from prior literature. Furthermore, we advocate for a more comprehensive U.S. government information disclosure policy to foster a fairer investment environment for stakeholders.

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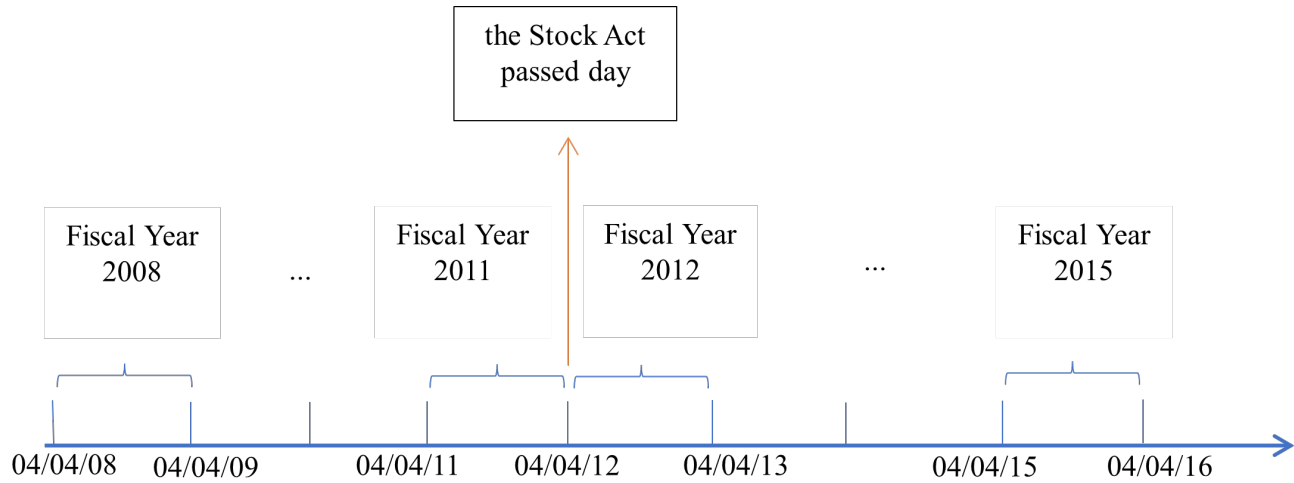
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## Tables and Figures

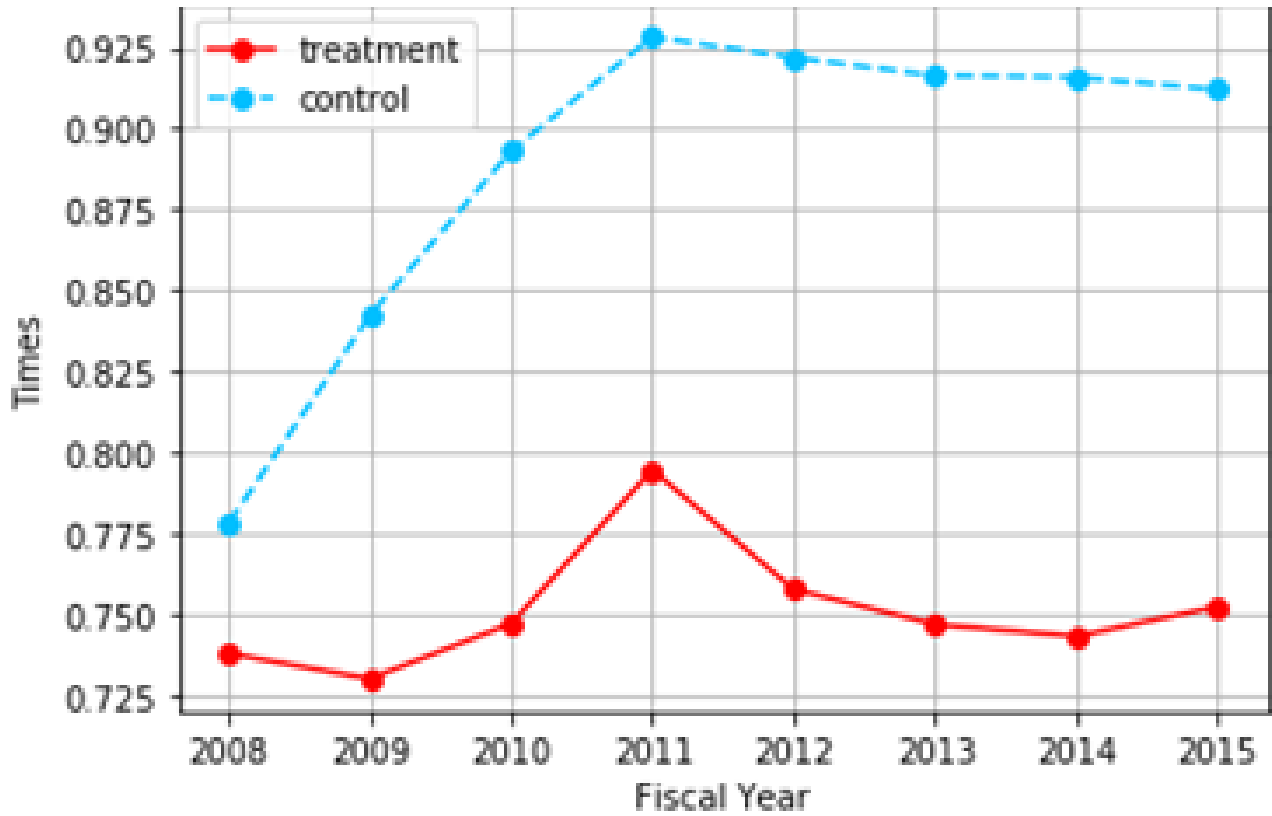
**Figure 1. Timeline for Management Forecasts**

Timeline of the sample period spanning eight years, with the STOCK Act's enactment date as a boundary to balance the timeline. Management forecasts within a defined year are matched to the corresponding fiscal year, as the end of April is the deadline for 10-K disclosures for many public firms.



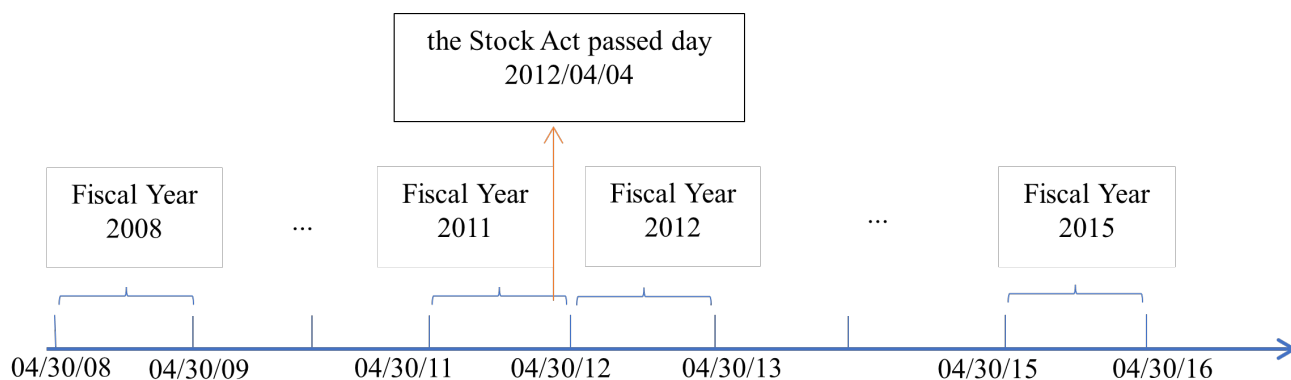
**Figure 2. The Frequency of Management Forecasts**

This figure plots the natural logarithm of the frequency of management forecasts for firms with and without major government customers from 2008 to 2015. The sample consists of 12,074 firm-years. The red solid line represents the treatment firms (15.4% of the sample) that reported major government customers for at least three years in the four years (2008-2011) before the STOCK Act was enacted. The blue dashed line represents the control firms.



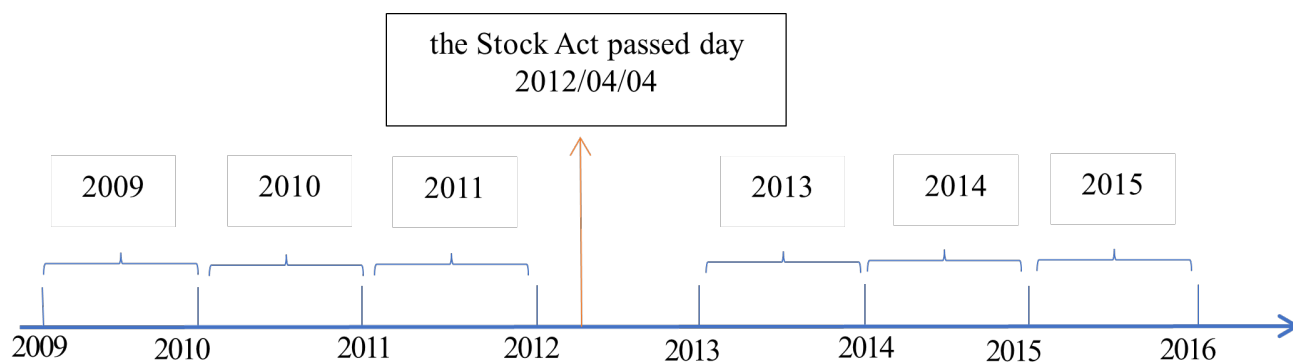
### Figure 3. Timeline Cut-off Robustness for Management Forecasts

The sample period covers eight years, with April 4, 2012, as the boundary to balance the timeline. Management forecasts within each defined year are matched to the corresponding fiscal year, as the end of April is the deadline for 10-K disclosures for many public firms.



#### Figure 4. Timeline Period Robustness for Management Forecasts

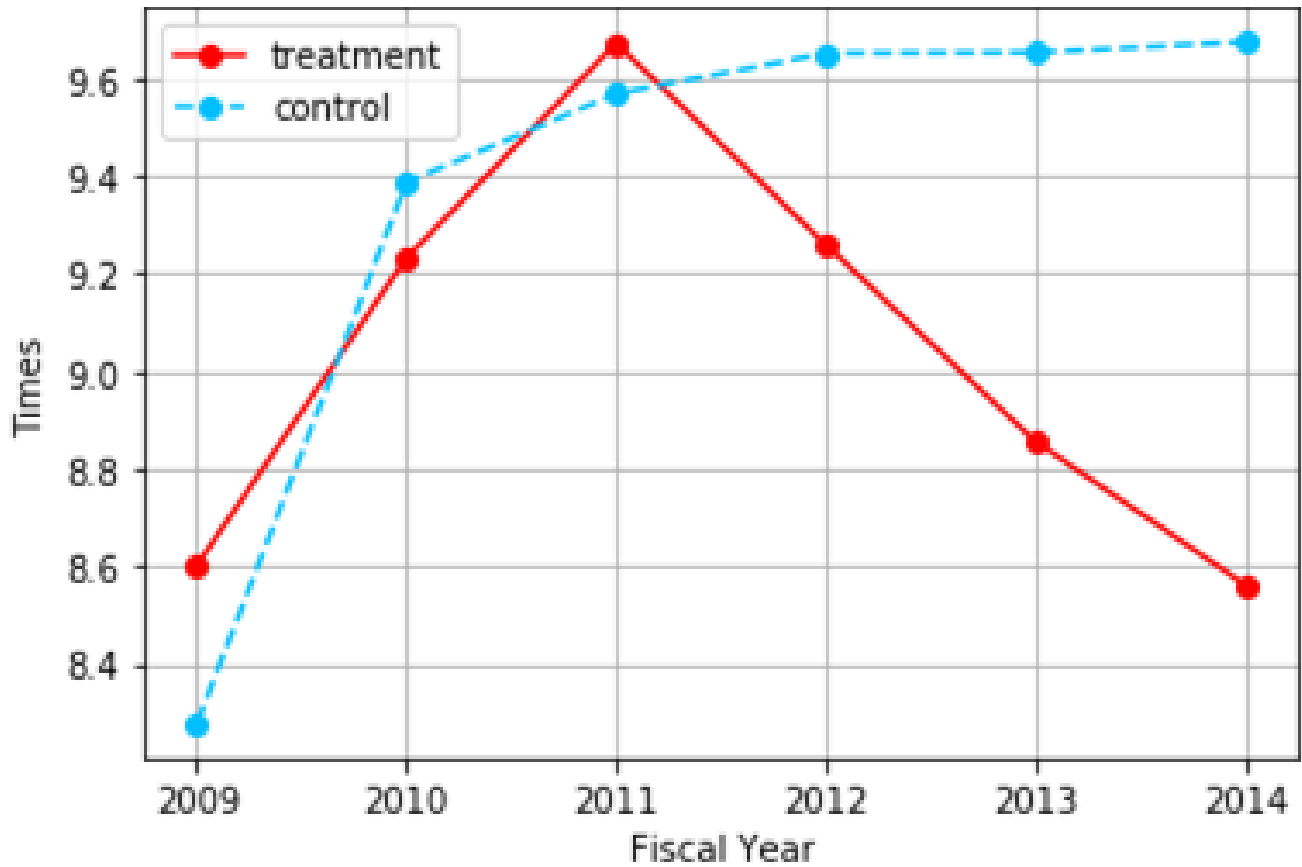
The sample period covers eight years in total, using the firm's fiscal year at the annual level to match management forecasts and firm characteristics. All management forecasts predicted in 2012 are excluded to alleviate the potential impact on decision discussion and execution.





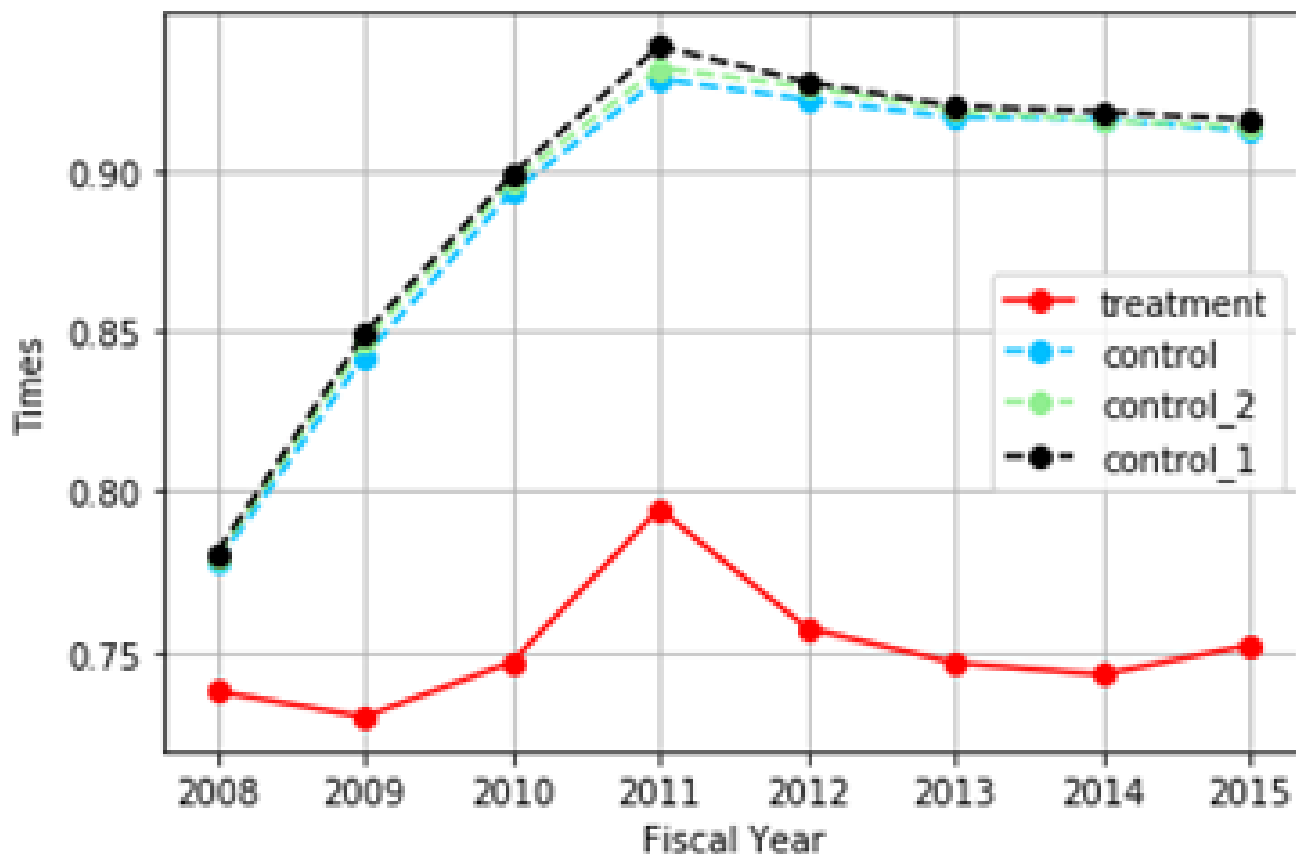
**Figure 5. The Frequency of Management Forecasts for the Refined Samples**

This figure plots the absolute frequency of management forecasts for public firms with and without major government customers from 2009 to 2014 as part of a robustness test. The red solid line represents treatment firms, which are firms with major government customers for more than half of the ex-ante defined period before the STOCK Act was passed. The blue dashed line represents control firms, which are firms without any government customer experiences. The overall sample consists of 5,000 observations.



**Figure 6. The Logarithm of the Frequency of Management Forecasts for the Treatment Firms and Alternative Control Firms**

This figure plots the logged frequency of management forecasts for public firms with and without major government customers from 2008 to 2015. The red solid line represents treatment firms, which are firms with major government customers for more than half of the ex-ante defined period before the STOCK Act was passed. The blue dashed line represents control firms, which are firms with major government customers for less than three years of the ex-ante defined period. The black dashed line represents control\_1 firms, which are firms with only one year of experience with major government customers within the ex-ante-defined four-year period. The green dashed line represents control\_2 firms, which are firms without any major government customers in the pre-defined period.



**Table 1. Summary statistics**

This table contains all the variables used in my primary test, using CRSP and COMPUSTAT databases. The sample period is from 2008 to 2015, covering the whole period of President Obama's administration. All continuous variables are winsorized at 1% and 99% levels. All variables present in [Table A1](#).

	N	Mean	Std	25th	median	75th
<i>Frequency</i>	12,074	0.87	1.25	0.00	0.00	2.08
<i>Annual_Forecasts</i>	12,074	0.68	1.07	0.00	0.00	1.39
<i>Quarterly_Forecasts</i>	12,074	0.42	0.86	0.00	0.00	0.00
<i>EPS_Forecasts</i>	12,074	0.37	0.75	0.00	0.00	0.00
<i>Non-EPS_Forecasts</i>	12,074	0.78	1.13	0.00	0.00	1.79
<i>Day-level_Frequency</i>	12,074	0.60	0.85	0.00	0.00	1.61
<i>Width</i>	1,431	0.91	0.24	1.00	1.00	1.00
<i>Treatment</i>	12,074	0.15	0.36	0.00	0.00	0.00
<i>Size</i>	12,074	6.52	2.16	5.01	6.52	7.98
<i>LEV</i>	12,074	0.18	0.27	0.00	0.15	0.26
<i>BM</i>	12,074	0.01	2.00	0.00	0.01	0.02
<i>ROA</i>	12,074	-0.05	0.50	-0.04	0.03	0.07
<i>LOSS</i>	12,074	0.34	0.47	0.00	0.00	1.00
<i>EarnVol</i>	12,074	0.15	0.72	0.03	0.08	0.15
<i>Ret</i>	12,074	0.02	0.16	-0.03	0.01	0.04
<i>Turnover</i>	12,074	0.16	0.26	0.05	0.11	0.19
<i>StkVol</i>	12,074	0.03	0.02	0.02	0.03	0.04
<i>Gov_Sales_Ratio</i>	12,074	0.03	0.10	0.00	0.00	0.00
<i>Gov_Custom_Num</i>	12,074	1.05	2.88	0.00	0.00	0.00
<i>Gov_Sales_Vol</i>	12,074	26.10	138.64	0.00	0.00	0.00
<i>Both</i>	16,553	0.06	0.23	0.00	0.00	0.00
<i>Only_Custom</i>	16,553	0.38	0.49	0.00	0.00	1.00
<i>PRisk</i>	12,074	116.19	114.07	43.76	88.97	153.34
<i>Fed_contribution</i>	12,074	9639.49	27395.27	0.00	500.00	4800.00
<i>HHI</i>	12,074	0.25	0.19	0.11	0.21	0.32
<i>Env_info</i>	12,074	2.66	8.39	0.00	0.00	0.83
<i>Soc_info</i>	12,074	9.35	8.33	0.00	10.62	15.32

**Table 2. Private Communication and Management Guidance**

This table examines the effect of private communication between politicians and public firms on the frequency of overall management forecasts. Variable definitions are provided in [Table A1](#). The t-statistics shown in parentheses are clustered at the firm level and adjusted for heteroscedasticity. \*\*\*, \*\*, and \* exhibit significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
	Frequency			
<i>Post × Treatment</i>	-0.058* (-1.65)	-0.057 (-1.59)	-0.067* (-1.90)	-0.075** (-2.42)
<i>Post</i>	0.055*** (3.93)	-0.037** (-2.03)		
<i>Treatment</i>	-0.109 (-1.36)	-0.110 (-1.44)	-0.021 (-0.25)	
<i>Size</i>		0.078*** (4.30)	0.105*** (5.69)	0.063*** (4.39)
<i>LEV</i>		-0.453*** (-3.50)	0.029 (0.21)	0.105* (1.89)
<i>BM</i>		-0.753*** (-2.79)	-0.626** (-2.27)	0.201 (1.19)
<i>ROA</i>		0.207** (2.48)	0.116 (1.38)	-0.061* (-1.82)
<i>LOSS</i>		-0.083* (-1.83)	-0.105** (-2.40)	-0.039** (-2.48)
<i>EarnVol</i>		-0.225* (-1.78)	-0.298** (-2.47)	0.082 (1.00)
<i>Ret</i>		-0.213*** (-2.97)	-0.243*** (-3.28)	-0.077* (-1.92)
<i>Turnover</i>		0.924*** (6.44)	0.760*** (5.67)	0.135*** (3.15)
<i>StkVol</i>		-6.892*** (-6.11)	-6.773*** (-5.70)	-1.240** (-2.25)
Ind FE	NO	NO	YES	NO
Firm FE	NO	NO	NO	YES
Year FE	NO	NO	YES	YES
Observations	12,074	12,074	12,074	12,048
R-squared	0.002	0.092	0.196	0.906

**Table 3. Additional Tests for the Main Effect**

This table provides the robustness of the effect of private communication between politicians and public firms on the frequency of overall management forecasts. Panel A shows three different potential time measures for the Act, including no action year, using the alternative annual window, and the six-year sample period. Panel B shows the results using alternative samples of firms making at least one management forecast, control firms without government business for the whole sample period, and firms in unregulated industries. The precision of the EPS forecasts (point or range forecast) is analyzed in Panel C. The OLS regression estimates all the coefficients. The t-statistics shown in parentheses are clustered at the firm level and adjusted for heteroscedasticity. \*\*\*, \*\*, and \* exhibit significance at the 1%, 5%, and 10% levels, respectively. Appendix A presents the variable definitions.

**Panel A. Time Robustness**

	(1)	(2)	(3)
	Exclude year 2012	<i>Frequency</i> Alternative annual window	Six-year Period
<i>Post × Treatment</i>	-0.096** (-2.57)	-0.075** (-2.42)	-0.050* (-1.77)
Controls	YES	YES	YES
Firm FE	YES	YES	YES
Year FE	YES	YES	YES
Observations	10,908	12,048	10,039
R-squared	0.891	0.906	0.934

**Panel B. Alternative Samples**

	(1)	(2)	(3)
	Using Firms Covered in I/B/E/S	<i>Frequency</i> Using Clean Control Firms	Excluding Firms in Regulated Industries
<i>Post × Treatment</i>	-0.156** (-2.35)	-0.068** (-2.19)	-0.061* (-1.87)
Controls	YES	YES	YES
Firm FE	YES	YES	YES
Year FE	YES	YES	YES
Observations	6,097	11,656	11,287
R-squared	0.824	0.905	0.905

**Panel C. Forecast Precision of the EPS Forecasts**

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	(1)
	<i>Width</i>
<i>Post × Treatment</i>	0.048** (1.97)
Controls	YES
Firm FE	YES
Year FE	YES
Observations	1,393
R-squared	0.694

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**Table 4. Different Types of Management Forecasts**

This table examines the effect of private communication between politicians and public firms on the frequency of different types of management forecasts. The subsamples for specifications in Columns (1)-(4) are defined according to annual forecasts, quarterly forecasts, EPS forecasts, or non-EPS (e.g., sales and CAPEX) forecasts. Column (5) calculates the frequency of forecasting days over each year. One calendar day is classified as a forecasting day with at least one management forecast. Variable definitions are provided in [Table A1](#). The t-statistics shown in parentheses are clustered at the firm level and adjusted for heteroscedasticity. \*\*\*, \*\*, and \* exhibit significance at the 1%, 5%, and 10% levels, respectively.

	(1) <i>Frequency of Annual Forecasts</i>	(2) <i>Frequency of Quarterly Forecasts</i>	(3) <i>Frequency of EPS Forecasts</i>	(4) <i>Frequency of Non-EPS Forecasts</i>	(5) <i>Frequency of Forecasting Days</i>
<i>Post × Treatment</i>	-0.056* (-1.94)	-0.033 (-1.55)	-0.014 (-0.66)	-0.074** (-2.45)	-0.051** (-2.27)
<i>Size</i>	0.073*** (5.29)	0.019* (1.88)	0.015* (1.80)	0.061*** (4.46)	0.047*** (4.58)
<i>LEV</i>	0.126** (2.34)	0.057 (1.25)	0.070* (1.88)	0.090* (1.69)	0.062 (1.47)
<i>BM</i>	0.385*** (2.93)	0.012 (0.09)	0.155* (1.77)	0.188 (1.19)	0.075 (0.62)
<i>ROA</i>	-0.065** (-2.22)	-0.022 (-0.78)	-0.017 (-0.88)	-0.056* (-1.76)	-0.042* (-1.76)
<i>LOSS</i>	-0.054*** (-3.55)	-0.002 (-0.14)	-0.020* (-1.93)	-0.031** (-2.12)	-0.024** (-2.23)
<i>EarnVol</i>	0.100 (1.16)	0.092 (1.30)	0.012 (0.33)	0.089 (1.14)	0.082 (1.31)
<i>Ret</i>	-0.042 (-1.05)	-0.060* (-1.90)	-0.030 (-1.35)	-0.073* (-1.86)	-0.075** (-2.57)
<i>Turnover</i>	0.143*** (3.39)	0.137*** (4.12)	0.072*** (2.68)	0.123*** (3.00)	0.098*** (3.14)
<i>StkVol</i>	-1.068** (-2.05)	-0.700* (-1.78)	-0.761** (-2.37)	-1.006* (-1.93)	-0.678* (-1.74)
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Observations	12,048	12,048	12,048	12,048	12,048
R-squared	0.876	0.868	0.896	0.891	0.895

**Table 5. Cross-Sectional Tests for the Importance of Government Sales**

This table examines the cross-sectional tests on demand uncertainty measured by the characteristics of major government customers. *High\_Gov\_Sales\_Ratio* ( $High\_Gov\_Custom\_Num / High\_Gov\_Sales\_Vol$ ) is a dummy variable equal to one when firms have no less than the median ratio of government sales divided by overall sales (the total number of different types of major government customers / the annual volatility of government sales) in the ex-ante defined four years. *Low\_Gov\_Sales\_Ratio* ( $Low\_Gov\_Custom\_Num / Low\_Gov\_Sales\_Vol$ ) is a dummy variable equal to one when firms have less than the median ratio of government sales divided by overall sales (the total number of different types of major government customers / the annual volatility of government sales) in the ex-ante defined four years. Variable definitions are provided in Table A1. The t-statistics shown in parentheses are clustered at the firm level and adjusted for heteroscedasticity. \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2) <i>Frequency</i>	(3)
<i>Post</i> × <i>High_Gov_Sales_Ratio</i>	-0.117*** (-2.69)		
<i>Post</i> × <i>Low_Gov_Sales_Ratio</i>	-0.030 (-0.74)		
<i>Post</i> × <i>High_Gov_Custom_Num</i>		-0.069** (-2.15)	
<i>Post</i> × <i>Low_Gov_Custom_Num</i>		-0.163 (-1.38)	
<i>Post</i> × <i>High_Gov_Sales_Vol</i>			-0.076** (-2.08)
<i>Post</i> × <i>Low_Gov_Sales_Vol</i>			-0.073 (-1.38)
<i>Size</i>	0.062*** (4.37)	0.063*** (4.39)	0.063*** (4.39)
<i>LEV</i>	0.104* (1.88)	0.105* (1.90)	0.105* (1.89)
<i>BM</i>	0.202 (1.19)	0.201 (1.19)	0.202 (1.19)
<i>ROA</i>	-0.060* (-1.78)	-0.061* (-1.83)	-0.061* (-1.82)
<i>LOSS</i>	-0.038** (-2.40)	-0.039** (-2.49)	-0.039** (-2.48)
<i>EarnVol</i>	0.082 (1.01)	0.082 (1.01)	0.081 (1.01)
<i>Ret</i>	-0.075* (-1.88)	-0.077* (-1.90)	-0.077* (-1.92)
<i>Turnover</i>	0.132*** (3.10)	0.135*** (3.16)	0.135*** (3.15)
<i>StkVol</i>	-1.224** (-2.21)	-1.248** (-2.26)	-1.240** (-2.25)
Firm FE	YES	YES	YES
Year FE	YES	YES	YES
Observations	12,048	12,048	12,048
R-squared	0.906	0.906	0.906



**Table 6. Cross-Sectional Tests for Firms With Government Contracts**

This table presents the results of the cross-sectional tests on demand uncertainty, measured by the characteristics of government major customers and contractors. "*Both*" represents firms that are defined as both government major customers and government contractors, while "*Only\_Custom*" represents firms that are defined as government major customers only. All coefficients are estimated using OLS regression. The t-statistics shown in parentheses are clustered at the firm level and adjusted for heteroscedasticity. \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively. [Table A1](#) provides the variable definitions.

	(1) <i>Frequency</i>
<i>Post</i>	0.019 (1.34)
<i>Both</i>	-0.004 (-0.04)
<i>Post</i> × <i>Both</i>	-0.061* (-1.74)
<i>Only_Custom</i>	0.062 (1.65)
<i>Post</i> × <i>Only_Custom</i>	0.016 (0.60)
Controls	YES
Firm FE	YES
Year FE	YES
Observations	16,447
R-squared	0.914

**Table 7. Cross-Sectional Tests for Management’s Focus on Direct Political Activity Engagements**

This table presents the results of the cross-sectional tests on the coordination incentives measured by conference call disclosed political risks and political contribution records. Column (1) shows results for firms with high political risks; Column (2) shows results for firms with low political risks; Column (3) shows results for firms with high federal contributions; Column (4) shows results for firms with low federal contributions. The t-statistics shown in parentheses are clustered at the firm level and adjusted for heteroscedasticity. \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively. [Table A1](#) provides the variable definitions.

	(1)	(2)	(3)	(4)
	<i>Frequency</i>			
	Political Risk		Federal Contribution	
	High	Low	High	Low
<i>Post × Treatment</i>	-0.128*** (-3.74)	0.008 (0.13)	-0.112*** (-2.77)	0.002 (0.05)
<i>Size</i>	0.056*** (2.66)	0.073*** (3.76)	0.081*** (3.62)	0.054*** (2.84)
<i>LEV</i>	0.104 (1.29)	0.107 (1.44)	0.088 (1.00)	0.132* (1.90)
<i>BM</i>	0.565 (1.23)	0.172* (1.74)	-0.006 (-0.01)	0.345** (2.43)
<i>ROA</i>	-0.057 (-1.11)	-0.062 (-1.43)	-0.060 (-0.74)	-0.045 (-1.60)
<i>LOSS</i>	-0.036 (-1.53)	-0.041* (-1.93)	-0.024 (-1.09)	-0.051** (-2.24)
<i>EarnVol</i>	0.068 (0.84)	0.116 (0.89)	0.152 (0.82)	0.056 (0.76)
<i>Ret</i>	-0.028 (-0.40)	-0.105** (-2.27)	-0.230*** (-2.70)	-0.026 (-0.57)
<i>Turnover</i>	0.144** (2.41)	0.126** (2.12)	0.189*** (2.97)	0.070 (1.18)
<i>StkVol</i>	-2.681*** (-3.07)	-0.016 (-0.03)	-0.810 (-0.69)	-1.198** (-2.29)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	6,034	6,014	6,252	5,796
R-squared	0.906	0.905	0.921	0.863
Group difference	<0.01***		<0.01***	

**Table 8. Cross-Sectional Tests for Indirect Political Activity Engagements**

This table presents the results of the cross-sectional tests on the coordination benefits measured by market competition on sales characteristics. The low HHI index indicates firms in a highly competitive industry. All coefficients are estimated using OLS regression. The t-statistics shown in parentheses are clustered at the firm level and adjusted for heteroscedasticity. \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively. [Table A1](#) provides the variable definitions.

	(1)	(2)
	High HHI	Low HHI
<i>Post × Treatment</i>	-0.058 (-1.41)	-0.093** (-1.99)
<i>Size</i>	0.082*** (4.19)	0.047** (2.32)
<i>LEV</i>	0.147** (1.99)	0.057 (0.70)
<i>BM</i>	0.316 (1.36)	0.027 (0.11)
<i>ROA</i>	-0.039 (-0.80)	-0.075* (-1.71)
<i>LOSS</i>	-0.033 (-1.45)	-0.042** (-2.01)
<i>EarnVol</i>	0.075 (0.68)	0.101 (0.84)
<i>Ret</i>	-0.110* (-1.92)	-0.053 (-0.91)
<i>Turnover</i>	0.123* (1.92)	0.137** (2.39)
<i>StkVol</i>	-1.819** (-2.50)	-0.384 (-0.46)
Firm FE	YES	YES
Year FE	YES	YES
Observations	6,046	6,002
R-squared	0.899	0.911
Group difference	<0.01***	

**Table 9. Additional Analysis of Non-Financial Voluntary Disclosure**

This table shows the effect of private communication between politicians and public firms on the frequency of different non-financial disclosures. *Env\_info* represents the voluntary disclosure of environmental issues, while *Soc\_info* represents the voluntary disclosure of social issues. All coefficients are estimated using OLS regression. The t-statistics shown in parentheses are clustered at the firm level and adjusted for heteroscedasticity. \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively. [Table A1](#) provides the variable definitions.

	(1) <i>Env_info</i>	(2) <i>Soc_info</i>
<i>Post</i> × <i>Treatment</i>	-0.509 (-1.62)	-0.235 (-0.99)
<i>Size</i>	0.047 (0.50)	0.259*** (2.94)
<i>LEV</i>	0.149 (1.07)	0.281** (2.29)
<i>BM</i>	-0.005 (-0.87)	0.008 (1.02)
<i>ROA</i>	0.006 (0.18)	-0.157** (-2.02)
<i>LOSS</i>	0.010 (0.08)	0.215** (2.08)
<i>EarnVol</i>	-0.006 (-0.58)	-0.026 (-0.71)
<i>Ret</i>	0.068 (0.31)	-0.233 (-0.83)
<i>Turnover</i>	0.009 (0.10)	-0.268* (-1.65)
<i>StkVol</i>	0.455 (0.19)	0.720 (0.19)
Firm FE	YES	YES
Year FE	YES	YES
Observations	12,048	12,048
R-squared	0.849	0.872

**Table 10. The STOCK Act, Congressmen, and Corporate Communications**

This table presents the results of the cross-sectional tests on the coordination benefits measured by market competition on sales characteristics. *Congress\_dummy* is a binary variable set to one if congressmen disclosed the firm's name for equity transactions at least once during the four years from 2008 to 2011, prior to the enactment of the STOCK Act. All coefficients are estimated using OLS regression. The t-statistics, shown in parentheses, are clustered at the firm level and adjusted for heteroscedasticity. \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in [Table A1](#).

	(1)	(2)
	<i>Frequency</i>	
Post × Treatment × Congress_dummy		-0.086 (-1.56)
Post × Congress_dummy	-0.041* (-1.86)	-0.029 (-1.26)
Size	0.064***	0.065***
LEV	-4.49 0.111**	-4.5 0.109**
BM	-1.99 0.222	-1.97 0.222
ROA	-1.32 -0.062*	-1.31 -0.062*
LOSS	(-1.84) -0.040**	(-1.85) -0.040**
EarnVol	(-2.56) 0.08 -0.97	(-2.56) 0.081 -0.99
Ret	-0.081** (-2.00)	-0.080** (-1.98)
Turnover	0.131*** -3.07	0.130*** -3.05
StkVol	-1.198** (-2.16)	-1.192** (-2.16)
Firm FE	YES	YES
Year FE	YES	YES
Observations	12,048	12,048
R-squared	0.906	0.906

## The Appendix

**Table A1. Variable Definition**

<b>Variable</b>	<b>Definition</b>	<b>Source</b>
Frequency	Natural logarithm of 1 plus the value of overall management forecasts predicted by the firm annually.	<i>IBES Guidance</i>
Post	Dummy variable that equals to one for firm-years after 2011.	<i>The STOCK Act</i>
Treatment	Dummy variable that equals one for firms that report major government customers for at least three years during the four years of 2008-2011 before the STOCK Act was enacted.	<i>COMPUSTAT Segment</i>
Size	Natural logarithm of 1 plus the market equity value.	<i>COMPUSTAT</i>
LEV	The ratio of total debt to total assets.	<i>COMPUSTAT</i>
BM	The ratio of the book value of equity to the market value of equity.	<i>COMPUSTAT</i>
ROA	The ratio of income before extraordinary items to total assets.	<i>COMPUSTAT</i>
LOSS	Dummy variable that equals to one if income before extraordinary items is no greater than zero and zero otherwise.	<i>COMPUSTAT</i>
EarnVol	Standard deviation of the annual return on assets over the past 10 years.	<i>CRSP</i>
Ret	Buy-and-hold size-adjusted return in one fiscal year.	<i>CRSP</i>
Turnover	Average monthly share turnover over a fiscal year, where monthly share turnover is the ratio of the total trading volume divided by the total number of shares outstanding.	<i>COMPUSTAT</i>
StkVol	Standard deviation of the daily stock returns within one fiscal year.	<i>CRSP</i>
Env_info	The number of environment keywords during management presentation scaled by the total number of words (in hundreds) of management presentation. The environmental keyword dictionary is from Henry et al. (2021).	<i>Thomson Reuters</i>
Soc_info	The number of human capital disclosure keywords during management presentation scaled by the total number of words (in hundreds) of management presentation. The human capital keyword dictionary is from Zhang (2021).	<i>Thomson Reuters</i>
Gov_Sales_Ratio	The ratio of government sales divided by overall sales in ex-ante defined four years.	<i>COMPUSTAT Segment</i>
Gov_Custom_Num	The total number of different types of major government customers in ex-ante defined four years.	<i>COMPUSTAT Segment</i>

Continued on next page

**Table A1. Variable Definition - Continued**

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Gov_Sales_Vol	The annual volatility of government sales in ex-ante defined four years.	<i>COMPUSTAT Segment</i>
Both	Dummy variable that equals one if treatment firms become government contractors for more than half of the ex-ante four years	<i>COMPUSTAT Segment, Federal Procurement Data System</i>
Only_Custom	Dummy variable equals one if treatment firms become government contractors for over half of the ex-ante four years.	<i>COMPUSTAT Segment</i>
PRisk	A training library of political text, archetypical of the discussion of politics.	<i>Firmlevelrisk</i>
Fed_contribution	The political contribution amount for firms in federal congressional elections.	<i>OpenSecrets</i>
HHI	Sales-based Herfindahl-Hirschman Index of the firms' industry.	<i>COMPUSTAT</i>
Width	A dummy variable for the annual firm-level forecast precision of the earnings forecasts. It equals one if the firm makes an EPS forecast using the range of EPS intervals instead of the point forecast.	<i>Thomson Reuters</i>

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