

Christensen, Dane M.; Jin, Hengda; Lee, Joshua A.; Sridharan, Suhas A.;
Wellman, Laura A.

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Corporate political activism and information transfers

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Stigler Center

for the Study of the Economy and the State

Corporate Political Activism and Information Transfers

Dane M. Christensen

University of Oregon

Hengda Jin

Texas A&M University

Joshua A. Lee

Brigham Young University

Suhas A. Sridharan

Emory University

Laura A. Wellman

University of Oregon

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Stigler Center for the Study of the Economy and the State
University of Chicago Booth School of Business
5807 S Woodlawn Ave
Chicago, IL 60637

Corporate Political Activism and Information Transfers*

Dane M. Christensen
University of Oregon
danec@uoregon.edu

Hengda Jin
Texas A&M University
hjin@tamu.edu

Joshua A. Lee
Brigham Young University
joshlee84@byu.edu

Suhas A. Sridharan
Emory University
sridharan@emory.edu

Laura A. Wellman
University of Oregon
wellman@uoregon.edu

September 2023

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Corporate Political Activism and Information Transfers

Abstract

Prior research suggests that: (1) politically active firms have an information advantage over firms that do not engage in the political process, but also that (2) politically active firms are more likely to disclose policy-related information. We examine whether there are externalities associated with the processing of political information by politically active firms. We study this question in the setting of intra-industry information transfers around earnings announcements. Measuring firms' political activism using campaign contributions, we find stronger intra-industry information transfers from politically active firms to their industry peers. These information transfers are stronger when there is more discussion during conference calls of political topics that have industry or market-wide implications. Similarly, these information transfers are also stronger when there is greater political uncertainty. Our paper highlights an important information externality related to politically active firms' disclosures and improves our understanding of how politically active firms affect their industries' information environment.

Data Availability: The data used in this study are publicly available from the sources cited in the text.

JEL Classification: D72; M41; M48.

Keywords: Political connections; political information; information transfer; earnings announcements

I. INTRODUCTION

Political outcomes have material implications for firm value and investment decisions (Pástor and Veronesi 2012, 2013). Yet it is challenging to acquire and integrate information about whether government policies will change and the impact those changes will have on firms (Blankespoor, deHaan, and Marinovic 2020; Pástor and Veronesi 2013). In this regard, politically active firms appear to have an information advantage over industry peers and more readily anticipate and react to policy developments (Wellman 2017; Ovtchinnikov, Reza, and Wu 2020). This information advantage is made possible because members of Congress are legally permitted to selectively disclose political information to external stakeholders (see e.g., Wright 1996; Jerke 2010; Bainbridge 2011; Nagy and Painter 2012). On multiple occasions Congress has proposed requiring mandatory disclosure around the flow of political information (Christensen, Morris, Walther, and Wellman 2023). However, these provisions have not been enacted due to a lack of evidence on how political information is disseminated, to whom, and for what purpose.

While politically active firms strategically benefit from differential access to policy-related information (Wellman 2017; Ovtchinnikov, Reza, and Wu 2020), these firms also have an incentive to voluntarily disclose more policy-related information to help alleviate investor uncertainty around political events (Christensen et al. 2023). If policy-related discussion has an industry-relevant component, a potentially unintended consequence of politically active firms' information acquisition is disclosure that is useful to investors in other firms (Foster 1981). If so, the extent to which peer firms' investors react to information revealed through politically active firms' disclosures can speak to the ongoing debate regarding whether additional transparency is needed around the flow of political information. To better understand this issue, we examine

whether the processing of political information by politically active firms is relevant to peer firm value.

Political information constitutes facts and insights that politicians glean from their positions in office that can have material impact on firms (Jerke 2010). This information can include details about the timing and content of legislative proposals and hearings, as well as legislators' policy positions and any proposed amendments that other organizations might offer (Wright 1996). We posit that firms and investors face non-trivial costs associated with processing information about government actions (e.g., legislative developments, FDA and patent approvals). Building on Blankespoor et al. (2020), we expect that the costs of processing political information relate to both the acquisition and the integration of such information. Specifically, firms may be limited in their ability to acquire information about policy developments before government policies are finalized and decisions made public (Gao and Huang 2016). After acquiring political information, firms likely face additional challenges in assessing the impact of this information on their businesses. The costs of processing political information vary across firms; relative to their politically active peers, politically inactive firms face higher costs of processing political information (Bremmer 2005). Moreover, relative to managers, investors may face an even greater challenge in resolving uncertainty around policy impacts, since they often lack important contextual information about firm operations and investment opportunities. These higher processing costs could lead many investors in politically inactive peer firms to rely on politically active firms to process political information.

However, it is unclear whether the processing of political information by politically active firms is informative to peer firms' investors. The answer to this question depends on the nature of the political information disclosed. For example, many policy changes have relevance

to the industry and market as a whole, such as changes in industry regulation or other legislative actions (Cohen, Coval and Malloy 2011). To the extent that politically active firms process and disclose industry-relevant information about whether policies will change and how such policies will impact current and future profitability, these disclosures may be informative to peer firms' investors. On the other hand, if politically active firms mainly process and disseminate information about government actions that relate to the politically active firm itself, the information may not be informative to peer firms' investors. For example, firms may focus discussion on the political developments around securing government contracts or seeking regulatory approval for specific products; such political information is less likely to be informative to peer firms. Consistent with this possibility, Hassan, Hollander, van Lent, and Tahoun (2019) document that the discussion of government policy risks in conference calls relates primarily to *firm-specific* risks, rather than industry or market-wide risks. Moreover, investors may not recognize the industry-wide implications of political information or use peer firm disclosures to glean such information. For these reasons, whether the processing of political information by politically active firms is informative to peer firms' investors is an empirical question.

We study this question by examining information transfers from politically active firms around their corporate disclosures. Following Foster (1981), we consider there to be an information transfer when the announcing firm's disclosures contain information that investors use to update their expectations about peer firms (i.e., when there is a short-window peer stock return response to the information released by the announcing firm). By using the Foster (1981) framework of intra-industry information transfers, our empirical analyses reveal the extent to which investors of peer firms learn from politically active firms' disclosures. If politically active

firms process and disseminate political information that is relevant to the peer firm, we expect to see stronger information transfers when announcing firms are politically active.

Although intra-industry information transfers can occur around any corporate disclosure, we focus specifically on earnings announcements because they are summary events where firms provide rich narrative and quantitative disclosures.¹ At earnings announcements, firms can convey information about the likelihood of government policy changes and the impact of those policies through a number of different channels, such as formal discussion in the financial statements and their footnotes, informal conversation during conference calls, and changes in forward-looking estimates that impact the overall calculation of earnings.²

To perform our empirical analyses, we use a sample of 2,503,948 announcer-peer observations from 1997 to 2018. In our main analyses we define peer firms as those in the same industry (i.e., the same four-digit SIC code) and the same fiscal year-end as the announcing firm. To avoid scenarios where peer equity returns might reflect information leakage related to the peer firm's own earnings announcement, we only consider peers whose earnings announcements occur at least five trading days after the announcing firm. Using this sample, we find robust evidence that information transfers from the announcing firm to its peers' investors are stronger when the announcing firm is more politically active. Specifically, using unsigned returns, we find that the average intra-industry information transfer is 1.4-2.0 percentage points larger when announcer firms are politically active, relative to a baseline intra-industry information transfer of

¹ It is possible that politically active firms reveal political information in other disclosures or investor meetings that occur prior to the earnings announcement. If this supersedes the information that is provided in the earnings announcement, it should reduce the likelihood of observing similar transfers around the earnings announcement.

² One form of disclosure often released concurrently with earnings announcements is management guidance, and Christensen et al. (2023) document an increased likelihood of management guidance for politically active firms. For firms that bundle guidance with earnings announcements, it is possible that such guidance represents another channel for the dissemination of political information. However, in Online Appendix Table 2, we confirm that our results persist amongst announcing firms that do not bundle guidance with their earnings announcements, indicating that such bundling is not the only channel for political information flow.

2.6-2.8 percentage points for politically inactive firms. This supports the view that the processing of policy-related news by politically active firms is valuable to peer firms' investors.

Our initial tests jointly capture the processing of political information via narrative disclosures and quantitative estimates that impact earnings. As firms' narrative disclosures are more transparent, they offer us an opportunity to better understand the nature of the information that is conveyed by politically active firms. Accordingly, we study whether information transfers change with the content of the narrative disclosures that politically active firms make in their conference calls. Our focus on conference call discussions follows prior research indicating that the bulk of information transfer during earnings announcement periods occurs during conference calls (Brochet, Kolev, and Lerman 2018).

First, we consult multiple sources to create a dictionary of political terms used in conference calls. Since context is critical to the validity of such dictionaries, we manually validate the political nature of each term in the conference call setting.³ Using this dictionary, we find stronger information transfers when politically active announcers provide greater political discussion in their conference calls. Since Hassan et al. (2019) report that the political discussion in conference calls is often firm-specific, we also consider whether the magnitude of information transfer changes when the political discussion includes broader industry or market-wide impacts. Our results indicate that this is the case; we find stronger information transfers only when the political discussion includes references to the broader industry/economy. This suggests that information transfers around politically active firms' disclosures are increasing in the amount of market-wide policy discussion but are unchanged by firm-specific policy discussion.

³ See Section III and the Online Appendix for details on how we construct and validate the political dictionary.

To reinforce the inference that our results reflect political information transfers, we examine instances where we expect political information to be more valuable to peer firms' investors. We find evidence of stronger political information transfers when there is greater political uncertainty (i.e., around presidential elections) and when the peer firm is more similar to the announcer based on lobbying alignment. In additional analyses, we find evidence of stronger political information transfers when the politically active announcer releases earnings earlier during the earnings season, and when peer firms have more analysts to help investors interpret the announcer's political disclosures. Collectively, the results of these cross-sectional tests provide greater confidence in our main inferences.

We also investigate whether the documented information transfers from politically active firms relate primarily to complementary or competitive information flows. Specifically, using signed returns, we find that positive news from a politically active announcing firm is also interpreted as positive news by its peers' investors. This is consistent with the information flow relating to news about policy developments that are likely to affect business conditions similarly for all firms in the industry.

To bolster our identification of information transfers related to political information flow, we also conduct an event study analysis around a specific policy development: the Clean Power Plan (CPP). Introduced and implemented during the Obama administration, the CPP had significant implications for energy and utility firms, but not for the broader market. We find evidence of stronger information transfers for energy and utility firms during the CPP debate period, but only when the announcing firms are politically active.

Collectively, our evidence is consistent with valuable information transfers from politically active firms to their peers around earnings announcements. However, there are several

potential alternative explanations for these findings. First, it is possible our results simply capture investors overreacting to the announcements of politically active firms. Second, it is possible that our results capture investors anticipating the peer firms' impending *current*-quarter earnings announcements, rather than reacting to industry-relevant political news that is processed and disseminated by the politically active firm. Third, since politically active firms tend to be larger in size (Cooper, Gulen, and Ovtchinnikov 2010), it is possible that our proxy for political activism reflects firms' macroeconomic bellwether status. Fourth, our results may be driven by our specific research design choices. To address these possibilities, we conduct a battery of tests, which are outlined in our robustness section, that mitigate each of these concerns.

Overall, our analyses reveal that valuable information transfers occur around the earnings announcements of politically active firms. In documenting this, our paper makes several contributions to literature. First, our findings suggest that politically active firms' information processing improves the information environment in their industry. These findings extend a nascent literature examining political information flow in capital markets. Nagar, Schoenfeld, and Wellman (2019) document that economic policy uncertainty leads to an increase in investor uncertainty and a muted response to firms' earnings announcements. Building on these findings, Christensen et al. (2023) provide evidence that politically active firms strategically disclose guidance ahead of legislative developments and are more likely to include policy-related discussion in the forward-looking statements accompanying guidance. Despite the evidence in these studies, we still have a limited understanding of the broader impact of disclosures by politically active firms on parties *beyond* the firm's own investors. Our findings suggest that politically active firms' processing of political information creates positive information externalities for peer firms' investors.

Additionally, our findings contribute to the literature on information transfers between firms. The earliest studies of this phenomenon focus on intra-industry information transfers (Foster 1981), and subsequent research provides evidence of information transfers across firms that are linked through supply chain relationships (Hertzel et al. 2008; Pandit et al. 2011). More recent evidence suggests that developments *outside* the firm affect information transfers, such as accounting standard harmonization (Wang 2014), ETF ownership (Bhojraj et al. 2020), industry competitiveness (Durnev and Mangen 2020), and foreign macroeconomic news (Dong and Young 2021). Our study, in contrast, focuses on a firm-level mechanism (i.e., corporate political activism) that leads to disclosures with greater potential for intra-industry transfer. Thus, our findings help answer Schipper's (1990) call to investigate the role firms play in information transfers. Specifically, our findings show that some information transfers occur because of the *processing* (and subsequent communication) of superior information rather than simply the *communication* of superior information, which prior literature has focused on (e.g., earnings release by competitors, Foster 1981; or customers, Pandit et al. 2011).

II. BACKGROUND, RELATED LITERATURE, AND CONCEPTUAL DEVELOPMENT

Firms and investors face uncertainty over whether government policy will change and the impact that new government policies will have on firm profitability (Pástor and Veronesi 2012, 2013). As a result, policy uncertainty can have detrimental effects on investment (e.g., Julio and Yook 2012; Gulen and Ion 2016), as well as asset prices and stock return volatility (e.g., Pástor and Veronesi 2012, 2013; Brogaard and Detzel 2015; Kelly, Pástor, and Veronesi 2016). Thus, it is likely that uncertainty over whether and how policies will change motivates managers' and investors' information collection activities.

To some extent, managers and investors can learn about regulatory and legislative outcomes through various public disclosure mechanisms. For example, the U.S. Food and Drug Administration (FDA) and the U.S. Patent and Trademark Office (USPTO) disclose product approvals on their websites. Similarly, the U.S. Senate and House of Representatives disclose the progression of bills through public hearing transcripts and roll call voting records on their websites.⁴ While managers and investors can learn about policy developments as government decisions are made public, constant monitoring of various regulatory and legislative actions can be costly (Blankespoor et al. 2020). Furthermore, even when policy outcomes are known, it is still difficult to accurately assess the impact that policy changes will have on firm profitability (Pástor and Veronesi 2012, 2013). For example, even if investors can glean information about policy developments through their own networks, they may still face difficulty assessing the impact that policies will have on different firms in their portfolio. Consistent with this, Nagar et al. (2019) find that policy uncertainty leads to information asymmetry among investors.

Politically active firms have a relative advantage in gathering and analyzing policy news (Bremmer 2005). Gaining and maintaining access to policymakers often begins with campaign contributions, which act as entrance fees into the political process (Hojnacki and Kimball 2001; Austen-Smith 1995; Hillman and Hitt 1999). As policies develop, firms with access have an opportunity to inform policymakers on the expected impact of various policy alternatives. A by-product of this open communication is that firms also have an opportunity to gather institutional details about policy developments. This information can include procedural strategies that members will follow during mark-up sessions, positions that policymakers are thinking about taking, and potential amendments that policymakers might offer (Wright 1996). By combining

⁴ The U.S. Senate's and House of Representatives' websites are www.senate.gov and www.house.gov, respectively.

this information with firms' own strategic planning, politically active firms have a relative advantage in assessing the overall likelihood and impact of various policy alternatives (Bremmer 2005). Consistent with the notion that politically active firms have an information advantage over inactive peers, Wellman (2017) and Ovtchinnikov et al. (2020) find evidence that suggests the ability of politically active firms to anticipate and strategically react to policy developments leads to more informed investment and innovation decisions.

Although politically active firms have an advantage in anticipating and analyzing the likelihood and impact of policy alternatives, whether they face incentives to disclose this information is less clear. On one hand, firms may want to alleviate investor uncertainty around periods of heightened policy uncertainty (Nagar et al. 2019). On the other hand, politically active firms may be reluctant to reveal this information for several reasons. For example, politically active firms may be reluctant to issue "bad news" when policy developments are expected to lead to unfavorable outcomes. In addition, even if expected outcomes are favorable, managers may still be reluctant to disclose proprietary information (e.g., Beyer et al. 2010).

Additionally, it is unclear whether political information disclosed by active firms is useful to outsiders. Though the intended audience of most corporate disclosure is the company's own stakeholders, prior research documents robust evidence of intra-industry information transfers by studying equity price reactions of non-announcing peer firms to the disclosures of other firms in their industry (Foster 1981; Han and Wild 1990; Freeman and Tse 1992). Schipper (1990) highlights the need for a deeper understanding of the sources underlying such information transfers. In response to this call, some subsequent studies attribute these return co-movements to behavioral over or under reactions but offer mixed inferences. For instance, Ramnath (2002) finds that analysts tend to underreact to the industry information in early earnings

announcements. In contrast, Thomas and Zhang (2008) find that investors overreact to the information contained in early announcers' news releases. More recent studies identify externally-determined factors, like country-level financial reporting harmonization (Yip and Young 2012; Wang 2014) and ETF ownership (Bhojraj et al. 2020), that can affect the degree of intra-industry information transfer. Other studies document information transfers along the supply chain that cross traditional industry boundaries (Hertzel et al. 2008; Pandit et al. 2011; Madsen 2017). Most closely related to our study is Brochet et al. (2018), who identify conference calls as an important mechanism for facilitating intra-industry information transfers but refrain from identifying the specific content of disclosures that yield information transfers. We extend this antecedent work by studying the extent to which there are intra-industry information transfers around political information specifically.

Intra-industry transfers may occur around politically active firms' earnings announcements if active firms process political information in a way that informs peer firms' investors. Whether this occurs depends largely on the type of information that politically active firms process and disseminate. Certain types of political information, such as impact assessments related to legislation or industry-wide regulatory reforms, should help investors resolve uncertainty not only about the disclosing firm, but also should yield insights about prospects of the whole industry. Appendix B provides examples of such political information discussed in conference calls. To the extent that politically active firms process information of this nature, we expect to observe stronger intra-industry information transfers arising from their disclosures. This leads to our main hypothesis that the processing of political information by politically active firms is informative to peer firms' investors.

There are at least two reasons why this hypothesis may not hold. First, politically active firms seek to proactively influence political outcomes in a way that is most beneficial to their own strategic plans, rather than those of their industry peers. Thus, it is possible that, through their political access, politically active firms mainly obtain information that is relevant to their firm but not to their peers. Consistent with this view, Hassan et al. (2019) find that interactions between firms and governments are highly heterogeneous and have a granular impact on firms. Moreover, even if firms do obtain industry-relevant information as well, they may strategically choose not to disclose such information. Hassan et al. (2019) report that firms' discussion of political risk in conference calls pertains primarily to firm-specific risk, rather than sector or market factors.

Second, firms' primary goal in making earnings announcements and related disclosures is not to process political information, but rather to provide information about their past performance and current financial position. While there are compelling reasons to expect that such disclosures can reflect political information, it is also possible that corporate disclosures are not a well-known source of political information processing. If investors in peer firms do not anticipate there to be relevant political information in earnings announcements, they may not allocate resources towards acquiring and interpreting it. For these reasons, it is plausible that there is no difference in the degree of intra-industry information transfers arising from politically active firms' disclosures relative to other firms' disclosures at earnings announcements. Ultimately, whether the processing of political information by politically active firms is informative to peer firms' investors is an empirical question.

III. DATA AND SAMPLE

Measuring political activism

We focus on measuring political activism as it pertains to firms' access to politicians because we expect that firms' ability to process political information is a function of their access. Perhaps the most well-documented tool used by firms for garnering political access is campaign financing activity, rather than lobbying expenditures, as the latter are typically associated with attempts to influence legislative outcomes (e.g., Schuler, Rebheim, and Cramer 2002; Hojnacki and Kimball 2001; Wright 1996). Firms are not allowed to use corporate funds to make federal campaign contributions directly but may legally participate in federal election activities through corporate sponsored Political Action Committees (PACs). Corporate sponsored PACs are managed by the sponsoring firm. They solicit contributions from the firm's executives, employees, and stockholders and then strategically allocate these funds to political campaigns. The Federal Election Commission (FEC) requires PACs to disclose these contributions, making this more observable to external parties like investors than most other forms of corporate political activity. Moreover, since these PAC campaign contributions are likely highly correlated with other, less observable, forms of political activity, prior research maintains that observable campaign support is a reasonable proxy for firms' overall political activity (Cooper et al. 2010; Christensen, Mikhail, Walther, and Wellman 2017). To measure political activism, we use data from the Federal Election Commission's detailed committee, candidate, and contribution files to create an indicator variable equal to one if the announcing firm's corporate PAC made contributions to political candidates over years $t-5$ to t ($PolCon_A$).⁵

⁵ Although this measure is useful for assessing economic magnitudes, it does not consider variation in the number of connections, and thus the number of information channels established. In untabulated analyses, we construct alternative measures that capture not only the magnitude of a firm's political connections but also the political power of those connections based on the candidates' committee rankings and the relative power of the candidates' political party at the time (Cooper et al. 2010; Christensen et al. 2017). These alternative measures are over 90 percent correlated with our main measure of political activism and yield similar empirical results (untabulated). Consistent with prior research, these alternate measures reveal that a minority of firms make corporate political contributions, but those that do typically contribute to many candidates (Fowler, Garro, and Spenkuch 2020; Cooper et al. 2010).

Sample construction

To form our sample, we merge our measure of political activism with financial statement data from Compustat's quarterly files and equity returns data from CRSP. Following Barth and So (2014), we identify earnings announcement dates by comparing reported dates in Compustat and I/B/E/S and assuming the earlier date is correct. In our main analyses, we identify industries using historical four-digit SIC codes from Compustat, but also explore alternative industry classifications in robustness tests.

Prior research on intra-industry information transfers recommends several sample refinements that we follow. First, we limit our sample to industries that include at least five firms (Hann et al. 2019). Second, we require the announcing firm and its peers to have the same fiscal year end and same fiscal quarter (Freeman and Tse 1992; Thomas and Zhang 2008).⁶ Third, to ensure that our findings are not driven by small or illiquid stocks, we require all firms in the sample to have fiscal quarter ending stock prices above \$5 (Hilary and Shen 2013). Finally, to mitigate the confounding effect of earnings announcements associated with peer firms' own earnings announcements, we restrict our sample to peer firms that disclose their own earnings at least five trading days *after* the announcer's earnings announcement (Thomas and Zhang 2008; Dong and Young 2021).⁷ Following this process, we obtain a final sample of 2,503,948 announcer-peer-quarter observations from 9,035 unique announcing firms from 1997 to 2018.⁸

⁶ Our results are similar if we further require both the announcing firm and peer firms to have a December fiscal year end (untabulated).

⁷ This requirement ensures that a peer firm's returns in response to an announcing firm do not overlap with the peer firm's own earnings announcement returns and mitigates problems with bid-ask bounce (Thomas and Zhang 2008). We relax this requirement in our additional analyses (see Section IV for more details).

⁸ Our research design allows an individual peer firm to be linked to multiple announcing firms in each quarter, so that we can observe the information transfer to the peer firm as each announcer firm releases earnings. Further, peer firms include both politically inactive firms as well as other politically active firms. We allow politically active firms to be included as peers because politically active firms may have political information sets that do not overlap perfectly with one another, so announcements made by one politically active firm may be informative to investors of other politically active firms.

IV. EMPIRICAL TESTS

Information transfers around Earnings Announcements

To test whether the processing of political information by politically active firms creates information externalities for peer firms' investors, we estimate Equation (1) below:

$$\begin{aligned} |CAR_P|_{j,k,t} = & \beta_1 |CAR_A|_{i,k,t} + \beta_2 PolCon_A_{i,k,t} + \beta_3 |CAR_A|_{i,k,t} \times PolCon_A_{i,k,t} \\ & + \lambda_n Controls + \alpha_{i,j} + \alpha_t + \epsilon_{i,t} \end{aligned} \quad (1)$$

The dependent variable in Equation (1), $|CAR_P|_{j,k,t}$, is the absolute value of the cumulative abnormal return of peer firm j during days $[-1,+1]$ centered around the announcement of quarter t earnings by another ("announcer") firm in industry k . We include the absolute value of the announcer firm's cumulative abnormal return to their own earnings announcement, $|CAR_A|_{i,k,t}$, as an explanatory variable capturing the magnitude of information disclosed in the earnings announcement. The coefficient on this variable, β_1 , measures the existence of an intra-industry information transfer. Prior research finds that this coefficient is significantly positive, on average, suggesting that investors in peer firms learn from earlier earnings announcements in the same industry. The explanatory variable $PolCon_A_{i,k,t}$ identifies whether announcer firm i is politically active in the rolling six-year period preceding its quarter t earnings announcement. If politically active firms are more likely to process information that is helpful to investors in peer firms, we expect β_3 to be significantly different from zero.

We follow Brochet et al. (2018) in our choice of control variables in Equation (1). Specifically, we include the market value of equity and book-to-market ratios of the announcer and peer firms as control variables. As additional controls, we also include analyst coverage and the percentage of institutional ownership of the announcer firm. While we view this set of controls to be fairly comprehensive and reflective of prior research on intra-industry information transfers,

we recognize that there may still be unobservable cross-sectional (i.e., industry or firm-level) characteristics or time trends that impact the degree of observed information transfer. To mitigate concerns that our inferences are driven by such unobservable factors, we employ both cross-sectional and time series fixed effects throughout our analyses. First, we include calendar year-quarter fixed effects in all specifications. Second, we vary the use of the following types of fixed effects: industry (four-digit SIC code), announcer, and announcer-peer firm pair. These different fixed effect structures allow us to examine political information transfers across firms within an industry over time, for a single announcer over time, and within announcer-peer firm pairs over time. In particular, announcer-peer firm pair fixed effects allow us to control for any stable unobservable relation between a pair of firms that may lead peers to rely more heavily on the announcing firm's disclosure. Following Breuer and deHaan (2023), we remove instances of singleton observations within a given fixed effect category; this process yields slightly smaller sample sizes when using narrower fixed effects. Additionally, since our sample includes multiple observations for every announcer firm's earnings announcement, we cluster standard errors by earnings announcement (Gow et al. 2010).⁹

Table 1 presents descriptive statistics and Pearson correlations for the main variables in our regression analyses. Similar to Cooper et al. (2010) and Christensen et al. (2023), the mean value of *PolCon_A* is 0.238, indicating that 23.8 percent of announcer firms in our sample make contributions to political candidates. In untabulated analyses we find that firms in our sample make financial campaign contributions to 26 political candidates, on average. If we focus only on

⁹ In untabulated analyses, we confirm that clustering by earnings announcement date offers the most conservative approach to estimating standard errors in our setting. Specifically, clustering by peer firm, by announcer-peer firm pair, or by peer-date generates smaller standard errors than clustering by announcer earnings announcement date.

firms that make campaign contributions (i.e., $PolCon_A = 1$), we observe that these firms have connections to 110 candidates, on average.

Table 2 presents results from the estimation of Equation (1). Consistent with prior literature, we observe a positive and significant coefficient on $|CAR_A|$, which indicates the existence of an intra-industry information transfer. Our estimated coefficient on $|CAR_A|$ indicates a 2.6 to 2.8 percent intra-industry information transfer; for comparison, Brochet et al (2018) estimate intra-industry information transfers between 1.1 and 3.6 percent. We observe a significantly positive coefficient on the interaction between $PolCon_A$ and $|CAR_A|$. This indicates that the magnitude of intra-industry information transfer is stronger when the announcer has political connections. For ease of interpretation, we focus on the results in column (1). Our results indicate an intra-industry information transfer of 4.2 percent when the announcing firm engages in political activity. This represents a substantial increase from the 2.8 percent baseline transfer associated with disclosure when the same announcing firm does not engage in political activity.¹⁰ In columns (2) and (3), we observe similar results using alternative fixed effect structures.¹¹

Information transfers and policy discussion in conference calls

Most prior research on intra-industry information transfers takes a broad perspective in documenting the existence of such transfers, rather than identifying a specific piece of information that is transferred. In our primary estimation of Equation (1), we follow this approach to be consistent with the literature. In addition, this broad perspective allows our initial

¹⁰ Our results persist if we estimate Equation (1) when measuring the intensity of a firm's political contributions over time (i.e., the intensive margin) on a restricted sample of only those firms that make financial campaign contributions (untabulated). This provides reassurance that our inferences are not driven solely by the initial decision to be politically active, but also reflect the degree of political activity firms pursue.

¹¹ To alleviate concerns that our results are sensitive to our definition of peer firms, we re-estimate Equation (1) using the FIC-400 product-based industry classifications to identify industry peers (Hoberg and Phillips 2010). We continue to observe significant information transfers from politically active firms to peer firms (untabulated).

tests to jointly capture the multiple channels by which politically active firms might reveal the expected impact of policy changes around earnings announcements. We expect that such channels include, but are not limited to, changes in forward-looking estimates that impact the overall calculation of earnings, narrative discussion of policy topics in the regulatory filings, or conversation about policy topics during conference calls that occur during the announcement period. That said, explicit discussion of policy topics in firms' narrative disclosures are more readily observable relative to changes in forward-looking estimates and other earnings attributes. Thus, in our next set of analyses, we study whether information transfers change with the content of politically active firms' narrative disclosures.

A recent investigation of information transfers by Brochet et al. (2018) using intraday data suggests that conference calls facilitate a significant proportion of the information transfers around earnings announcements. Moreover, the transparency of conference calls allows us to more directly measure the degree to which political information induces intra-industry information transfers. Appendix B provides several examples of firms' political disclosure in conference calls. The disclosures include discussion of policy changes and the impact of those changes, including whether they present opportunities and/or challenges at the industry/market level. If the increased information transfer from politically active firms to peers is related to the processing of political information, we expect there to be greater information transfers when politically active firms offer more policy-related discussion in their earnings conference calls.

To test this, we first develop a dictionary to measure political discussion in earnings conference calls. This is a necessary step because the construct validity of linguistic dictionaries is closely tied to the context in which the dictionary is used, and our study is the first to examine industry or market-relevant political discussion in conference calls.

We provide a detailed description of the dictionary creation process in the Online Appendix and briefly summarize our process here. We construct the dictionary based on two sources. First, we extract unigrams and bigrams (collectively, ngrams) that are used more frequently in political *Wall Street Journal* articles than non-political *Wall Street Journal* articles from 1996 to 2018. We also manually review each ngram and remove those that are non-political in nature. Given the business focus of the *Wall Street Journal*, the political language used in these articles is likely to correspond with how political information is discussed in a conference call setting. However, to ensure we create a list that captures a broad range of political discussion, we also augment the *Wall Street Journal* list with the policy terms used by Baker et al. (2016) and listed in their Online Appendix B. Baker et al. (2016) create their list using a large corpus of newspaper articles from Newsbank news aggregator, which covers around 1,500 U.S. newspapers. Thus, their list is likely to include political terms that are relevant for our setting but that may have been excluded in our *Wall Street Journal* political ngram extraction process. Next, we further manually validate each ngram in our preliminary list by reading randomly-selected conference call sentences containing each ngram and discarding ngrams that identify sentences unrelated to political discussion (e.g., “campaign” typically captures advertising campaigns, rather than political campaigns). Based on this process, our final dictionary contains a total of 753 political ngrams. Using this dictionary, we measure the frequency of policy-related words in conference call transcripts obtained from the Refinitiv StreetEvents archive. These tests include 87,109 conference call transcripts from 2001 to 2018, which is the overlapping window of the StreetEvents archive and our sample. We list the ngrams in our dictionary in the Online Appendix ordered by their frequency. We find that the terms *government, regulation, Medicare, political, legislation, stimulu, tax reform, and congress* are

the most frequent ngrams in our sample. Untabulated descriptive statistics reveal that politically active (inactive) firms include political discussion in 77.1 (59.9) percent of conference calls, on average. These means are significantly different from each other at the 1 percent level. This supports our assumption that political activity helps lower the cost of processing political information and thus increases the likelihood of active firms conveying valuable political information to peers.

To study how information transfers vary with political disclosure, we define a new indicator variable *Politics* that equals one when an announcing firm includes political discussion in their earnings conference call and zero otherwise.¹² This test includes 1,384,802 observations, which is the subset of announcer-peer-quarters with conference call data available from the StreetEvents archive. We interact *Politics* with our main variable of interest ($|CAR_A| \times PolCon_A$) and re-estimate Equation (1). If there are greater information transfers when politically active firms discuss political information in their earnings conference calls, we should observe a positive coefficient on this three-way interaction term.

Table 3 Panel A presents the results of this estimation. Consistent with our main results, we find robust evidence of stronger information transfers when announcing firms are politically active. The coefficient on the two-way interaction term ($|CAR_A| \times PolCon_A$) is significantly positive across all specifications. This coefficient suggests that there are information transfers that occur through the “implicit” channels of political information processing, such as changes in forward-looking estimates that impact the overall calculation of earnings. Our cross-sectional prediction relates to the three-way interaction term ($|CAR_A| \times PolCon_A \times Politics$). Across all

¹² We measure political discussion using an indicator variable for ease of exposition and interpretation of economic magnitudes. We find qualitatively similar results if we instead use a continuous measure of the total number of political ngrams used in the announcer’s earnings conference call (untabulated).

specifications we find that this coefficient is also positive and statistically significant. This suggests that the degree of information transfer from politically active firms' disclosures is stronger when they provide "explicit" policy-related discussion during conference calls. Overall, the results in Table 3, Panel A indicate that politically active firms process political information in a way that is helpful not only to their own investors but also to investors in peer firms.

To further corroborate the inference that there are information transfers related to political disclosure, we next examine whether the transfers are sensitive to the degree of industry relevance of the political disclosure. While many policy developments have industry implications, Hassan et al. (2019) note that political discussion in conference calls can also be firm-specific. Thus, we do not expect to observe stronger political information transfers when firms provide firm-specific political information in their disclosures, as firm-specific policy information should be fairly uninformative to industry peers. To test this, we use the context of each instance of political disclosure to distinguish cases where firms discuss industry-relevant political information (which should generate information transfers) from cases where firms discuss firm-specific political information (which should not generate information transfers).

We construct an indicator variable (*PoliticsTransfer*) to capture instances of political disclosure in earnings conference calls that include a discussion of the broader industry or market context of the policy news. We consider there to be such discussion if, in 10 sentences following a political ngram, the transcript also contains one or more of the following terms: *industry*, *industries*, *peer*, *peers*, *sector*, *sectors*, *competitor*, *competitors*, *competing*, *competition*, *market*, *markets*, *economic*, *economy*. Thus, *PoliticsTransfer* equals one if a conference call features political discussion accompanied by industry or market context, and zero otherwise. We similarly define an indicator variable (*PoliticsNonTransfer*) that equals one if a conference call

only features political discussion without accompanying industry or market context, and zero otherwise. We then interact these two measures with $|CAR_A| \times PolCon_A$ and re-estimate Equation (1). If political information transfers are stronger when firms provide industry or market context in their political information processing, we should observe a positive coefficient on the interaction term $|CAR_A| \times PolCon_A \times PoliticsTransfer$. Moreover, we should not observe a positive coefficient on the interaction term $|CAR_A| \times PolCon_A \times PoliticsNonTransfer$.

The results of this estimation appear in Table 3 Panel B. They reveal that information transfers from politically active firms to investors in peer firms occur only when firms provide industry or market context for disclosed political information. Namely, the coefficient on $|CAR_A| \times PolCon_A \times PoliticsTransfer$ is positive and statistically significant, while the coefficient on $|CAR_A| \times PolCon_A \times PoliticsNonTransfer$ is not distinguishable from zero. Overall, this evidence is consistent with there being valuable information transfers from politically active firms to investors in peer firms around earnings announcements, particularly when politically active firms discuss broad policy-related topics during the conference call.

In untabulated analyses, we also use the Hassan et al. (2019) firm-specific political risk dictionary to investigate whether information transfers from politically active firms to peer firms' investors vary with the level of firm-specific policy discussion in earnings conference calls. Our expectation is that such discussion will not generate information transfers, since firm-specific political risk should not be relevant to industry peers. Specifically, we re-estimate Equation (1) using *PRisk* and the triple interaction term $|CAR_A| \times PolCon_A \times PRisk$ as additional explanatory variables. As expected, we find that the coefficient on $|CAR_A| \times PolCon_A \times$

PRisk is indistinguishable from zero. Thus, we fail to observe evidence of increased information transfer associated with elevated levels of firm-specific political risk.

The difference in findings using our *Politics* measure versus the Hassan et al. (2019) *PRisk* measure is unsurprising, given the significant theoretical differences in their construction. The objective of Hassan et al. (2019) is to construct a measure of firm-specific political risk, and their process for doing so focuses on estimating the share of firms' quarterly earnings conference calls that they devote to political risk. Because of its firm-specific nature, we should not expect to observe intra-industry information transfers related to this measure. In contrast, our goal is to measure broader discussion about the likelihood that policy will change and the impact that government policies will have on firms. This impact can be positive or negative and, because of the broad reach of governmental policy, has the potential to yield valuable information not just about the announcing firm but also its industry peers.

Information transfers when political information is more valuable

To corroborate the inference that politically active firms process political information that is valuable to investors in peer firms, we consider two settings where we expect political information to be more valuable: when there is greater political uncertainty and when the announcer and peer are more similarly affected by policy changes. If the observed information transfers relate to the processing of political information, we expect to observe stronger transfers in each of these settings.

First, political information should be more valuable when firms face greater political uncertainty. Following Julio and Yook (2012), we identify presidential election years as periods of greater political uncertainty. We define an indicator variable (*Election*) equal to one in presidential election years, and zero otherwise. We then interact *Election* with our main variable of interest ($|CAR_A| \times PolCon_A$) and re-estimate Equation (1). The results of this analysis

appear in Table 4 Panel A. The coefficient on $|CAR_A| \times PolCon_A \times Election$ is positive and significant across all fixed effect specifications, consistent with greater political information transfers during periods of heightened political uncertainty.¹³

Second, political information should be more valuable to peer firms when the peer firm and announcer are more similarly affected by government policy news. To test this, we develop a new measure of lobbying similarity across firms. Specifically, we create an indicator variable, *LobbySame*, that is equal to one if both the announcer firm and peer firm lobbied for the same issue (as identified using lobbying issue codes) over the past six years, and zero otherwise.¹⁴ Because data from federal lobbying disclosures via LobbyView are not available until 1999 and because we measure lobbying similarity over six-year rolling windows, our lobbying similarity measure is only available from 2006 to 2018. We then interact *LobbySame* with our main variable of interest ($|CAR_A| \times PolCon_A$) and re-estimate Equation (1). The results of this analysis appear in Table 4 Panel B. We observe a positive and statistically significant coefficient $|CAR_A| \times PolCon_A \times LobbySame$ across all fixed-effect structures, consistent with greater political information transfers occurring when announcers and peer firms are more similarly affected by government policy news.¹⁵

V. ADDITIONAL ANALYSES

Political information transfers and information intermediaries

¹³ As an alternative to election cycles, we also examine whether political information transfers change with the Baker et al. (2016) EPU index. Specifically, we define an indicator variable (*HighEPU*) equal to one when the EPU index exceeds its time-series median, and zero otherwise. We then interact *HighEPU* with our main variable of interest ($|CAR_A| \times PolCon_A$) and find similar results (untabulated).

¹⁴ We use six years to be consistent with our measure of firms' campaign contributions, which is measured over a rolling six-year window.

¹⁵ As an alternative to lobbying alignment, we instead measure similarity between the announcing firm and peer firms based on product market similarity (Hoberg and Phillips 2010; 2016). Specifically, we define an indicator variable equal to one if the announcing firm and peer firm have a pairwise product market similarity score that exceeds the threshold to be included in the TNIC 3 database, zero otherwise (*HighSimilarity*). We then interact *HighSimilarity* with our main variable of interest ($|CAR_A| \times PolCon_A$) and find similar results (untabulated).

Because integration costs are a critical component of political information processing, we expect political information transfers to be stronger when there are more information intermediaries available to help peer firms and investors interpret political information (Hilary and Shen 2013). Therefore, we test whether the observed information transfers change with the number of analysts following the peer firm. We define *NumAnalyst_P* as the number of analysts following the peer firm. We interact our variable of interest ($|CAR_A| \times PolCon_A$) with *NumAnalyst_P* and re-estimate Equation (1). The results of this estimation appear in Table 5 Panel A. The coefficient on $|CAR_A| \times PolCon_A \times NumAnalyst_P$ is positive and significant across all fixed effect specifications. This suggests that peer firms learn more political information from politically active firms' earnings announcements when there are more analysts following a peer firm, as these intermediaries assist in the processing of the political information conveyed by the politically active announcer.

Political information transfers over the earnings announcement cycle

If political information transfers arise from the dissemination of information that could be potentially shared by multiple firms, we expect smaller political information transfers when the politically active announcing firm reports their results later in the earnings season. In such instances, any political information being disclosed would be more likely to be pre-empted by political information revealed by prior announcers. To test this, we investigate whether there is a decline in the strength of political information transfers during an earnings announcement cycle. We define *ReportLag_A* as the number of days between the period end and each announcing firm's earnings announcement date. A larger value of *ReportLag_A* indicates a longer financial reporting lag and thus greater possibility of pre-emption of political information. We interact our variable of interest ($|CAR_A| \times PolCon_A$) with *ReportLag_A* and re-estimate Equation (1). The

results of this analysis appear in Table 5 Panel B. The coefficient on $|CAR_A| \times PolCon_A \times ReportLag_A$ is negative and significant across all specifications. This suggests that there is a decay in political information transfers within an earnings announcement cycle and that the strongest transfers of political information appear to occur at the beginning of an earnings announcement cycle. Overall, our findings reinforce the view that peer firms' investors can glean valuable political information from the earnings announcements of politically active firms.

Signed returns tests

In our main analyses, we study information transfers using unsigned cumulative abnormal returns for both announcing and peer firms. We focus on unsigned returns because our hypothesis does not offer a directional prediction regarding the potential information flow from announcing to peer firms. On one hand, information transfers may exist because of a complementary relationship between announcing and peer firms, where positive news for the announcing firm also indicates positive news for its peers. This could arise because of a favorable policy development that improves business conditions for all firms in a particular industry. On the other hand, we might similarly observe information transfers in scenarios where the relationship between announcing and peer firms is more competitive, such that positive news for the announcing firm constitutes negative news for its peers. To distinguish which of these possible scenarios, on average, drives the information transfers previously documented, we re-estimate Equation (1) using signed cumulative abnormal returns for both announcing and peer firms instead of unsigned returns. We continue to include all other control variables and fixed effects as originally described. If the information transfers associated with announcing firms' political activity relate to complementary information flow, we should observe a positive β_3 coefficient estimate. In contrast, if announcers and peers have a competitive relationship where

positive news for the announcing firm is interpreted as negative news for its peer firms, we should observe a negative β_3 coefficient estimate.

The results from this estimation appear in Table 6. We observe a significantly positive coefficient on CAR_A (β_1), which confirms the findings of prior research of a robust complementary information transfer between announcing firms and peers. Related to our motivating inquiry, we also observe a positive β_3 coefficient estimate across all political activism measures. This indicates that, on average, information transfers related to political activity reflect the flow of complementary information between announcing and peer firms.¹⁶

Event Study around the Clean Power Plan

To further bolster our identification of information transfers related to political information flow, we conduct an event study around the passage of the Clean Power Plan (CPP). First proposed in June 2014 under President Obama’s Climate Action Plan, the CPP aimed to reduce carbon dioxide emission by setting limits on carbon pollution from energy and utility firms. The announcement of the CPP prompted substantial debate in Congress about the scope and nature of the regulatory proposal. In August 2015, President Obama unveiled key details of the final version of the CPP, and the final version of the CPP was officially published in the Federal Register in October 2015.¹⁷

We expect that the initial proposal and subsequent debate of the CPP created additional policy-related uncertainty for energy and utility firms relative to other firms in the market (above and beyond their normal political issues). This is because the CPP’s objectives and proposals specifically targeted energy and utility firms; its proposed emissions restrictions applied only to

¹⁶ Similar to prior research (Brochet et al. 2018), the Adj. R^2 of our models drops when studying unsigned CARs instead of signed CARs.

¹⁷ As per the Federal Register, “When an agency publishes a final rule, generally the rule is effective no less than thirty days after the date of publication in the Federal Register.” For more information, see Federal Register (2011).

those industries. A maintained assumption throughout our analyses is that the magnitude of political information transfers varies over time and across firms depending on the significance of political topics being discussed by policy makers. Our prior results simply capture the “on average” effect of political information transfers. If our main results are indeed capturing political information transfers, then those results should become stronger when we identify specific settings where there is greater potential for political information transfer, as was the case for energy and utility firms around the CPP debate.

During the period when the CPP was being debated, politically active firms likely had advanced access to important information about the specific parameters that would be included in the final legislation, thereby putting them in a better position to assess the impact of the policy as it was developing. If peer firms’ investors are able to glean policy information from the disclosures of politically active firms in their industry, we should observe stronger information transfers around disclosures made by politically active firms during the development of the CPP.

We test this prediction by modifying Equation (1) to explore how information transfers vary for announcing firms affected by the development of the CPP. We add two additional explanatory variables: 1) an indicator variable for affected firms, *Treat*, and 2) an indicator variable for the time period when the proposal was debated, *Event*. Using Fama-French 12 industry classifications, *Treat* equals one for firms in the utilities or energy industries and zero otherwise. *Event* equals one during the period of active CPP debate, June 2014 to October 2015.

We are primarily interested in the interactive effects of *Treat* and *Event* with our main variable of interest, the interaction term $CAR_A \times PolCon_A$. If information transfers from

politically active firms relate to the information about the development or impact of the CPP, the interaction term $CAR_A \times PolCon_A \times Treat \times Event$ should exhibit a positive coefficient.¹⁸

The results of this estimation appear in Table 7. Columns (1), (3), and (5) present results from a baseline estimation of Equation (1) excluding any interactions with $PolCon_A$. They reveal a significantly positive coefficient on $CAR_A \times Treat \times Event$, indicating that there are stronger information transfers in affected industries during the event period. In columns (2), (4), and (6) we include our measure of corporate political activism and associated interaction terms in the estimation. Consistent with our predictions, in most of the specifications we observe a significantly positive coefficient on the 4-way interaction term $CAR_A \times PolCon_A \times Treat \times Event$. Moreover, the coefficient on the 3-way interaction term $CAR_A \times Treat \times Event$ is no longer significant, which suggests that the heightened information transfers in affected industries during the CPP debate period are driven by disclosures made by politically active firms.

Investor overreaction?

One potential alternative explanation for our findings is that they simply capture an overreaction to the announcements made by politically active firms. Thomas and Zhang (2008) suggest that the return co-movements characterized as intra-industry information transfers largely reflect investor overreaction to early announcers' earnings. They find support for this view by documenting a negative correlation between peer firm returns to early announcer earnings and peer firm returns to their own earnings (i.e., they document a return reversal).

The Thomas and Zhang (2008) framework allows us to further examine whether politically active firms process information that is actually useful to investors in peer firms. If the

¹⁸ Given the broad application of the CPP within the energy and utilities industries, and in light of the findings in the prior sub-section about signed returns, we expect to observe primarily complementary information transfers related to this policy development. Accordingly, we conduct our analyses using signed returns to measure information flow.

information is truly useful, the heightened information transfer we document should not reverse itself when the peer firm subsequently announces their own earnings. In contrast, if our results merely reflect investor overreaction, we should observe a reversal of the “information transfer” from politically active firms to peer firms’ investors. Following Thomas and Zhang (2008), we test this by estimating the following equation:

$$CAR_P_EA_{j,k,t} = \beta_1 CAR_P_{j,k,t} + \beta_2 PolCon_A_{i,k,t} + \beta_3 CAR_P_{j,k,t} \times PolCon_A_{i,k,t} + \lambda_n Controls_{j,k,t} + \alpha_i + \alpha_t + \epsilon_{i,t} \quad (2)$$

The dependent variable in Equation (2), $CAR_P_EA_{j,k,t}$ is the signed cumulative abnormal equity return of peer firm j in industry k during days $[-1,+1]$ relative to the peer firm’s own quarter t earnings announcement. $CAR_P_{j,k,t}$ measures the signed cumulative abnormal equity return of peer firm j during days $[-1,+1]$ relative to the announcement of quarter t earnings by another (“announcer”) firm in industry k . The coefficient β_1 in Equation (2) measures the degree of reversal of the initial return co-movement associated with information transfer. Thomas and Zhang (2008) find that β_1 is consistently negative and interpret this as evidence that much of the extant intra-industry information transfer is reversed upon peer firms’ own earnings reports.

Since our focus is on the extent to which corporate political activism facilitates intra-industry information transfers, Equation (2) includes $PolCon_A_{i,k,t}$, which measures the announcer firm i ’s corporate political activity in the period preceding the quarter t earnings announcement, and the interaction term $CAR_P_{i,k,t} \times PolCon_A_{i,k,t}$. Our main results reveal that there is a significantly greater intra-industry information transfer when politically active firms announce earnings. If this additional reaction subsequently reverses, we should observe a significantly negative β_3 coefficient. If β_3 is not negative, this indicates that our documented information transfer does not reverse, further supporting the view that the information transfer

induced by politically active firms' announcements is more likely related to valuable information processing by politically active firms and not investor overreaction.

Following Thomas and Zhang (2008), Equation (2) also includes several peer firm characteristics as controls: signed cumulative abnormal returns around their own earnings announcement one quarter and one year prior (CAR_P_EAI and CAR_P_EA4), firm size (MVE_P), equity book-to-market ratio (BVE_P), prior returns over the prior six months ($RET6_P$), and the level of accruals (ACC_P). Because of data availability related to collecting this set of variables, our sample for estimating Equation (2) comprises 1,681,779 observations. Equation (2) also includes the announcer firm's returns (CAR_A) as a control and employs the same fixed effect structures as before.

The results of estimating Equation (2) are shown in Table 8. Across all three specifications, we observe a consistently negative β_1 coefficient, confirming Thomas and Zhang's (2008) finding that there is a subsequent reversal of the peer firm equity return reaction to early announcer's earnings. However, we also observe that the incremental information transfer related to the announcer's level of political activity does *not* reverse. Specifically, the estimated β_3 is never negative. Instead, it is positive and significant across two of the three specifications of Equation (2) and indistinguishable from zero in the third. Overall, the results collectively indicate the existence of persistent intra-industry information transfers associated with disclosures from politically active firms, supporting the view that politically active firms process political information that is valuable to investors in peer firms.

VI. ROBUSTNESS TESTS

Anticipation of peers' current-quarter earnings announcements?

Prior literature primarily examines information transfers from announcing firms to investors in peer firms who have not yet disclosed their own current-quarter earnings. For consistency with this literature, we also adopt this framework in our main analyses. However, a potential concern that may arise from this structure is that the heightened information transfer associated with political activism relates not to policy information, but rather to information about peer firms' own impending current-quarter earnings announcement. If this alternative explanation is true, then we should not observe an investor reaction for peers that announce their current-quarter earnings before the politically active focal firm does, since these peer firms' current-quarter earnings are already public at the time of the focal firm's announcement. However, if the information transfer from politically active firms to their peers is linked to longer-horizon political information processing, we should observe an information transfer when the politically active firm announces regardless of when the peer firm announces.

To distinguish between these two explanations, we create an alternate sample wherein, for each earnings announcement, peer firms are defined as those who announced their own earnings five days *prior* to the announcing firm. This sample comprises 2,104,418 announcer-peer-quarter observations. Using this sample, we re-estimate Equation (1) and report the results in Table 9. Consistent with our main findings, we observe a significantly positive coefficient on the interaction between *PolCon_A* and $|CAR_A|$. This indicates that there are stronger intra-industry information transfers to peers that have *already disclosed* their own earnings when the announcer has political connections. Moreover, because we find similar results regardless of whether peer firms announced their own earnings *after* (Table 2) or *before* (Table 9) the focal firm, these findings also mitigate concerns that peer firms that announce later in the earnings announcement period are systematically different from peer firms who announce earlier, and our

main results reflect this difference rather than actual political information flow. Overall, the results in Table 9 indicate that politically active firms process and disseminate political information that is useful for industry peers' investors.

Bellwether Firms?

Because politically active firms tend to be larger on average, it is also possible that our proxies for political activism capture the extent to which the announcing firm is a macroeconomic bellwether firm. Prior literature documents different strategies for identifying bellwether firms, such as using firm size (Anilowski, Feng, and Skinner 2007; Bonsall et al. 2013; Hann et al. 2019). In all of our analyses, we control for the size of both the peer and the announcing firms to accommodate the potential impact of firm size and bellwether status on information transfers. Nevertheless, in this section, we further explore whether our results are an artifact of an announcing firm's bellwether status by allowing our estimates of information transfer to vary with firm size. Specifically, we modify Equation (1) to include the interaction of announcing firm size (MVE_A) with the announcing firm's absolute cumulative abnormal return ($|CAR_A|$). If our main results are attributable to announcer firm size rather than to corporate political activity, we should observe no evidence of information transfer related to political activism with the inclusion of this additional control.

Table 10 presents the results of estimating this modified version of Equation (1). Consistent with the intuition that larger firms are more likely to be bellwethers and thus induce greater intra-industry information transfers through their disclosures, we observe a significantly positive coefficient on the interaction term $|CAR_A| \times MVE_A$. However, focusing on the additional information transfer associated with corporate political activity, we continue to observe a significantly positive estimated β_3 coefficient across specifications. Overall, the results

suggest that there are larger information transfers related to the disclosures of politically active firms regardless of the size of the announcing firm. This provides reassurance that our inferences are not driven by differences in firm size.

VII. CONCLUSION

We examine whether there are externalities to firms' processing of political information. Using the framework of information transfers around earnings announcements, we find robust evidence of stronger intra-industry information transfers from politically active firms to their industry peers' investors. Overall, our analyses reveal that politically active firms' processing of political information is valuable to peer firms' investors. In documenting this, our paper highlights an important information externality related to politically active firms' processing of political information. By improving our understanding of the impacts politically active firms have on their industries' information environment, we offer a new perspective on the ongoing debate regarding whether additional transparency is needed around the flow of political information to markets. Our study also extends the literature on intra-industry information transfers by highlighting corporate political activism as a mechanism by which firms generate disclosures with greater potential for intra-industry information transfers.

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APPENDIX A
Variable Definitions

Variable	Definition	Source
<i>ACC_P</i>	The income before extraordinary items minus net operating cashflow, scaled by total assets of the peer.	Compustat
<i>BTM_A</i>	The book value of equity divided by the market value of equity of the announcer.	Compustat
<i>BTM_P</i>	The book value of equity divided by the market value of equity of the peer.	Compustat
<i>CAR_A</i>	The announcer's 3-day return, centered on the announcer earnings announcement date, less the CRSP market return over the same period.	CRSP
<i>CAR_P</i>	The peer's 3-day return, centered on the announcer earnings announcement date, less the CRSP market return over the same period.	CRSP
<i>CAR_P_EA</i>	The peer's 3-day return, centered on the peer's own earnings announcement date, less the CRSP market return over the same period.	CRSP
<i>CAR_P_EA1</i>	<i>CAR_P_EA</i> lagged by one quarter.	CRSP
<i>CAR_P_EA4</i>	<i>CAR_P_EA4</i> lagged by four quarters.	CRSP
<i>Election</i>	An indicator variable equal to one if the announcer's fiscal quarter ends during a presidential election year (2000, 2004, 2008, 2012, and 2016), zero otherwise.	Compustat
<i>Inst_A</i>	Percentage shares held by institutional investors of the announcer.	Thomson 13F
<i>LobbySame</i>	An indicator variable equal to one if both the announcer and the peer lobbied on the same issue over the past six years.	Lobby View.org
<i>MVE_A</i>	The natural log of market value of equity of the announcer.	Compustat
<i>MVE_P</i>	The natural log of market value of equity of the peer.	Compustat
<i>NumAnalyst_A</i>	The number of analysts that issue earnings forecasts for the announcer in the quarter.	I/B/E/S
<i>NumAnalyst_P</i>	The number of analysts that issue earnings forecasts for the peer firm in the quarter.	I/B/E/S
<i>PolCon_A</i>	An indicator variable equal to one if the announcer made contributions to political candidates over years $t-5$ to t ; zero otherwise.	FEC
<i>Politics</i>	An indicator variable equal to one if the announcer's conference call includes at least one political term; zero otherwise.	Thomson Reuters
<i>PoliticsTransfer</i>	An indicator variable equal to one if the announcer's conference call includes at least one political term followed by at least industry/market context word in the subsequent ten sentences; zero otherwise.	Thomson Reuters
<i>PoliticsNonTransfer</i>	An indicator variable equal to one if and only if the announcer's conference call includes at least one political term but never includes industry/market context words in the subsequent ten sentences; zero otherwise.	Thomson Reuters
<i>ReportLag_A</i>	Number of days between the fiscal period end date and the announcer firm's earnings announcement date	Compustat
<i>Ret6_P</i>	The peer's buy-and-hold six-month stock return leading up to one week before its own earnings announcement.	CRSP

APPENDIX B

Examples of political information processing in conference calls

Duke Energy Corp.

2007 Q2

Jim Rogers - Duke Energy Corp. Chairman, CEO, President: Let's now turn to the climate change issue. At the federal level, climate change legislation is moving. Seven bills are circulating in the U.S. Senate that use cap and trade mechanisms to limit greenhouse gas emissions. The economic impact of a cap and trade approach on consumers and our industry depends to a large extent on how emission allowances are allocated. We see three key requirements for carbon legislation. It should follow the highly successful cap and trade model for sulfur dioxide emission trading. Second, it must be linked to and provide incentives for the construction of new nuclear plants, and third, the cap target must track the emerging carbon capture technology roadmap. Recently, I testified on capitol hill and also spoke in support of the Bingaman-Spector bill. It's not a perfect bill. We don't agree with all aspects of it, but it is economy-wide, with achievable targets and timelines. The bill ensures that consumers are protected from unexpected high rates by including a technology accelerator payment, or safety valve.

CME Group Inc.

2014 Q1

Rich Repetto - Sandler O'Neill & Partners – Analyst: I guess my question is to Terry because you are most in contact with the regulators and the politicians, as much as anyone I know. From your perspective, do you think that they separate the HFT issues from the equity market and the futures market and just -- not to put you on the spot, but what do you think your exposure is if there was HFT regulation, say, by the SEC, would it spill over? Would it spill over to futures or do you feel like you have exposure there?

Terry Duffy - CME Group Inc. Executive Chairman and President: You know, Rich, I would say that in the years that I've been in Washington, and I just got back again late last night. Gill and I were both there, and Bryan. They can have an opportunity to lump everything together, and that's just the nature of Washington, DC. But what we do, and I think we do a very good job at it, is educating the differences in our model versus the equity models, and we didn't do that when Michael Lewis' book came out. We've been doing that for 10, 12 years now. I think we -- but unfortunately Congress turns over every couple of years so you always have that risk and exposure. I feel very comfortable though with the people that we've been dealing with and talking with on the hill that they understand the differences at a certain level. There will be a potential hearing coming up in the Senate Ag on HFT which I will be participating on, and then there should be another one coming up in the Senate Banking which I'm not sure of the date of that.

Allstate Corp.

2003 Q4

Ed Liddy - Allstate Chairman, President & CEO: Since that period of time Senators Schumer, Dodd and Landrieu of Louisiana have agreed to some compromise language. Which means there's 62 if everyone else is there. Senator Lieberman has been running for president, one of the senators had an emergency appendectomy. If when Frisk puts this on the floor, all of the right people are in place, I think it will pass. The risk is that as with the shifting sands of a presidential election, it could be that many on the democratic side try to make it a Christmas tree and hang other spending bills or other revenue bills on it, which could make it not get passed. But I'm as encouraged now as I have been for quite a while. I think this is a priority for the White House and a priority for Senator Frist.

Jay Gelb - Prudential Equity – Analyst: What could that mean for Allstate's loss cost inflation. Could we see some moderation there?

Ed Liddy - Allstate Chairman, President & CEO: You wouldn't see it in the near term, but over the long term, it's worth, for our industry it's worth billions and billions and billions of dollars. You think about some of the lawsuits that have been filed against the industry that are, in my judgment, meritless.

TABLE 1
Descriptive Statistics and Correlations

Panel A Descriptive Statistics

	N	Mean	Std	P25	Median	P75
<u>Main regression variables</u>						
CAR_A	2,503,948	0.049	0.054	0.013	0.031	0.063
CAR_P	2,503,948	0.031	0.035	0.009	0.019	0.039
PolCon_A	2,503,948	0.238	0.426	0.000	0.000	0.000
MVE_P	2,503,948	6.431	1.547	5.318	6.276	7.391
MVE_A	2,503,948	7.391	1.868	5.993	7.216	8.527
BTM_P	2,503,948	0.594	0.410	0.291	0.531	0.812
BTM_A	2,503,948	0.525	0.357	0.257	0.471	0.719
NumAnalyst_A	2,503,948	6.962	6.961	2.000	5.000	10.000
Inst_A	2,503,948	0.610	0.290	0.381	0.653	0.846
<u>Cross-sectional variables</u>						
Politics	1,384,808	0.657	0.475	0.000	1.000	1.000
PoliticsTransfer	1,384,808	0.462	0.499	0.000	0.000	1.000
PoliticsNonTransfer	1,384,808	0.195	0.396	0.000	0.000	0.000
Election	2,503,948	0.236	0.425	0.000	0.000	0.000
LobbySame	1,765,788	0.011	0.193	0.000	0.000	0.000
NumAnalyst_P	2,503,948	3.983	4.268	1.000	3.000	5.000
ReportLag_A	2,503,948	27.141	11.005	19.000	25.000	32.000

Panel B Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) CAR_A	1.00								
(2) CAR_P	0.20	1.00							
(3) PolCon_A	-0.09	-0.03	1.00						
(4) MVE_P	-0.05	-0.12	0.05	1.00					
(5) MVE_A	-0.11	-0.04	0.55	0.17	1.00				
(6) BTM_P	-0.13	-0.09	0.02	-0.19	-0.07	1.00			
(7) BTM_A	-0.11	-0.11	0.04	-0.02	-0.22	0.45	1.00		
(8) NumAnalyst_A	0.02	0.01	0.47	0.04	0.60	-0.04	-0.05	1.00	
(9) Inst_A	-0.00	-0.05	0.14	0.13	0.44	-0.03	-0.14	0.27	1.00

Panel A presents summary statistics for the main variables and cross-sectional variables used in our analyses. Panel B presents the Pearson correlations for the main variables used in our analyses. Correlations significant at the five percent level are highlighted in bold. All variable definitions appear in Appendix A.

TABLE 2
Information transfers around politically active firms' earnings announcements

Dependent variable =	CAR _P		
	(1)	(2)	(3)
CAR _A	0.028*** (21.66)	0.027*** (20.77)	0.026*** (19.23)
PolCon _A	-0.001*** (-5.10)	-0.001*** (-4.27)	-0.002*** (-4.55)
CAR _A × PolCon _A	0.014*** (3.55)	0.019*** (4.37)	0.020*** (4.43)
MVE _P	-0.002*** (-76.94)	-0.002*** (-73.62)	-0.001*** (-15.19)
MVE _A	0.000*** (4.40)	0.002*** (13.90)	0.001*** (9.34)
BTM _P	0.001*** (12.23)	0.001*** (12.62)	0.005*** (25.50)
BTM _A	0.001*** (3.57)	0.002*** (8.98)	0.002*** (6.05)
NumAnalyst _A	-0.000*** (-4.94)	-0.000 (-0.59)	-0.000 (-0.21)
Inst _A	-0.001*** (-7.79)	-0.002*** (-6.81)	-0.001*** (-4.00)
Fixed Effects	Industry, Year-quarter	Announcer, Year-quarter	Announcer-peer pair, Year-quarter
# of Obs.	2,503,948	2,503,423	2,353,790
Adj. R ²	0.19	0.20	0.26

This table reports results from the estimation of Equation (1). The dependent variable is the absolute value of the peer firm's cumulative abnormal equity return during the earnings announcement window of an announcer firm in the same industry. We examine how this return response varies with the announcer firm's degree of political activity. All variable definitions appear in Appendix A. Each column reports the results using different fixed effect structures. Standard errors are clustered by earnings announcement and t-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

TABLE 3
Information transfers related to explicit policy-related discussion

Panel A: Cross-sectional analyses of discussion of political information in conference calls

Dependent variable =	CAR _P		
	(1)	(2)	(3)
CAR _A	0.017*** (9.53)	0.017*** (9.26)	0.019*** (9.33)
<i>PolCon_A</i>	-0.001*** (-2.80)	-0.000 (-0.38)	-0.001** (-2.09)
CAR _A × <i>PolCon_A</i>	0.012** (2.30)	0.014** (2.46)	0.010* (1.79)
<i>Politics</i>	-0.000 (-1.23)	-0.000 (-0.48)	-0.000 (-0.35)
CAR _A × <i>Politics</i>	0.008*** (2.77)	0.007*** (2.64)	0.006** (2.18)
<i>PolCon_A</i> × <i>Politics</i>	-0.000 (-0.59)	-0.001 (-1.52)	-0.000 (-1.28)
CAR _A × <i>PolCon_A</i> × <i>Politics</i>	0.019** (2.37)	0.022*** (2.64)	0.022** (2.55)
Controls	Yes	Yes	Yes
Fixed Effects	Industry, Year-quarter	Announcer, Year-quarter	Announcer-peer pair, Year-quarter
# of Obs.	1,384,802	1,384,593	1,320,578
Adj. R ²	0.14	0.15	0.22

TABLE 3 (continued)
Information transfers related to explicit policy-related discussion

Panel B: Cross-sectional analyses of discussion of political information placed into a broader industry/market context in conference calls

Dependent variable =	$ CAR_P $		
	(1)	(2)	(3)
$ CAR_A $	0.017*** (9.46)	0.017*** (9.17)	0.018*** (9.27)
$PolCon_A$	-0.001*** (-2.70)	-0.000 (-0.21)	-0.001** (-1.98)
$ CAR_A \times PolCon_A$	0.012** (2.29)	0.013** (2.36)	0.010* (1.70)
$PoliticsTransfer$	-0.000 (-1.39)	-0.000 (-0.60)	-0.000 (-0.66)
$ CAR_A \times PoliticsTransfer$	0.012*** (3.45)	0.011*** (3.30)	0.009*** (2.73)
$PolCon_A \times PoliticsTransfer$	-0.000 (-0.45)	-0.000 (-1.14)	-0.000 (-0.85)
$ CAR_A \times PolCon_A \times PoliticsTransfer$	0.021** (2.38)	0.023** (2.54)	0.024** (2.43)
$PoliticsNonTransfer$	-0.000 (-0.33)	0.000 (0.22)	0.000 (0.54)
$ CAR_A \times PoliticsNonTransfer$	0.001 (0.28)	0.001 (0.32)	0.001 (0.20)
$PolCon_A \times PoliticsNonTransfer$	-0.000 (-0.17)	-0.001 (-1.04)	-0.000 (-0.96)
$ CAR_A \times PolCon_A \times PoliticsNonTransfer$	0.005 (0.34)	0.010 (0.77)	0.011 (0.87)
Controls	Yes	Yes	Yes
Fixed Effects	Industry, Year-quarter	Announcer, Year-quarter	Announcer-peer pair, Year-quarter
# of Obs.	1,384,802	1,384,593	1,320,578
Adj. R ²	0.14	0.15	0.22

This table reports results from the estimation of Equation (1) with additional variables to measure the extent of policy-related discussion in announcers' earnings conference calls. We examine how information transfers vary with the existence of political discussion in Panel A, and with the existence of political discussion placed into a broader industry/market context in Panel B. Industry/market context words include industry, peer, sector, competitor, competing, market, economic, economy. The dependent variable is the absolute value of the peer firm's cumulative abnormal equity return during the earnings announcement window of an announcer firm in the same industry. All variable definitions appear in Appendix A. Each column reports the results using different fixed effect structures. Standard errors are clustered by earnings announcement and t-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

TABLE 4
Political information transfers when political information is more valuable

Panel A: Cross-sectional analysis of Presidential Election Years

Dependent variable =	$ CAR_P $		
	(1)	(2)	(3)
$ CAR_A $	0.022*** (19.59)	0.021*** (18.71)	0.021*** (18.33)
$PolCon_A$	-0.001*** (-3.29)	-0.001*** (-3.00)	-0.001*** (-3.42)
$ CAR_A \times PolCon_A$	0.006** (2.09)	0.010*** (3.18)	0.010*** (3.04)
$ CAR_A \times Election$	0.024*** (7.10)	0.021*** (6.96)	0.017*** (5.41)
$PolCon_A \times Election$	-0.001*** (-2.91)	-0.001*** (-3.36)	-0.001*** (-3.11)
$ CAR_A \times PolCon_A \times Election$	0.019** (2.01)	0.021** (2.31)	0.024** (2.57)
Controls	Yes	Yes	Yes
Fixed Effects	Industry, Year-quarter	Announcer, Year-quarter	Announcer-peer pair, Year-quarter
# of Obs.	2,503,948	2,503,423	2,353,790
Adj. R ²	0.19	0.20	0.27

TABLE 4 (continued)
Political information transfers when political information is more valuable

Panel B: Cross-sectional analysis based on lobbying similarity of announcer & peer firms.

Dependent variable =	<i>CAR_P</i>		
	(1)	(2)	(3)
<i>CAR_A</i>	0.025*** (15.00)	0.024*** (14.34)	0.024*** (13.87)
<i>PolCon_A</i>	-0.001*** (-3.53)	0.000 (0.07)	-0.000 (-0.68)
<i>CAR_A</i> × <i>PolCon_A</i>	0.020*** (4.08)	0.023*** (4.32)	0.020*** (3.67)
<i>LobbySame</i>	-0.005*** (-3.43)	-0.004*** (-2.64)	-0.001 (-0.28)
<i>CAR_A</i> × <i>LobbySame</i>	-0.032 (-1.48)	-0.032 (-1.49)	-0.030 (-1.25)
<i>PolCon_A</i> × <i>LobbySame</i>	-0.002 (-1.24)	-0.003* (-1.81)	-0.001 (-0.61)
<i>CAR_A</i> × <i>PolCon_A</i> × <i>LobbySame</i>	0.084*** (3.16)	0.082*** (3.15)	0.069** (2.48)
Controls	Yes	Yes	Yes
Fixed Effects	Industry, Year-quarter	Announcer, Year-quarter	Announcer-peer pair, Year-quarter
# of Obs.	1,765,785	1,765,498	1,670,319
Adj. R ²	0.15	0.16	0.23

This table reports results from cross-sectional analyses pertaining to Equation (1). The dependent variable is the absolute value of the peer firm's cumulative abnormal equity return during the earnings announcement window of an announcer firm in the same industry. We examine how this return response varies with the announcer firm's degree of political activity interacted with whether the earnings announcement occurs during a presidential election year (Panel A) whether the announcer and the peer firm lobbied the same issue over the past six-year window (Panel B). All variable definitions appear in Appendix A. Each column reports the results using different fixed effect structures. Standard errors are clustered by earnings announcement and t-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

TABLE 5
Political information transfers and the information environment

Panel A: Cross-sectional analysis of the number of analysts following the peer firm

Dependent variable =	CAR _P		
	(1)	(2)	(3)
CAR _A	0.025*** (18.94)	0.022*** (16.97)	0.021*** (15.21)
PolCon _A	-0.001*** (-3.72)	-0.001*** (-3.13)	-0.002*** (-4.19)
CAR _A × PolCon _A	0.004 (1.02)	0.009** (2.33)	0.009** (2.08)
NumAnalyst _P	-0.000*** (-5.55)	-0.000*** (-5.30)	0.000** (2.08)
CAR _A × NumAnalyst _P	0.001*** (3.99)	0.001*** (5.95)	0.001*** (5.17)
PolCon _A × NumAnalyst _P	-0.000** (-2.41)	-0.000*** (-3.60)	-0.000 (-1.39)
CAR _A × PolCon _A × NumAnalyst _P	0.002*** (3.92)	0.002*** (3.79)	0.002*** (4.06)
Controls	Yes	Yes	Yes
Fixed Effects	Industry, Year-quarter	Announcer, Year-quarter	Announcer-peer pair, Year-quarter
# of Obs.	2,503,948	2,503,423	2,353,790
Adj. R ²	0.19	0.20	0.27

TABLE 5 (continued)
Political information transfers and the information environment

Panel B: Cross-sectional analysis based on how late the announcer reports in the earnings season

Dependent variable =	$ CAR_P $		
	(1)	(2)	(3)
$ CAR_A $	0.061*** (16.17)	0.055*** (15.18)	0.048*** (12.53)
$PolCon_A$	-0.003*** (-5.90)	-0.005*** (-6.83)	-0.004*** (-5.08)
$ CAR_A \times PolCon_A$	0.047*** (3.80)	0.056*** (4.48)	0.062*** (4.49)
$ReportLag_A$	0.000*** (15.67)	0.000*** (7.63)	-0.000** (-2.19)
$ CAR_A \times ReportLag_A$	-0.001*** (-11.15)	-0.001*** (-9.91)	-0.001*** (-7.37)
$PolCon_A \times ReportLag_A$	0.000*** (5.82)	0.000*** (6.87)	0.000*** (4.24)
$ CAR_A \times PolCon_A \times ReportLag_A$	-0.002*** (-4.03)	-0.002*** (-4.43)	-0.002*** (-4.35)
Controls	Yes	Yes	Yes
Fixed Effects	Industry, Year-quarter	Announcer, Year-quarter	Announcer-peer pair, Year-quarter
# of Obs.	2,503,948	2,503,423	2,353,790
Adj. R ²	0.19	0.20	0.27

This table reports results from cross-sectional analyses pertaining to Equation (1). The dependent variable is the absolute value of the peer firm's cumulative abnormal equity return during the earnings announcement window of an announcer firm in the same industry. We examine how this return response varies with the announcer firm's degree of political activity interacted with a) the number of analysts following the peer firm (Panel A), or b) the number of days after the announcer's period end when the announcer reports earnings (Panel B). All variable definitions appear in Appendix A. Each column reports the results using different fixed effect structures. Standard errors are clustered by earnings announcement and t-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

TABLE 6
Signed information transfers around politically active firms' earnings announcements

Dependent variable =	<i>CAR_P</i>		
	(1)	(2)	(3)
<i>CAR_A</i>	0.058*** (36.29)	0.059*** (39.35)	0.062*** (39.69)
<i>PolCon_A</i>	-0.000 (-1.05)	-0.001** (-2.21)	-0.001 (-1.26)
<i>CAR_A</i> × <i>PolCon_A</i>	0.032*** (7.72)	0.032*** (7.84)	0.032*** (7.58)
<i>MVE_P</i>	0.001*** (16.70)	0.001*** (16.53)	-0.003*** (-20.49)
<i>MVE_A</i>	-0.000 (-0.25)	0.001*** (3.21)	0.001*** (6.24)
<i>BTM_P</i>	0.001*** (10.25)	0.002*** (12.23)	0.004*** (12.75)
<i>BTM_A</i>	-0.001** (-2.12)	-0.000 (-0.91)	-0.001 (-1.59)
<i>NumAnalyst_A</i>	0.000 (0.37)	0.000 (1.51)	0.000 (0.46)
<i>Inst_A</i>	-0.000 (-0.58)	-0.000 (-0.14)	-0.001 (-1.53)
Fixed Effects	Industry, Year-quarter	Announcer, Year-quarter	Announcer-peer pair, Year-quarter
# of Obs.	2,503,948	2,503,423	2,353,790
Adj. R ²	0.02	0.03	0.07

This table reports results from the estimation of a modified version of Equation (1). The dependent variable is the peer firm's signed cumulative abnormal equity return during the earnings announcement window of an announcer firm in the same industry. We examine how this return response varies with the announcer firm's degree of political activity, measured three different ways in columns (1) through (3). All variable definitions appear in Appendix A. Each column reports the results using different fixed effect structures. Standard errors are clustered by earnings announcement and t-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

TABLE 7
Event Study using the Clean Power Plan

Dependent variable =	<i>CAR_P</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
<i>CAR_A</i>	0.059*** (37.09)	0.056*** (32.26)	0.060*** (39.73)	0.057*** (34.87)	0.063*** (40.00)	0.059*** (35.23)
<i>Treat</i>			0.005* (1.72)	0.006** (1.98)	0.010 (0.91)	0.010 (0.89)
<i>Event</i>	-0.015*** (-8.31)	-0.015*** (-8.39)	-0.014*** (-7.81)	-0.014*** (-7.97)	-0.015*** (-7.49)	-0.015*** (-7.69)
<i>CAR_A</i> × <i>Treat</i>	0.116*** (15.91)	0.100*** (11.47)	0.119*** (17.32)	0.104*** (12.74)	0.125*** (16.92)	0.112*** (12.62)
<i>CAR_A</i> × <i>Event</i>	-0.016*** (-3.77)	-0.014*** (-3.07)	-0.015*** (-3.58)	-0.012*** (-2.77)	-0.017*** (-3.76)	-0.013*** (-2.83)
<i>Treat</i> × <i>Event</i>	0.000 (0.16)	-0.000 (-0.11)	-0.001 (-0.39)	-0.001 (-0.27)	-0.002 (-1.24)	-0.003 (-1.30)
<i>CAR_A</i> × <i>Treat</i> × <i>Event</i>	0.049** (2.07)	0.030 (1.05)	0.051** (2.27)	0.035 (1.31)	0.052** (2.22)	0.027 (0.92)
<i>PolCon_A</i>		-0.000 (-1.34)		-0.001* (-1.77)		-0.001 (-1.00)
<i>CAR_A</i> × <i>PolCon_A</i>		0.024*** (5.14)		0.024*** (5.35)		0.025*** (5.33)
<i>Treat</i> × <i>PolCon_A</i>		0.001 (0.95)		-0.002 (-1.33)		-0.003 (-1.32)
<i>Event</i> × <i>PolCon_A</i>		0.000 (0.74)		0.001* (1.69)		0.002** (2.37)
<i>CAR_A</i> × <i>Treat</i> × <i>PolCon_A</i>		0.030* (1.89)		0.028* (1.88)		0.020 (1.23)
<i>CAR_A</i> × <i>Event</i> × <i>PolCon_A</i>		-0.013 (-1.16)		-0.018 (-1.41)		-0.021 (-1.57)
<i>Treat</i> × <i>Event</i> × <i>PolCon_A</i>		0.001 (0.26)		-0.000 (-0.03)		0.001 (0.43)
<i>CAR_A</i> × <i>Treat</i> × <i>Event</i> × <i>PolCon_A</i>		0.086* (1.74)		0.070 (1.48)		0.095* (1.95)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	Industry, Year-quarter	Industry, Year-quarter	Announcer, Year-quarter	Announcer, Year-quarter	Announcer- peer pair, Year-quarter	Announcer- peer pair, Year-quarter
# of Obs.	2,503,948	2,503,948	2,503,423	2,503,423	2,353,790	2,353,790
Adj. R ²	0.03	0.03	0.04	0.04	0.07	0.07

This table reports results from tests examining whether there is a stronger information transfer for energy and utility firms during the time that the Clean Power Plan was debated, and whether the information transfer is stronger when announcing firms are politically active. The dependent variable is the peer firm's signed cumulative abnormal equity return during the earnings announcement window of an announcer firm in the same industry. All variable definitions appear in Appendix A. Each column reports the results using different fixed effect structures. Standard errors are clustered by earnings announcement and t-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

TABLE 8
Investor overreaction to political information transfers?

Dependent variable =	<i>CAR_P_EA</i>		
	(1)	(2)	(3)
<i>CAR_P</i>	-0.037*** (-15.46)	-0.036*** (-15.40)	-0.040*** (-15.69)
<i>PolCon_A</i>	0.001*** (4.50)	0.001 (1.30)	-0.001 (-1.22)
<i>CAR_P</i> × <i>PolCon_A</i>	0.009* (1.86)	0.009* (1.91)	0.004 (0.85)
<i>CAR_A</i>	0.004*** (2.67)	0.004*** (2.80)	0.003* (1.82)
<i>CAR_P_EA1</i>	-0.002* (-1.70)	-0.004*** (-3.48)	-0.087*** (-64.97)
<i>CAR_P_EA4</i>	-0.012*** (-10.28)	-0.014*** (-11.71)	-0.078*** (-57.34)
<i>MVE_P</i>	0.001*** (14.32)	0.001*** (12.65)	-0.013*** (-52.08)
<i>BTM_P</i>	0.002*** (7.59)	0.002*** (7.39)	-0.000 (-0.33)
<i>Ret6_P</i>	0.002*** (7.91)	0.002*** (7.14)	-0.000 (-0.81)
<i>ACC_P</i>	0.014*** (10.05)	0.015*** (10.37)	0.010*** (5.66)
Fixed Effects	Industry, Year-quarter	Announcer, Year-quarter	Announcer-peer pair, Year-quarter
# of Obs.	1,681,779	1,681,203	1,571,722
Adj. R ²	0.01	0.01	0.06

This table reports results from the estimation of Equation (2). The dependent variable is the peer firm's cumulative abnormal equity return during its own earnings announcement. *CAR_P_EA* is the peer firm's cumulative abnormal return at the prior earnings announcement of the original announcing firm in the same industry. We examine how this return response varies with the announcer firm's degree of political activity. All variable definitions appear in Appendix A. Each column reports the results using different fixed effect structures. Standard errors are clustered by earnings announcement and t-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

TABLE 9
Political information transfers after peers' earnings announcements

Dependent variable =	<i>CAR_P</i>		
	(1)	(2)	(3)
<i>CAR_A</i>	0.012*** (13.01)	0.012*** (14.38)	0.011*** (12.37)
<i>PolCon_A</i>	-0.001*** (-3.22)	-0.001*** (-2.60)	-0.001 (-1.36)
<i>CAR_A</i> × <i>PolCon_A</i>	0.006* (1.78)	0.008** (2.30)	0.010*** (2.68)
<i>MVE_P</i>	-0.003*** (-65.01)	-0.002*** (-63.50)	-0.001*** (-7.26)
<i>MVE_A</i>	-0.000* (-1.67)	0.000** (2.11)	0.000* (1.83)
<i>BTM_P</i>	-0.004*** (-6.67)	-0.003*** (-6.49)	0.004*** (15.95)
<i>BTM_A</i>	-0.000** (-2.15)	-0.000* (-1.72)	0.000 (0.02)
<i>NumAnalyst_A</i>	-0.000*** (-10.46)	-0.000** (-2.43)	-0.000 (-1.30)
<i>Inst_A</i>	-0.000 (-1.45)	-0.000 (-0.99)	-0.000 (-0.60)
Fixed Effects	Industry, Year-quarter	Announcer, Year-quarter	Announcer-peer pair, Year-quarter
# of Obs.	2,104,418	2,104,060	1,941,269
Adj. R ²	0.15	0.16	0.27

This table reports results from the estimation of Equation (1) using a sample of peer firms that have already announced their earnings at least five days prior to the announcer. The dependent variable, |*CAR_P*|, is the absolute value of the peer firm's cumulative abnormal return at the later earnings announcement of a firm in the same industry. We examine how this return response varies with the announcer firm's degree of political activity. All variable definitions appear in Appendix A. Each column reports the results using different fixed effect structures. Standard errors are clustered by earnings announcement and t-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

TABLE 10
Political information transfers after controlling for bellwether status

Dependent variable =	<i>CAR_P</i>		
	(1)	(2)	(3)
<i>CAR_A</i>	0.010 (1.51)	-0.000 (-0.06)	0.005 (0.67)
<i>PolCon_A</i>	-0.001*** (-3.31)	-0.001*** (-2.90)	-0.001*** (-3.67)
<i>CAR_A</i> × <i>PolCon_A</i>	0.008* (1.85)	0.010** (2.18)	0.013*** (2.77)
<i>MVE_A</i>	0.000 (1.09)	0.001*** (10.63)	0.001*** (7.30)
<i>CAR_A</i> × <i>MVE_A</i>	0.003*** (3.03)	0.004*** (4.21)	0.003*** (3.02)
Controls	Yes	Yes	Yes
Fixed Effects	Industry, Year-quarter	Announcer, Year-quarter	Announcer-peer pair, Year-quarter
# of Obs.	2,503,948	2,503,423	2,353,790
Adj. R ²	0.19	0.20	0.27

This table reports results from the estimation of Equation (1). The dependent variable is the absolute value of the peer firm's cumulative abnormal return during the earnings announcement window of an announcer firm in the same industry. We examine how this peer return response varies by adding a control for the interaction of the announcing firm's size with the absolute value of the announcer firm's absolute cumulative abnormal return. All variable definitions appear in Appendix A. Each column reports the results using different fixed effect structures. Standard errors are clustered by earnings announcement and t-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.