Corporate Political Activism, Information Transparency, and IPO Compliance Costs

Dimitrios Gounopoulos[1], Georgios Loukopoulos , Panagiotis Loukopoulos

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Abstract

Due to their covert and often dubious nature, corporate political activities may encourage or facilitate opportunistic behaviors. Yet, they also subject firms to heightened visibility, which brings greater public and regulatory scrutiny. Using a hand-collected data set of politically connected U.S. IPOs, we investigate how this tension shapes the financial reporting incentives of firms going public and the accompanying direct compliance costs. Consistent with the agency view of corporate political activism (CPA), politically active IPO issuers have worse financial reporting quality, more litigation risk, and eventually pay 28% more accounting fees than their peers. Additional analysis exploiting the U.S. Supreme Court's landmark ruling on Citizens United vs. Federal Election Commission suggests that the link between CPA and IPO accounting fees is likely to be causal. Finally, our evidence indicates that the involvement of specialized financial intermediaries in the political process has implications for the IPO financial reporting quality.

JEL Classifications: *G10, G14, G39. M13, M41, M42*

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[1]Dimitrios Gounopoulos (corresponding author) is from the University of Bath, E-mail: d.gounopoulos@bath.ac.uk; Georgios Loukopoulos is from the University of Strathclyde, E-mail: georgios.loukopoulos@strath.ac.uk. Panagiotis Loukopoulos is from the University of Strathclyde, E-mail: panagiotis.loukopoulos@strath.ac.uk. We are grateful to Carol Alexander, Andreas Andrikopoulos, William Cready, Douglas Cumming, Ranko Jelic, Jo Horton, Xing Huan, Andreas Kaeck, Anastasia Kopita, Clive Lennox, Yuval Milo, Anita Pennathur, Klaus Shaeck, Theodore Sougiannis, and Samir Trabelsi for their helpful comments and suggestions. We would also like to thank the seminar participants from Warwick Business School at the University of Warwick as well as participants at the Young Finance Scholars Conference (YFS, 2019), European Accounting Association (EAA, 2019) Annual Conference, and the International Journal of Accounting Symposium (IIAS, 2019) for their helpful comments.

1. Introduction

It is well documented that regulatory compliance costs hinder the access of private firms to the primary equity market (e.g., Dambra et al., 2015; Chaplinsky et al., 2017; Westfall and Omer, 2018). While these costs typically vary with regulatory reforms (Barth et al., 2017; Khurana and Zhao, 2019), several studies demonstrate that they are also shaped by factors determining the firm's quality of accounting statements and the accompanying financial disclosures, such as the presence of prestigious financial intermediaries, or early stage investors (Beatty and Welch, 1996; Beatty, 1989; Hanley and Hoberg, 2010; Khurana and Zhao, 2019). Despite significant scholarly interest in the drivers and economic implications of the financial reporting practices of firms conducting an initial public offering (IPO), there is little evidence on how the political environment of these firms influences their accounting choices and the direct IPO issuance costs. Motivated by this concern, we investigate the role of corporate political activism (CPA) in the process of preparing registration material and the costs incurred to address the compliance requirements when transitioning to the public domain.[1]

In the U.S., corporations play a prominent role in the political process because they spend considerable resources on political causes in order to secure the preferential treatment from the government and regulatory authorities, either in the form of lobbying expenditures or contributions via political action committees. Consistent with this idea, several studies document that political connectedness can benefit firms by providing access to political intelligence (Gross et al., 2016), lax regulatory oversight (Yu and Yu, 2011; Correia, 2014), government support during periods of economic hardship (Faccio et al., 2006), or by lowering effective tax rates (Kim and Zhang, 2016; Schoenherr, 2019; Jagolinzer et al., 2020) and the cost of capital (Nandi et al., 2021).

In spite of the lucrative benefits stemming from political activism, a firm's engagement in political efforts to mobilize public constituencies is often constrained by the public's skepticism about whether firms are fueled by pro-social rather than self-interested motivations (McDonnell and Werner, 2016). Such skepticism is fueled by the traditional "quid pro quo" view suggesting that elected officials support the interests of politically affiliated corporations at the expense of the collective

interests of the public (den Hond et al., 2014; Skaife and Werner, 2020). However, it is also supported by academics showing that politically connected firms are associated with rent-extracting activities and attempts to hide diversionary or questionable business practices from the public through opaque and distorted financial reports, implying that political activism may harm social welfare as well as shareholder wealth (Leuz and Oberholzer-Gee, 2006; Coates, 2012; Hadani and Schuler, 2013).

In light of this, it is not surprising that corporate political involvement becomes a first-order concern when it comes to accountability and information transparency issues, particularly following the landmark Citizens United Supreme Court ruling, which allowed managers to make unlimited political expenditures from corporate treasuries without rendering them accountable to shareholders for such decisions (Werner, 2017; Minefee et al., 2020). This is evident in auditing firms which have repeatedly expressed concerns about the (insufficient) corporate disclosures of political donations (e.g., Deloitte 2012; PwC, 2012) and activists or commentators calling for greater transparency regarding corporate political activities (ISS; 2012; Center for Political Accountability, 2018).[2]

Opposing this background, we argue that the IPO setting entails several unique features that enable the researcher to obtain novel insights about the implications of political connectedness on information transparency and the compliance costs of going public. Due to the high inherent uncertainty and severe information asymmetry surrounding the IPO, issuers face the following moral hazard problem. On the one hand, they are tempted to exaggerate the firm's prospects (either through opaque disclosures or by distorting financial statements) in order to misprice the issue and maximize the offering's proceeds (Teoh et al., 1998; Li and Liu, 2017). On the other hand, if issuers are concerned with their long-term reputation and litigation consequences of such opportunistic actions, they will price the equity fairly, and they will be eager to credibly convey this fact to the market by enhancing the quality of the firm's disclosures (Chemmanur and Fulghieri, 1994).

In this context, the role of political activism is salient because it can largely determine the success of an IPO not only by shaping the tension that issuers experience when they prepare

registration materials but also by influencing how the regulator perceives the firm's information environment during the registration period. In this respect, the IPO context enables us to obtain novel and sharp inferences about the financial reporting implications of political connectedness.

Furthermore, issuers do not have the sole responsibility for the preparation of registration filings and the accounting statements therein. Specialized financial intermediaries such as auditors, venture capitalists, and investment bankers have also significant influence on the disclosure quality of the offering (Beatty and Welch, 1996; Nam et al., 2014). Since these key IPO players perform a decisive role in the transparency of an IPO, studying how their political connections influence their incentives to determine the quality of the offering can enhance our knowledge about the broader role of political activism. Finally, because a vibrant IPO market is a crucial element of a well-functioning economy (Bernstein, 2015; Borisov et al., 2021; Jiang et al., 2021), exploring how corporate political strategies affect the compliance costs of going public enhances our knowledge regarding the critical success factors of an IPO and contributes to the debate about the controversial role of corporate political involvement in financial markets and the economy.

How might corporate political activities affect the IPO? Given that the information conditions characterizing the IPO process largely determine its success (Dambra et al., 2015; Barth et al., 2017; Chaplinsky et al., 2017), we argue that the underlying mechanism through which CPA can influence the compliance costs of the offering, and particularly IPO accounting fees, resides in two channels, namely the (regulatory) scrutiny from the U.S. Securities and Exchanges Commission (SEC) and the level of audit engagement risk. Heightened SEC scrutiny – in the form of more comment letters during the IPO filing review process – can ensure sufficient information disclosure (Lowry et al., 2020), but it increases the time and effort required to address the regulator's concerns about the IPO's information environment (Li and Liu, 2017). At the same time, audit engagement risk reflects the auditor's effort to minimize the likelihood of failing to discover a material misstatement and/or the fee premium aiming to cover potential litigations losses in the event of an audit failure (Choi et al., 2008). Since the

concerns of both the regulator and auditors lead to higher accounting compliance costs, understanding how CPA affects the perceptions of these (information) gatekeepers about the IPO is of paramount importance. In this respect, we advance two views of CPA, the agency view and the visibility view.[3]

According to the agency view of corporate political activism, politically connected firms may have a less transparent information environment than their peers, because their connections distract managers from pursuing shareholders' interests by causing them to forgo value enhancing projects (Correia, 2014) or because managers of connected firms use political outlays sub-optimally (e.g., Arlen and Weiss, 1995; Nalick et al., 2014). To conceal inefficiencies from the resulting agency problems, managers of politically connected firms have incentives to deliberately misreport and obfuscate financial disclosures (Leuz and Oberholzer-Gee, 2006; Ramanna and Roychowdhury, 2010; Nalick et al., 2014; Piotroski et al., 2015). Alternatively, politically connected firms may unintentionally have poor financial reporting quality, simply because they have weak incentives to portray accurately their financial reports, as they enjoy more favorable regulatory treatment than their non-connected counterparts (Yu and Yu, 2011; Correia, 2014).

On the other hand, the visibility view postulates that political activities can attract negative media coverage, which can lead to greater regulatory scrutiny. As rational agents, connected firms may respond to the heightened public scrutiny associated with their political activities by choosing to report more conservatively (Watts and Zimmerman, 1990). Consistent with this view, Kong et al. (2017) show that politically connected firms react to increased scrutiny by recognizing bad news in a more timely fashion than gains, whereas Jennings et al. (2021) demonstrate that firms that are well connected to SEC-influential politicians report less opportunistically. In a similar vein, Guedhami et al. (2014), argue that politically connected firms can maintain their political capital and persuade outsiders that they do not engage in self-dealing by seeking external certification and, in particular, by hiring reputable auditors.

Building on the above framework, we posit that if politically connected IPOs are driven by agency motives, they will prefer a less transparent information environment than non-connected IPOs. In this case, politically connected IPOs will attract greater regulatory scrutiny and make auditors to be more conservative due to the resulting increased audit engagement risk.[4] Under this scenario, politically connected IPOs will receive more SEC comment letters and also need more time and resources to address the regulatory concerns expressed therein. In addition, auditors will respond by exerting more effort to detect accounting irregularities and/or by charging higher fees to cover the greater liability costs of possible shareholder lawsuits. As such, under this agency view of politically activism, politically connected IPOs have worse reporting quality and incur larger accounting fees than non-connected ones. Under the visibility view of political activism, connected IPOs will attempt to mitigate negative publicity associated with political connections by enhancing the transparency of their financial reporting environment. This translates into fewer SEC comment letters and lower audit failure risk, implying that auditors will charge politically connected IPOs lower fees. However, because the agency and the visibility view of CPA are not mutually exclusive, the manner in which political connections affect the financial reporting environment of IPOs cannot be determined theoretically; rather, it can only be resolved empirically.

To examine which of these countervailing views is dominant, we utilize a sample of 1,793 US IPOs from 2000 to 2018. We consider a wide range of corporate political activities, including investments in lobbying and campaigns (i.e., political money contributions) and human-capital specific CPA (i.e., board service by former public officials). After controlling for an extensive array of corporate governance and financial reporting variables, we find that CPA is significantly and positively related to IPO accounting fees, suggesting that CPA is a distinct factor of underlying agency and information asymmetry problems. To give a sense of economic magnitude, the results imply that, pursuing political strategies leads, on average, to a 28% increase in IPO accounting fees. This is a nontrivial effect given that, in our sample period, accounting fees account for a sizeable proportion

(9%) of total direct compliance costs. In additional tests, we find that connected IPOs have worse reporting quality and receive more SEC comment letters but are also exposed to higher litigation risk than non-connected IPOs. Hence, although auditors (and the SEC) exert greater effort at scrutinizing connected IPOs, their incremental effort is insufficient to offset the inherent accounting and litigation risk of these engagements.

A major challenge in the interpretation of our findings is that establishing political connections is not a random decision, rendering the relationship between CPA and IPO accounting fees prone to endogeneity bias. We overcome the nonrandom nature of political activism by applying an instrumental variable approach and entropy balancing. Importantly, we utilize the Citizens United ruling as an identification shock to exploit exogenous variation in the propensity to engage in CPA (Werner and Coleman, 2015; Minefee et al., 2020) and continue to find that politically connected IPOs pay higher accounting fees than non-connected IPOs.

In our final set of tests, we consider the political connections of auditors, ventures capitalists (VCs), and investment bankers given that IPO financial reporting quality is jointly shaped by issuers as well as these specialized financial intermediaries (Beatty, 1993; Lee and Masulis, 2011). Prior studies note that these IPO players build their reputation capital through repeated dealings in the financial markets (Chemmanur and Fulghieri, 1994; Nam et al., 2014), which implies that they may have more reputational capital at stake and greater litigation concerns than IPO issuers, as their integrity is critical to their survival and growth. As such, we anticipate that it is more likely that connected intermediaries have stronger motives to improve IPO reporting quality than connected issuers. This hypothesis also predicts that, in order to lower IPO misreporting risk, connected auditors have relatively stronger incentives to supply higher audit quality and charge higher fees, whereas connected VCs and underwriters establish stricter governance and reporting mechanisms, which translates to lower IPO accounting fees. Our results support these conjectures.

Our study is related to the literature studying the influence of political activism on the IPO process. In this domain, several studies focus on the Chinese IPO market and show that connected IPOs are more likely to get approval from the regulator (Yang, 2013; Chen et al., 2017; Wang and Chaopeng, 2020). Our work extends this stream in several ways. First, to our knowledge, our study is the first to establish a link between corporate political activism and accounting compliance costs in the context of U.S. IPOs. Our research setting is important given the global economic significance of the U.S. IPO market. Importantly, by considering the role of political connectedness on the direct costs of going public, we show that political connectedness does not always benefit IPOs, and hence, we underscore that prior evidence (which suggest a beneficial role of political connections around IPOs) obtained by the aforementioned studies may not generalize to the U.S. setting.[5]

Second, our work is also closely related to several studies that examine the determinants of compliance costs in the process of going public. This line of inquiry has proposed several factors that may affect IPO issuance costs and hence the ability of private firms to go public (Beatty and Welch, 1996; Venkataraman et al., 2008; Badertscher et al., 2014; Chaplinsky et al., 2017; Khurana and Zhao, 2019). We add to this literature by showing that there is an inherent political dimension in the compliance costs of IPO issuers. Importantly, we complement and expand this literature by considering the role of political connections of specialized financial intermediaries (auditors, VCs, and underwriters) on IPO reporting quality, given their gatekeeping obligations to act in the public interest.

Finally, we wish to point out that our results should not be interpreted as evidence of the (in) efficiency of political activities in general. In fact, establishing political connections is one of the main means by which a variety of groups promulgate their views to legislators. To the extent that regulators, auditors or financial intermediaries believe that political ties affect a firm's information environment, our evidence may be of relevance to present-day calls to strengthen the integrity of political transactions (Center for Political Accountability, 2018), and also to parties interested in the factors that shape IPO compliance costs and determine attractiveness of the IPO market.

2. Related Literature and Hypotheses Development

2.1 Why Corporate Political Activities Shape Accounting Practices?

To ascertain how corporate political activism affects financial reporting incentives, we draw upon the two dominant perspectives on the role of CPA, namely the agency perspective and the visibility perspective. While both of these perspectives suggest that CPA influences the firm's financial reporting environment, they offer opposing predictions about its impact on the degree of information transparency.

According to the agency view, politically connected firms tend to have worse accounting quality than their non-connected peers. The poor information quality of connected firms can be attributed either to intentional actions that characterize rent-seeking and dysfunctional behaviors or to unintentional actions that distort the firm's information environment because political ties entrench managers and insulate them from the costs of suboptimal accounting choices.

In terms of intentional actions, the literature suggests that managers might attempt to deliberately mislead investors and to divert monitoring and scrutiny by outsiders by concealing self-dealing, poor performance or questionable business practices through the manipulation of financial reporting activities. This could be the case for executives who actively pursue political strategies but do not always act as stewards for their firm's shareholders (Aggarwal et al., 2012; Coates, 2012; Hadani and Schuler, 2013). Such managers have incentives to obscure financial disclosures because their political actions can result in overinvestment and a range of outcomes capturing personal lucrative managerial incentives but unclear firm benefits, such as excess compensation (Arlen and Weiss, 1995), and increased personal prestige, reputation, and social capital (Faccio et al., 2006), perhaps preparing the way for a post-corporate career in politics (Coates, 2012), and possibly, pursuing an ideologically partisan agenda (Nalick et al., 2014).[6]

With respect to unintentional actions, the opaque information environment of politically connected firms may also be explained by the fact that the preferential government treatment of such firms weakens their regulatory and capital market incentives to produce high quality reports.

Consistent with this interpretation, Correia (2014) and Yu and Yu (2011) report that connected firms face lower enforcement costs in that they are less likely to receive Accounting and Auditing Enforcement Releases and are also subject to lower penalties if prosecuted. Also, Chaney et al. (2011) show that CPA firms have less informative accounting reports than their peers; yet they are subject to relatively less severe penalties from capital market participants for poor earning quality.

We note, however, that countervailing incentives for connected firms to improve transparency may also exist. It is well established that political activities attract negative media publicity and greater public scrutiny due to their covert and often dubious nature (Morck et al., 2000; Faccio et al., 2006; Aggarwal et al., 2012). Politically connected firms can reduce the political costs associated with such (adverse) visibility by reporting more conservatively (Watts and Zimmerman, 1990). Consistent with this conjecture, Kong et al. (2017) report that politically connected firms are more likely to report lower earnings by recognizing bad news in a timely fashion and deferring the recognition of gains. Importantly, Jennings et al. (2021) find evidence that firms report less opportunistically in response to an increase in their connections with SEC-influential politicians, suggesting that such connections discourage the pursuit of aggressive financial reporting practices.

As an alternative, politically connected firms can convince outside investors that they do not engage in self-dealing by facilitating external monitoring and seeking external certification. Such actions enable politically connected firms to safeguard their position as information lobbying agents, which in turn, permits them to maintain long-term relationships with politicians and achieve strategic objectives (Hillman and Hitt, 1999). In support of this notion, Guedhami et al. (2014) find that firms respond to the negative attention associated with political connections by hiring reputable auditors.

2.2 Hypotheses Development

How are the financial reporting environment and the accompanying accounting compliance costs of going public shaped by political activities? Previously, we argued that IPO accounting fees are a function of the complexities that characterize the financial reporting environment of the issuer,

such as the number of comment letters received by the SEC and the time and effort required to address these letters as well as the labor needed to prepare and audit the financial statements of the IPO. Hence, accounting fees are largely determined by the manner in which the political activities of an IPO issuer affect its financial reporting motives, and, importantly, by the degree to which the SEC and auditors perceive politically a connected IPO to be risky.

According to the agency perspective, politically connected IPOs may have worse earnings quality than non-connected IPOs, either intentionally or unintentionally. If, for instance, IPO managers have diverted benefits conferred by their firms' political connections or engage in questionable practices, they will prefer information opacity in order to obscure such potential personal gains from politicians or even to deliberately suppress information on true economic performance, thereby attempting to hide any diversionary practices associated with political cronyism (and corruption).

Alternatively, if politically active IPOs hope to enjoy political protection from regulatory scrutiny, they should have less need to invest time and care in managing their reports. In this case, the question is whether prior findings indicating that the regulatory political capture of the SEC's enforcement division can also be applied to the SEC's advisory division, that is, the division which issues comment letters (see, for instance, Correia, 2014).[7] Interestingly, Heese et al. (2017) find that political connections appear to act as a red flag for additional scrutiny at the SEC comment letter stage, suggesting that the SEC's advisory division is not politically captured.

Hence, from this agency perspective, the SEC will view political connections as a distinct risk factor for financial reporting matters and will respond by issuing more comment letters to such IPOs asking for amendments in their filings or clarifications. To the extent that this dialog with the SEC lengthens the IPO process, it will require substantial resources to be resolved (Li and Liu, 2017), suggesting that politically connected IPOs will face greater accounting compliance costs. This implies that connected IPOs receiving more SEC comment letters will incur greater accounting fees. Similarly, if auditors believe that politically connected IPOs have more opaque information environments, they

will anticipate exposure to a higher risk of audit failure.[8] To control the overall audit risk to an acceptable level, they should exert more effort in audit planning and testing to detect irregularities (Simunic, 1980; Liu and Simunic, 2005; Choi et al., 2008; Bentley et al., 2013). Alternatively, they may charge IPO clients higher fees to insure themselves against litigation risk, that is, the impact of any future losses arising from costly regulatory sanctions (Choi et al., 2009; Kim et al., 2012). Both actions lead to higher accounting fees.

On the other hand, the political visibility perspective suggests that, due to increased public attention, connected IPO firms have elevated reputation and litigation considerations to avoid public outrage over material accounting irregularities. Hence, they will respond to the negative publicity associated with their political connections by reporting more conservatively than their non-connected peers. In this case, they are less likely to be targeted by the SEC and they will receive fewer comment letters, which implies that less resources are needed to address regulatory concerns and that accounting fees are reduced accordingly. Likewise, if auditors believe that heightened media and public attention incentivize politically active IPOs to strive for a more transparent environment, they will assess their clients' financial reports more favorably and face lower litigation risk. This decreases the overall audit risk for the IPO engagement which translates to lower accounting fees for politically connected issuers compared to their non-connected counterparts.

Because the above views are not mutually exclusive, it is not possible, a priori, to determine whether the financial reporting motives stemming from either the agency view or the visibility view of political connections will predominate. Therefore, we state our main hypothesis, in its alternative forms, as follows:

H1a. *The Agency Hypothesis*: Politically active IPO issuers have worse information environment than their counterparts and thus are subject to higher accounting compliance costs.

H1b. *The Political Visibility Hypothesis*: Politically connected IPO issuers have more transparent information environment than their non-connected peers and thus incur lower accounting compliance costs.

3. Sample Selection and Methodology

Our sample selection starts by identifying all initial public offerings (IPOs) between 2000 and 2018 from the Thomson ONE Banker database. Consistent with the existing literature (e.g., Loughran and Ritter, 2004; Espenlaub et al., 2012; Lowry et al., 2017; Colak et al., 2021), we apply standard IPO filters to exclude foreign issues, unit offerings, reverse leveraged buy-outs (LBOs), spin-offs, closed-end funds, real-estate investment trusts (REITS), royalty trusts, financial institutions, limited partnerships, and American Depository Receipts (ADRs), as well as all IPOs with an offer price below $5.00. We obtain IPO background and issuance information from the Thomson ONE Banker database, including the issue data, offer price, the amount of total IPO proceeds, whether the firm is backed by venture capitalists, and the name of the investment bankers (underwriters).[9]

Accounting data are retrieved from the Compustat database and public trading prices are obtained from the Center for Research in Security Prices (CRSP), whereas IPO accounting fees are retrieved from Thomson ONE Banker database. However, Thomson ONE Banker does not provide a full coverage for our sample. As such, to verify and extend the above data, we carefully hand-collected from the last amended S-1 registration fillings.[10] Data regarding corporate lobbying activities and contributions to political action committees (PACs) are also manually collected from the OpenSecrets database. We then extract biographical information about company directors from SEC filings, including S-1 and DEF14A forms. After merging the IPO data with the corresponding accounting, stock market, accounting fees and political strategy data, and eliminating observations with missing values, we end up with 261 CPA firms and 1,532 non-CPA IPOs (i.e., 1,793 firms).[11]

3.1 Empirical Model

IPO accounting fees consist of all financial reporting costs associated with drafting the registration statement and may be incurred for working both with accounting advisors and the (external) auditor. These costs are directly attributable to the offering and their scope may range from technical accounting and financial reporting issues (such as the use of non-GAAP measures as key performance indicators) to the auditors' review of financial reports and related documents, including comment letters from the SEC and the provision of consents to the regulatory authorities or comfort letters to the regulator and the underwriters (Beatty and Welch, 1996).

Therefore, IPO accounting fees can increase according to the complexity surrounding the IPO, such as the number of accounting issues encountered, the nature of comments received from the regulatory authorities, the incremental audit effort required to collect the relevant information that permit the auditor to review the filings and verify that the financial statements are compliant with the Securities and Exchange Act of 1933, or issue an opinion about the IPO (Venkatamaran et al., 2008). In addition, IPO accounting fees should contain a risk premium that insures auditors against expected losses arising from future legal liability, which is especially relevant for IPOs because litigation risk exposure is higher in relation to the 1933 Act (which governs IPOs) than the 1934 Act (which governs seasoned offerings) (Beatty, 1989).

Based on such reasoning and following the seminal work of Simunic (1980), a series of studies model IPO accounting fees as a function of characteristics that capture financial misreporting risk and accounting complexity, attributes related to audit quality, and variables that are unique to IPOs (see for example, Beatty, 1993; Gul et al., 2003; Gul, 2006; Bronson et al., 2017; Chaplinsky et al., 2017). In line with these studies, our baseline model is therefore as follows:[12]

$$IPO\ Accounting\ Fees = \beta_0 + \beta_1 CPA + \beta_2 Control\ Variables + Fixed\ Effects + \varepsilon_i \quad (1)$$

Following Hay et al. (2006), Copley and Douthett (2009), and Westfall and Omer (2018), our proxy for IPO Accounting fees is the natural logarithm of accounting fees disclosed in the last

amended S-1 registration fillings (*IPO Accounting Fees*). The main variable of interest is corporate political activities (*CPA*), which is a dummy variable that takes a value of one for IPO firms with lobbying or PAC contributions made in the election cycle most closely preceding the IPO, or that have politically connected directors, and zero otherwise.[13]

If CPA is reflective of greater financial misstatement risk and more opaque financial disclosures, it should result in lower information quality and greater information asymmetry. This, in turn, should attract greater regulatory scrutiny, translating into more SEC comment letters and hence more demand for the assistance of accounting experts which is required to address these letters (Heese et al., 2017*)*. At the same time, it affects the auditors' incentives to deliver audit quality, thereby resulting in more costly audit effort because of increased litigation concerns and audit (engagement) risk. If this is indeed the case, we anticipate CPA to be positively related to IPO accounting fees (i.e., $\beta_1 > 0$). If, however, CPA indicates lower financial misreporting risk and a more transparent information environment, it is less likely to be considered as a distinct risk factor from regulators and auditors suggesting a negative association between IPO accounting fees and CPA (i.e., $\beta_1 < 0$).

To isolate the effect of CPA, we control for firm, offering, and audit attributes that prior literature uses to explain cross-sectional variation in IPO accounting fees. Starting with firm characteristics, we control for the confounding effects associated with the size of the firm (*Size*) using the natural logarithm of the firm's total assets (Badertscher et al., 2014). Company age (*Firm Age*) is included as a control variable because a longer operating history may alleviate information asymmetry and concerns of regulators about accounting quality (Alhadab and Clacher, 2018). Following Simunic and Stein (1996) we use return on assets (*ROA*) to capture corporate profitability.

We also follow Venkataraman et al. (2008) and Badertscher et al. (2014) and use the operating cycle (*OperCyc*) by combining the quick ratio as well as the sum of receivables and inventory to control for the inherent business risk. Financial complexity is controlled for with the ratio of total debt to total assets (*Leverage*), while operating complexity is accounted for with the first principal

component of the number of segments and geographic segments (*Complex Firms*), and a dummy variable that takes a value of one if the firm has non-zero foreign sales (*Foreign Sales*).

We also control for the role of corporate governance (*Governance Quality*) (Armstrong et al., 2010). To the extent that better governance limits opportunistic misreporting, it will reduce the need for greater audit effort (Bedard and Johnstone, 2004; Chahine and Filatotchev, 2011). Unobservable effects associated with a firm's business model are accounted for with indicator variables showing whether the IPO firm is in the *Internet* or *Technology* sectors, or listed on *Nasdaq*.

With respect to IPO-specific characteristics, we initially attempt to control for the insurance risk arising from the liability of the market newness of newly listed firms. Following Willenborg (1999), we consider the natural logarithm of total proceeds (*Proceeds*) as a proxy for insurance coverage, because audit firms tend adjust their charges in part according to the issue size. In a similar vein, we include in our model the extent of IPO underpricing (*Underpricing*), that is, the discount between the final offering price and the closing price on the first day of trading. Tinic (1988) and Beatty (1993) suggest that if underwriters and IPO issuers reduce the offering price to insure against legal liability, an accountant will receive proportionately lower compensation as a result of lower exposure to loss. We also account for general market conditions using the sentiment of recent IPOs (*Recent IPO Sentiment*) because Ferris et al. (2013) demonstrate that the (negative) tone of the text disclosures of an IPO firm's industry peers for the quarter preceding the filing can predict its pricing and future performance.

Finally, we consider the role of third parties by controlling for the presence of prestigious investment bankers (*Underwriters*) and venture capitalists (*VCs*), respectively (Tomczyk 1996; Chen et al., 2013; Alhadab and Clacher, 2018). Besides, playing a certifying role such IPO players contribute to better earnings quality (Morsfield and Tan, 2006; Jo et al., 2007). Hence, it is likely that VCs and prestigious underwriters are associated with lower accounting fees. We also consider how

auditor's perceive potential dilution effects on accounting risk using the ratio of shares retained by the pre-IPO shareholders to the shares issued during the offering (*Overhang*).

In terms of auditing variables, our model controls for the external audit quality with a dummy variable (*Big 4 Auditor*) that takes a value of one for firms with a Big Four auditor, and zero otherwise. The literature suggests that auditors providing higher-quality services can charge greater fee premiums (Beatty, 1989; Guedhami et al., 2014). In a similar vein, we predict that IPO accounting fees will be related to audit firm's market share (*Auditor Market Share*) because previous studies suggest that audit firms with large market shares may operate under significant economies of scale, and thus, have an incentive to discount their fee in order to retain their competitive position (Mayhew and Wilkins, 2002).

To control for the firm's inherent business and accounting risk, we follow prior literature (e.g., Alhadab and Clacher, 2018) and construct an index of accounting issues (*Accounting Quality Problems*) by taking the first factor of applying principal component analysis to the following variables: abnormal discretionary accruals (*DACC*), real earnings management *(REM*), and going concern opinion (*GCO*). Finally, to control for the peak pricing of audit services, we follow Gul and Goodwin (2010) and use a dummy variable (*December*) that takes a value of one for firms with a December fiscal-year end. Lastly, we include both year and industry fixed effects in the model to mitigate for potential omitted variable bias and cluster standard errors at both year and industry-levels (Petersen, 2009). A detailed definition of all variables is provided in Appendix A.

4. Empirical Results

4.1 Descriptive Analysis

Table 1 presents distributional statistics for both IPO activity and IPO accounting fees in the subsamples of firms with (N=261) and without (N=1,532) CPA. Panel A of Table 1 considers the time-series dimension, while Panel B displays how these measures vary across industries. The number of IPOs tends to decline after the dot-com bubble of the late nineties but increases following the

implementation of the JOBS Act in 2012, whereas IPO accounting fees exhibit their lowest value in 2002 and their highest in 2018. Panel B classifies IPO companies by industry and shows that the computer equipment and chemical product sectors have the highest representation of firms going public, while the food products and entertainment services industries have the lowest concentration of IPOs. With respect to accounting fees, the entertainments services and manufacturing sectors have the highest charges, while the oil and gas sector has the lowest.

Table 2 presents the average values of firm and offering characteristics for companies with and without CPA. On average an IPO is charged $0.735 million for accounting fees and receives 4 comment letters from the SEC, 2% of our sample IPO firms have received a going concern opinion, while 8% have restated financial statements. The distributional characteristics of the accounting quality variables are consistent with prior research (Gao et al., 2017; Anagnostopoulou et al., 2020).

Around 41% of our firms were underwritten by top-tier investment banks, 53% were backed by venture capitalists, and 86% of the sample firms were audited by a Big 4 auditor. About 63% of our sample firms are complex, 38% have foreign operations, and 83% end their fiscal-year during December. Furthermore, more than one third of the companies operate in the technology sector, 9% are in the Internet sector, and 71% are listed on Nasdaq.

Panels A and B also show the average values of firm and offering characteristics for companies with and without CPA. IPO firms with CPAs have higher audit fees and lower financial reporting quality, as indicated by higher discretionary accruals (*DACC*), and the extent of real earnings managements (*REM*) and receive more comment letters. This finding provides preliminary evidence for our agency hypothesis. In addition, IPO firms with active political strategies tend to be larger in terms of size, age, and capital proceeds than politically inactive firms. Moreover, IPO issuers with CPA are more profitable and have more leverage, consistent with Chen et al. (2015). These firms also tend to be more complex, in comparison to non-CPA firms.

Additionally, politically active IPO firms tend to hire top quality auditors and top-tier investment bankers (i.e., prestigious underwriters) more often than their peers, consistent with prior research (e.g., Guedhami et al., 2014; Gounopoulos et al., 2017). However, CPA firms have less VC-backing than non-CPA firms. Lastly, there are fewer firms in the technology or internet sector and Nasdaq with either lobbying or PAC expenditures or politically connected directors, compared to their counterparts. Finally, Panel C of Table 2 shows the summary statistics for the political money contributions of IPO firms. The average outlay on political activities is around $0.308 million, and our politically active firms have spent roughly seven times more on lobbying activities than on PACs.

4.2 The Impact of Corporate Political Activities on IPO Accounting Fees

Do active corporate political strategies have any impact on IPO accounting compliance costs? While the preceding descriptive evidence supports the agency view of CPAs, in this subsection, we explore this question in a more systematic way. First, we conduct a regression analysis to examine whether CPA increase IPO accounting fees in a multivariate regression framework. Next, we use the components of CPA, that is, lobbying, PAC donations, and the presence of politically connected directors, to examine whether these more specific activities affect accounting fees in a similar manner.

Table 3 illustrates the impact of corporate political activism on accounting fees after controlling for various firm, offering, and auditing characteristics. Columns (1), (2) and (3) demonstrate positive and significant association (at the 1% level) between active corporate political strategies (lobbying and/or PACs) and accounting fees. Column (4) yields a similar but weaker association for the presence of politically connected directors. Column (5) reveals a significant positive coefficient across all CPA components except for the dummy for politically connected directors. Column (6) shows a positive and significant association (at the 1% level) between the CPA dummy and accounting fees, suggesting that IPO firms with politically active strategies pay incur accounting compliance costs. The economic effect is significant: the parameter of 0.25 represents an average premium of 28.40%, which, in turn, translates into $0.209 million (or $208,745) higher fees.[14]

This is nontrivial effect given that, in our sample period, accounting fees account for a sizeable proportion (9%) of total direct compliance costs.

The findings pertaining to the control variables are also interesting. Accounting fees are significantly higher for firms that are older, larger in proceeds or size. Similarly, complex firms and firms with foreign sales tend to exhibit a positive relation with accounting charges. By contrast, profitability relates negatively to accounting costs, while financial leverage does not seem to have any systematic association with accounting fees in our sample. It is notable that the coefficient on *Governance Quality* is negative and significant, suggesting that better-governed firms reduce the need to exert additional audit effort in relation to possible financial irregularities (Bedard and Johnstone, 2004; Chahine and Filatotchev, 2011).

In terms of IPO-specific variables, the coefficient on prestigious underwriters is positive but insignificant, whereas VC-backed firms have a significantly lower accounting fee charge, which is consistent with Chahine and Filatotchev (2011). In line with Venkataraman et al. (2008), we find that prestigious auditors charge higher fees and this effect is significant at the 1% level, while auditor market share is negatively associated with IPO accounting fees (Mayhew and Wilkins, 2002). In addition, the coefficient on underpricing is negative and statistically significant, as predicted by Beatty (1993). By contrast, *Overhang* and *Accounting Quality Problems* is positively and significantly associated with accounting fees, suggesting that firms with more retained shares and lower accounting quality pay higher IPO accounting fees. Finally, technology and Internet stocks tend to experience increased accounting fees; however, only the first of these seems to exert a meaningful impact.[15]

4.3 Strength of Corporate Political Activism

While the evidence from Table 3 lends credence to the notion that regulators and accounting experts perceive firms pursuing active political strategies as having higher accounting misstatement risk and greater engagement risk, they are not informative as to whether the intensity of these

strategies matters. If the link between CPA and IPO accounting fees depends on the intensity of political activities, it will support a causal interpretation of our baseline results.

To shed light into this issue, in Panel B of Table 3, we examine whether different types of CPA exert a differential impact on accounting fees, depending on their strength. Column (1) considers the monetary amount lobbying expenses, while column (2) includes the role of lobbying expenditures and PAC donations simultaneously. Finally, column (3) considers the dollar value of political money contributions (either lobby or PAC), and column (4) includes the number of connected directors.

The results indicate that lobbying and PAC money exert a significant and economically similar impact on accounting fees (columns 1-2). Column (3) shows a positive and somewhat stronger association (at the 1% level) between the political money contributions (PMC) and accounting fees, suggesting that accountants and auditors perceive these political actions as complementary (Ansolabehere et al., 2002). We also find a positive and marginally significant coefficient (at the 10% level) between the number of politically connected directors and accounting charges (column 4).

Finally, column (5) and (6) include both types of political money contributions (PMC) and the number of politically connected directors and show that the relationship between CPA and accounting fees is driven by lobbying expenditures and campaign contributions rather than the presence of former politicians on the board, implying that the transaction-based (i.e., short-term) forms of CPA are more controversial in the eyes of the SEC and auditors than human-based (i.e., long-term) forms (Aggarwal et al., 2012) of CPA.

5. Identification Issues

Our analysis so far suggests a strong positive relationship between CPA and IPO accounting compliance costs. Although the inclusion of industry and year fixed effects absorbs omitted industry-varying and time-varying heterogeneity, an obvious empirical challenge is the nonrandom nature of political activism. For instance, the observed relation between IPO accounting fees and CPA could be driven by omitted unobservable characteristics that simultaneously affect the decision to actively

engage political strategies as well as accounting and audit risks of the issuer in the same manner, which implies that our baseline analysis may produce biased estimates. In addition, IPO issuers that engage in political activities may be inherently different from those that are not politically active, thereby raising concerns related to functional form misspecification and possible non-linear effects due to differences in observable characteristics of politically active and inactive IPOs (Shipman et al., 2017).

5.1 Two-Stage Least Squares (TSLS) Approach

To address the selection concerns emanating from unobservable characteristics that may correlate both with changes in political activism and accounting compliance costs, we follow Bradley et al. (2016) and employ a two-stage, instrumental variable (IV) approach. In the first stage, we estimate the probability of being politically active and in the second stage we replace the hypothesized endogenous variable with its instrumented value. To do this, we initially regress the CPA dummy on several instruments and a standard array of control variables. For valid instruments, we need to obtain exogenous variation, that is, factors that are correlated with the variable that is considered endogenous (CPA) (to satisfy the relevance condition) but do not have an effect on the outcome (to satisfy the exclusion criterion). In other words, our instruments should affect IPO accounting fees only through the CPA (Larcker and Rusticus, 2010).

Our first instrument, *Distance*, is defined as the distance between a firm's headquarters and Washington D.C., the location of federal government. Houston et al. (2014) argue that firms that are close to Washington may have better opportunities to engage in corporate political strategies. Finally, we use the state-level *Voter Turnout*, calculated for general elections as ballots counted divided by the voting-eligible population. Heese et al. (2017) argue that this measure can proxy for the state population's political engagement and is, therefore, likely to be related to the political contributions of a given firm. We conjecture that it is unlikely that *Distance* or *Voter Turnout* have a direct impact on

IPO accounting fees, at least after adjusting for industry and year fixed effects. Hence, they are more likely to be orthogonal to the residuals in the second-stage regression.[16]

Table 4 shows the results of our TSLS estimation. To assess the potential incremental benefits of each instrument, we sequentially add each of them in the first stage models. An inspection of the first stage models indicates that our selected instruments are strongly correlated with the CPA dummy at the conventional level of 1%. Specifically, the coefficient for *Distance* is significantly negative, suggesting that the likelihood of being politically active is reduced for firms whose headquarters are located further from Washington DC. Furthermore, the coefficient on *Voter Turnout* is also positive and significant, suggesting that local political engagement does, indeed, affect CPA in the same geographical area (state).

In addition to this, we perform a plethora of tests to establish the relevance and validity of our instruments. The partial F-statistic does not suggest that our instruments are weak. The Hansen (over-identification) test is not significant, failing to reject the null hypothesis that the instruments jointly satisfy the exclusion restriction. Furthermore, the test statistic for the Hausman test rejects the null hypothesis of exogeneity at the 5% significance level, which validates the endogeneity of the variable CPA. After implementing these tests, we proceed to the second stage by replacing the observed CPA with the predicted (instrumented) CPA. Column (2) of Table 4 indicates that the sign and magnitude of CPA remains consistent with our main results.

5.2 Entropy Balancing

To alleviate the concern that firms might self-select, i.e., voluntary engage in political activities due to observable internal or external factors, we employ entropy balancing. Entropy balancing which is a relatively new matching technique designed to achieve covariate balance between treatment and control groups through a reweighting process, such that the main distributional properties (mean and variance) of treatment and control observations are virtually identical (Hainmueller, 2012; Wilde, 2017; Chapman et al., 2019; Jacob et al., 2019; McMullin and Schonberger, 2020). Such a scheme

ensures that the differences in the control variables between the treated and control groups that might have occurred because of a latent (missing) variable problem are no longer a factor that can impede proper inferences. This technique is more flexible than traditional propensity score matching (PSM) algorithms for the following reasons. First, it is not sensitive to matching parameters that can alter the conclusions, such as weight of 0 or 1, choice of the caliper width, or matching with/without replacement. Notably, this preserves the entire sample, thereby retaining information and improving model efficiency. Finally, entropy balancing has higher model efficiency and less first-stage model dependency than PSM (Hainmueller, 2012; Chapman et al., 2019; Chahine et al., 2020).

Panel A of Table 5 indicates that, the entropy balancing renders the distributional differences (in the mean and variance) across a set of observable covariates between CPA and non-CPA firms statistically insignificant. In Panel B of Table 5, we use the sample with the post-weighting observations and we re-run the regression of Tables 3. Panel B of Table 5 indicates that in the entropy-balanced sample the inferences from Tables 3 about the role CPA remain as before.

6. Corporate Political Strategies, Financial Reporting Quality, and Litigation Risk

In our hypothesis development section, we argued that if there is a first-order effect of political ties on IPO accounting fees, this could be attributed to either accounting misstatement risk or more litigation risk. Thus, one channel through which corporate political strategies could directly affect accounting fees is financial reporting quality (Chen et al., 2010; Chaney, et al., 2011; Alfonso, 2016; Hung et al., 2018), whereas another might be the degree of exposure to litigation risk (Beatty, 1993; Venkatamaran et al., 2008). While the baseline results support the agency view of CPA that political activism increase compliance costs, they do not inform us whether this relationship is attributed to higher misstatement risk or greater litigation exposure. If SEC's scrutiny and auditors' incremental effort at the IPO engagement fully offset the financial reporting risk associated with politically active IPOs, then we would expect the reporting quality of connected IPOs to be similar to that of non-connected. In this subsection, we explore these explanations in a more systematic way.

Initially, we investigate whether CPA is associated with several financial reporting outcomes of the offering year, as measured by: (i) discretionary accruals (*DACC)*, and aggregate level of real earnings management (*REM*), calculated as the sum of abnormal cash flow from operations and abnormal discretionary expenses; (ii) going-concern opinions (*GCO*); (iii) accounting quality (*Accounting Quality Problems*); (iv) restatements (*Restatement*); and (v) number of comment letters *(No of CLs).*[17] In doing so, we acknowledge that the relationship between CPA and accounting quality might be biased because of unobservable and observable factors that simultaneously may affect CPA and financial reporting outcomes or due to reverse causality since it is likely that a faltering and opaque IPO firm may attempt to establish political ties to regain profitability and improve its financial reporting environment. For these reasons, we assess the relationship between CPA and IPO accounting quality outcomes using the OLS, TSLS, and entropy balancing approaches.[18]

The results shown in Table 6 indicate that CPA generally has a significant association with more opaque financial statements. We document that firms with active corporate political strategies are more likely to engage in accrual-based and real earnings management. At the same time, these firms have a higher likelihood of accounting misstatements and of receiving a going-concern opinion in the offering year or more SEC comment letters.

In Table 7, we seek to understand if and to what extent politically connected IPOs are exposed to litigation risk. Following Loughran and McDonald (2011), we capture this risk by utilizing IPO prospectuses to count the number of words that refer to litigation (*Litigious Count*), uncertainty (*Uncertainty Count*), or having negative connotations (*Negative Count*). We also consider the role of media attention as an alternative proxy for litigation risk because the negative publicity generated by the secret and often dubious nature of political activities increases the need for greater transparency and the likelihood of audit failure, that is, the probability of detecting that auditors have failed to identify accounting irregularities of their clients (Wu and Ye, 2020).[19] We measure media attention by computing the natural logarithm of 1 plus the number of times the IPO firm is cited in media in the 30

days prior to listing.[20] We distinguish between general (*Media Attention*), negative (*Negative Media Attention*), and positive (*Positive Media Attention*) media attention.

The results, in Table 7 – based on either OLS, TSLS, or entropy balancing – indicate that political ties are strongly related to words in IPO prospectuses reflecting exposure to litigation risk and uncertainty as well as to (negative) media attention. Overall, the findings in Table 7 reveal that CPA is related to both higher financial reporting risk and more litigation risk, suggesting that although gatekeepers (SEC and auditors) exert more effort to politically active IPOs, they do not fully offset the accounting and litigation risk inherent in these IPO engagements.

7. An Exogenous Shock to CPA? Evidence from the Citizens United Ruling

Another way to assess how accounting experts react to IPO political connectedness is to exploit a quasi-natural experiment; specifically, the exogenous shift in the landscape of corporate political connectedness that accompanied the landmark Supreme Court ruling in relation to Citizens United vs Federal Election Commission.

In January 2010, this ruling set off a firestorm of criticism because it allowed managers to make unlimited independent political expenditures from general treasury funds without there being a disclosure mechanism by which shareholders could hold managers accountable for spending their money (Coates, 2012; Skaife and Werner, 2020). Thus, in practice, the Citizens United ruling created a covert channel for companies to allocate resources from corporate treasuries to influence electoral outcomes (Albuquerque et al., 2020; Werner, 2011).

While previous studies have examined how this event has affected investor perceptions of corporate value and risk, they have not considered the views of other stakeholders (e.g., Werner, 2017; Minefee et al., 2020; Skaife and Werner, 2020). We extend this line of inquiry by investigating how IPO accounting experts react to political activism before and after the passage of Citizens United. Following Albuquerque et al. (2020), we test the association between IPO issuers and accounting charges as well as a range of financial reporting and litigation outcomes using a window from 2007 to

2012, constructing the variable *Post-CU Dummy* that takes a value of zero from 2007 to 2009, and one from 2010 to 2012. Each period contains two years of a presidential election cycle and one mid-term election year.

We also explore the fact that, prior to Citizens United, 23 states had bans on independent political expenditure by corporations, besides the federal-election ban on independent political spending that affected all states. The Citizens United decision overruled all such bans, including state-level ones, and gave rise to a cross-sectional difference that allows the identification of the effect of political spending on IPO accounting quality and the related compliance costs according to the state in which a company headquarters is located.

Thus, we utilize IPOs in "ban states" as the treatment group and firms in non-ban states as the control group (Spencer and Wood, 2014), and define *Ban State* as taking a value of 1 if a firm is headquartered in a state with bans on independent expenditure on state elections prior to Citizens United, and 0 otherwise.[21] In this case, the variable of interest is the triple interaction *CPA* × *Ban State* × *Post-CU Dummy*, which captures changes in IPO accounting quality and the related issuance costs before and after Citizens United for ban states versus non-ban states.[22]

We expect that accountants will respond differently after Citizens United for IPOs headquartered in states with bans and IPOs in states without bans for at least two non-mutually exclusive reasons. Coates (2012) shows that observable CPA (lobbying and PAC donations) increased sharply after Citizens United, particularly in firms that were previously politically active, which is consistent with the notion that all forms of corporate politics are complements. Spencer and Wood (2014) find that there is a disproportionate increase in independent expenditures in ban states that is driven by organizations and political committees where weak disclosure laws and practices protect the anonymity of the spenders, suggesting a link between political activities and agency conflicts.

As such, we can reasonably assume that IPOs that engaged in political activism before Citizens United in states with bans are more likely to have made independent political expenditures after the

Citizens United than their counterparts. Thus, to the extent that the covert use of corporate political strategies raises ethical considerations, increases reputational costs, and exacerbates agency problems (Skaife and Werner, 2020; Werner and Coleman, 2015), IPOs with CPA headquartered in ban states will be rendered riskier and opaquer in the eyes of the regulators, accountants, and auditors.

Table 8 presents the results of our tests in this realm. In our model, we include *Post-CU Dummy*, *Ban State*, and the interaction between them, as well as the interaction between *CPA* and each of these variables, and also the triple interaction of interest (*CPA* × *Ban State* × *Post-CU Dummy*). We include industry and year fixed effects, and cluster standard errors by state. The triple interaction variable (interaction variable of interest) is significantly positive and statistically significant across most columns, indicating that IPO companies with political engagement located in ban states are subject to worse financial reporting quality, greater litigation risk, and continue to pay higher accounting fees after Citizens United than those without.[23]

8. Cross-Sectional Tests and Alternative Explanations

We also aim to provide some potential alternative explanations by conducting a set of interactive tests that allow us to examine whether the relationship between CPA and IPO accounting fees varies in the cross-section in ways predictable by the agency view of political activism rather than other mechanisms. Our maintained argument is that politically connected IPOs have greater incentives to manipulate their reports and remain opaque to conceal rent-seeking behavior. The evidence up to this point suggests that the SEC and auditors recognize this risk and exert more effort in response (as evidenced by the relative higher number of comment letters and greater accounting fees among CPA offerings). Therefore, if this risk-based explanation is valid, then we would expect the positive relationship between CPA and IPO compliance costs to be affected by factors shaping reporting transparency as well litigation risk.

Specifically, we examine whether firm complexity, exposure to litigation risk, and governance quality influences this relationship. We posit that operating complexity exacerbates accounting risk

and results in higher regulatory scrutiny and audit effort for IPO engagements, involving connected issuers because it facilitates managers to conceal rent-seeking activities through financial misreporting (Badolato et al., 2014; Bae et al., 2017). Exposure to litigation risk puts more pressure to the regulator for greater transparency and increases the scrutiny that auditors expect to face (because it raises the likelihood of being sued for potential IPO audit failures). We measure litigation risk using the degree of negative media attention and dummy variables indicating highly litigious industries (Francis et al., 1994; Preuss and Koningsgruber, 2021). We expect that the SEC and auditors are more conservative towards connected IPOs attracting more negative media attention or operating in litigious industries, which implies that exposure to litigation risk, should strengthen the positive link between CPA and IPO fees.

Finally, we use a comprehensive index of governance quality to measure the effectiveness of governance and monitoring mechanisms (Guedhami et al., 2009; Sultana et al., 2019). We anticipate that regulator's and auditors' perceived risk relating to firms which are more likely to misreport (such as politically connected IPOs) is alleviated with stronger monitoring. We report the results in Table 9. Consistent with our expectations, the coefficients on the interaction terms (*CPA x Complex Firms*), (*CPA x Negative Media Attention*), and (*CPA x Litigious Industry*) are positive and significant, whereas the coefficient (*CPA x Governance Quality*) is negative and significant.[24]

9. The Role of Politically Active IPO Financial Intermediaries

The analysis thus far suggests that the political connections of IPO issuers play a critical role in shaping their financial reporting environment and the associated accounting compliance costs. However, IPO issuers do not have sole responsibility for the preparation of filings and the accounting statements therein; financial intermediaries participating in the IPO process can also – explicitly or implicitly – influence an issuer's financial reporting environment, these being, in our context, external auditors, VCs, and investment bankers.

Auditors can explicitly certify the quality of their IPO clients by providing independent assurance of the credibility of the clients' financial reports (Beatty, 1993; Badertscher et al., 2014). Indeed, in the results which are reported in Table 4, we showed that auditor conservatism increases for politically connected IPO clients (as indicated by higher GCOs and restatements among connected IPOs). On the other hand, VCs and investment bankers play a broader role in the IPO process and may thus affect an issuer's financial reporting quality more implicitly. Specifically, VCs often hold influential positions from which they can encourage or discourage information transparency through involvement in corporate governance mechanisms that enable them to closely monitor the accounting statements of their portfolio companies (Morsfield and Tan, 2006; Nam et al., 2014).

Likewise, investment bankers act as IPO underwriters and play an important role in decreasing the information asymmetry that arises between issuers and outsider investors because they must certify to the market that the terms of an IPO are fair, based on all the material information about the issuer and the outcome of "due diligence" investigations (Lee and Masulis, 2011). Overall, the literature demonstrates that such intermediaries have strong motivations to be concerned with the quality of IPO reporting (Weber et al., 2003; Morsfield and Tan, 2006; Lee and Masulis, 2011; Chen et al., 2013; Chen et al., 2017), which begs the following question: how do political connections affect the incentives of IPO financial intermediaries to monitor and shape the financial reporting quality of firms going public?

To address this question, we rely on the two alternative forms of our main hypothesis, the agency and visibility views of CPA. According to the agency view, politically connected IPO financial intermediaries are able to capture regulatory authorities, suggesting that they are likely to face lower probabilities of inspection and enforcement and lower penalties if and when accounting misstatements are detected/revealed. In this case, they would care less about the financial reporting environment or quality of IPO issuers. Although recent research finds evidence consistent with regulatory authority capture (Yu and Yu, 2011; Correia, 2014), Heese et al. (2017) report a positive relation between

seasoned firms' political connections and SEC comment-letter reviews, implying that it is less likely that such regulatory capture pertains to the IPO process. Because the latter is also supported by our previous analysis (Table 4), we resort to the visibility view of CPA instead.

The visibility view postulates that specialized financial intermediaries that are actively engaged in politics act as information lobbying agents because they can exploit their expertise or privileged information to persuade policymakers to implement particular policies (Hillman and Hitt, 1999; Chen et al., 2017). Such lobbying agents can build political capital, thereby shaping long-term relationships with policymakers (Hillman and Hitt, 1999). While information lobbying is an important means of influence, it also attracts negative publicity and increases visibility. Negative publicity generated by political connections can increase regulators' awareness of accounting irregularities and auditing problems, exposing financial intermediaries to greater risk (Coates, 2012; Hadani and Schuler, 2013; Di'Tella, 2019). Higher visibility may also have serious consequences for IPO intermediaries because regulators, often subject to political pressure because of high-profile cases, are likely to impose more severe penalties to mollify public disquiet (Weber et al., 2008).

In light of the above, we conclude that, by increasing the chance of detecting accounting irregularities and aggravating their economic consequences, negative publicity deriving from political connections can engender substantial costs for IPO intermediaries (i.e., damaging their political capital and exposing them to heightened legal threats). As rational economic agents, IPO financial intermediaries can engage in strategies to counter the reputational and litigation threats associated with higher misreporting risks. In fact, we believe that the motives of IPO intermediaries to enhance the financial reporting environment of the offering are stronger than those of IPO issuers because they intend to interact with financial markets more often than firms going public. As such, they have a greater reputation at stake than IPO issuers. Nevertheless, their actions will not necessarily affect IPO accounting fees in the same direction.

Auditors that are politically connected may implement more stringent reporting to defend themselves from regulatory scrutiny of audited financial statements. Thus, auditors may react by increasing (i.e., supplying more) audit quality, which translates into higher accounting fees, due to more audit effort being devoted to obviating any accounting problems that may invite unwanted attention, and/or increased insurance premiums to cover possible future losses. On the other hand, politically connected VCs and underwriters respond to heightened political visibility by establishing more effective governance mechanisms and stricter monitoring in order to limit the frequency and the extent of earnings management. In doing so, they can reduce the risks of audit failure and litigation, thereby lowering accounting fees.

To empirically evaluate such conjectures, we manually collect data from OpenSecrets about the lobbying expenditures and PAC donations of financial intermediaries. Then, we construct a dummy variable for each type of intermediary (*Connected IPO Financial Intermediary*), which takes a value of 1 for politically active intermediaries (i.e., if lobbying or PAC expenditure is positive), and 0 otherwise.[25] We also include the interaction variable (*CPA* × *Connected IPO Financial Intermediary*) for each type (e.g., *CPA* × *Connected VC*) to evaluate whether the positive link between connected IPO issuers and financial reporting quality or accounting fees is contingent on the connections of the financial intermediaries involved.

Panel A of Table 10 reveals that around 17% of the IPO issuers are backed by politically connected VCs, while 63% of the underwriters and 75% of the auditors are, respectively, politically active. Panel B shows that, on average, connected VCs have donated $1.45 million, while connected underwriters and auditors have contributed, respectively, around $2.90 million and $1.68 million.[26] Panel C indicates that connected intermediaries are generally associated with better IPO reporting quality than their non-connected counterparts.

Finally, Panel D suggests that accounting fees are higher for connected auditors, supporting the notion that auditor conservatism increases with heightened (adverse) publicity. In addition, the

negative coefficient on connected VCs and underwriters is in line with the idea that these intermediaries can mitigate auditor (and regulator) concerns, obviating the need for stringent auditing because their political connections provide especially strong incentives to constrain opportunistic misreporting. Looking at the interactive variables, we can see that the need for auditors to deliver higher audit quality (as reflected in the level of accounting fees) is greater when auditors or issuers are politically connected, but lower when VCs or underwriters are politically active. This is consistent with the explanation that corporate governance and monitoring mechanisms, such as VCs and underwriters, can mitigate the auditor's concerns about the issuer's information transparency and potential accounting irregularities (Bedard and Johnstone, 2004; Chahine and Filatotchev, 2011).[27]

10. Additional Tests

The Internet Appendix provides additional information about the properties of our dataset and explores various alternative explanations through complementary tests. In Table IA1, we show that potential non-linearities in the relationship between CPA and accounting fees are not a significant concern. Table IA2 considers the link between CPA and other compliance costs and shows a positive, albeit weaker, relationship between CPA and the gross spread or legal fees, suggesting that our baseline results represent a lower bound regarding the implications of CPA on IPO compliance costs. In Table IA3, we utilize an exogenous measure of political connectedness and arrive at similar conclusions. Table IA4 considers another dimension of political activities, that is, political ideology, and shows that it matters, as Republican leaning IPO firms have lower IPO accounting fees than Democratic leaning IPOs. Finally, Table IA5 investigates the effect of politically connected IPO intermediaries after an exogenous shock (Citizens United).

11. Conclusion

The dramatic rise in political money contributions witnessed in U.S. firms over recent decades has fueled an intense debate about the role of CPA. While a substantial number of studies have examined its influence in a variety of settings, the existing evidence continues to be conflicting (Habib

et al., 2018; Preuss and Koningsgruber, 2021). We empirically extend the literature on CPA by exploring its role and financial implications in the process of preparing registration material and meeting the compliance requirements for companies going public.

Our findings suggest that politically connected IPO firms pay higher accounting fees than non-connected ones, supporting the idea that regulators and auditors perceive connected IPOs to be more risky. We also show that firms that engage in CPA also involve in more aggressive earnings management, have higher likelihoods of misstatement, and receive more SEC comment letters, suggesting that the incremental effort of the gatekeepers is not sufficient to offset the inherent financial reporting risk in politically connected IPOs. Finally, our results indicate that the involvement of specialized financial intermediaries in the political process also has implications for the financial reporting quality of the IPOs with which they are associated.

To the best of our knowledge, this is the first study to examine the association between corporate political strategies and accounting compliance costs in the context of U.S. IPOs. Our study also complements and expands upon several others that examine the determinants of compliance costs in the process of going public. Our findings are of relevance to ongoing calls for increased accountability and transparency around corporate political expenditure.

Footnotes

1. Following prior relevant studies (e.g., Kong et al., 2017; Hung et al., 2018; Nnadi et al., 2021), we use the terms political connections, political ties, political connectedness, political strategies, political involvement, and political activity interchangeably.

2. Interactions with politically connected firms can have devastating consequences for both elected officials and gatekeepers. For instance, after the Enron's failure, the senior politicians in both the Democratic and the Republican party faced severe criticism over their close connections to that company, specifically over concerns that these associations might have enabled more lax regulatory oversight (Wu and Ye, 2020). Accordingly, the mounting pressure from the press, politicians, and the public led to (the conviction and eventually to) the collapse of Arthur Andersen (the auditor of Enron), illustrating how vulnerable is the accounting profession to highly publicized financial-reporting failures (Economist, 2002).

3. We further analyze the motivation of our study and the selection of the IPO context in section A1 of the Internet Appendix.

4. Of course, one could argue that this concern is mitigated by the fact that the SEC's enforcement division might be politically captured (Yu and Yu, 2011; Correia, 2014). However, Heese et al. (2017) note that this conclusion is premature, since unlike the enforcement division, the SEC's advisory section (which is responsible for approving an IPO registrant's filling through the filling review process) is less likely to be susceptible to political pressures because it uses corporate political connections as a red flag for additional scrutiny.

5. This is partially attributed to the differences between China and U.S. in terms of the quality of economic and legal institutions (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998) and litigation risk faced by IPO intermediaries (Venkataraman et al., 2008; Choi et al., 2009).

6. Similarly, Leuz and Oberholzer-Gee (2006) argue that Indonesian firms with close connections to the state are eager to conceal transactions that benefit controlling insiders and their political backers by avoiding the raising of capital from arm's-length sources (i.e., capital markets). Piotroski et al. (2015) show that politically affiliated firms in China heavily suppress negative information in anticipation of promotions of leading local politicians in order to hide from minority shareholders expropriation-related activities stemming from political cronyism

7. The Securities and Exchange Commission (SEC) oversight process involves a range of activities, from advice and monitoring to enforcement actions (Heese et al., 2017). The Division of Enforcement (DOE) handles investigations of possible violations of federal securities laws, including violations of requirements for U.S. listed companies to provide financial reports in accordance with U.S. GAAP. The Division of Corporation Finance (DCF) has an advisory role as it.

8. The total audit risk for an IPO engagement can be decomposed into audit risk and litigation risk. Audit risk refers to the likelihood of the auditor failing to discover and/or misreporting a material misstatement in an issuer's financial report. Litigation risk is the probability of the auditor being liable in court in the event of audit failure.

9. For the underwriter prestige metrics, the study employs Jay Ritter's rankings of underwriter quality.

10. In particular, we obtain accounting fee data for 702 firms from Thomson ONE Banker, whereas we manage to manual collect accounting fee data for 1,091 firms from the last amended S-1 fillings.

11. Specifically, among the 261 CPA firms, 194 engage in lobbying expenditure and/or PAC contribution; the remaining firms have at least one politically connected director but make no political contributions. A more detailed breakdown is provided in Figure 1.

12. It should be noted that our sample observes 1,793 firms only at the IPO year, that is, one observation for 1,793 firms at the IPO year.

13. We follow Goldman et al. (2009) and define a company as politically connected if it has at least one director who held a political position before sitting on the board.

14. The premium is obtained by calculating the effect of the percentage shift on the natural log of accounting fees and is defined as $e^{0.26} - 1 = 28.40\%$.

15. In unreported analysis, we also employ a VIF analysis and do not find any multicollinearity problem. The results are available upon request.

16. Using more than one instrument for one endogenous variable is a desirable situation in the instrumental variable approach, as it creates over-identified conditions. Even if one of the instruments is irrelevant (or violates the exclusion criterion), the other instruments are enough for proper identification (Wooldridge, 2002 Section 5.1.2).

17. The data for going-concern opinions and restatements are obtained from Audit Analytics. With respect to the number of SEC comment letters, for each IPO firm, we extract all SEC comment letters related to IPOs (S-1 and SB-2 registration filings) posted to the EDGAR database. In particular, we download all "UPLOAD" documents that were registered on the firm's EDGAR directory up to two years after the IPO. We used this long window because although SEC letters related to the IPO are written before the company goes public, they are not publicly released on EDGAR until a minimum of 20 business days after the issue date.

18. We thank an anonymous referee for suggesting this test.

19. The basic premise of this argument is that the visibility created by the media makes the exposure of misconduct in the client firms much more likely, consequently increasing regulators' awareness of such misconduct (i.e., accounting irregularities) and exposing auditors to a higher audit risk.

20. Following Liu et al. (2014), we use RavenPack data analytics software and measure *Media Attention* by taking the natural logarithm of 1 plus the number of news items about the IPO firm in the media in the 30 days prior to listing. RavenPack assigns a relevance score for each news article (ranging from 0 to 100), indicating how strong the news article is related to a specific firm. In our case, we follow prior studies (Dang et al., 2015; Chen et al., 2019) and focus on the news articles with a relevance score of 100 to ensure that these articles are primarily about the firm under discussion.

21. Our data are collected from the National Conference of State Legislatures. Twenty-three states prohibited or restricted corporate spending on candidate elections at the time of Citizens United, which we define as ban states. Source: http://www.ncsl.org/research/elections-and-campaigns/citizens-unitedand-the-states.aspx

22. We have 385 IPOs during this period, of which 170 are in ban states.

23. For example, when the outcome variable is IPO accounting fees, the coefficient of the triple interaction is 0.15 indicates that, on average, IPO firms in ban states are subject to accounting compliance costs which are about 0.60 (0.15 × 3.99) times higher than their counterparts.

24. When we include Litigious Industry into our regressions, we exclude from the industry fixed effects the industries that are involved into the calculation of Litigious Industry.

25. We note that data availability about the political affiliation of VC board members is limited compared to that of underwriters and auditors. To address this issue and to ensure consistency in the identification of politically connected IPO intermediaries, we classify VCs, auditors, and underwriters as politically connected by considering only political money contributions (lobbying and PACs). In unreported tests, we consider whether underwriters and auditors have politically connected directors and find that our results remain the same.

26. The fact that intermediaries have higher political money contributions that IPO issuers suggests that they may have not only greater reputational capital at risk but also political capital at stake.

27. In unreported tests, we find that our results also hold when we instrument for the presence of politically connected IPO financial intermediaries using the same variables as those in Column (1) of Table 4.

Appendix A: Definitions of Variables

Variable	Definition
	Panel A: Main Dependent Variables
IPO Accounting Fees	The natural logarithm of IPO accounting fees (data from Thomson ONE Banker and hand-collected from the last amended S-1 file, i.e., before the IPO prospectus).
DACC	Discretionary accruals in the offering year, computed through the cross-sectional modified Jones (1991) model adjusted for performance.
REM	Aggregate level of real earnings management in the offering year, calculated as the sum of abnormal cash flow from operations and abnormal discretionary expenses.
GCO	Dummy variable equal to one if the firm received a modified going concern opinion, and zero otherwise. The data are from Audit Analytics.
Accounting Quality Problems	It is constructed by taking the first factor of applying principal component analysis to the following variables: DACC, REM, and GCO. Higher score means lower accounting quality.
Restatement	Dummy variable equal to one if the firm had restatement in the fiscal year prior to the IPO, and zero otherwise. The data are from Audit Analytics
No. of CLs	Number of SEC comment letters. The data are from EDGAR.
	Panel B: Firm Fundamentals
Firm age	The number of years elapsed since firm's foundation to IPO date, using foundation dates from Thomson Financial database as well as from the Field-Ritter dataset. The variable is transformed into the regressions by adding 1 and taking the natural logarithm.
VC	Dummy variable equal to one for venture capital-backed firms, and zero otherwise.
Connected VC	Dummy variable equal to one for VCs with lobbying or PAC contributions, else zero.
Proceeds	The natural logarithm of gross proceeds raised by the IPO estimated as shared offered times the offer price.
Overhang	The ratio of shares retained by the pre-IPO shareholders over shares issued in the offering.
Underwriter	Dummy variable equal to one for most prestigious underwriters, zero otherwise. Most reputable underwriters are those with a ranking score of 9.0 or above based on Jay Ritter's underwriter (prestige) rankings.
Connected Underwriter	Dummy variable equal to one for underwriters with lobbying or PAC contributions, else zero.
Big 4 Auditor	Dummy variable equal to one if the firm is audited by a big four audit firm, and zero otherwise. Big four audit firms include Ernst & Young, Deloitte & Touche, KPMG, and PricewaterhouseCoopers.
Auditor Market Share	Auditor market share is the auditor's IPO dollar market share (client's total assets) in the past calendar year (Ferris et al., 2013). In the regressions, we use the natural logarithm of the auditor market share.
Connected Auditor	Dummy variable equal to one for auditors with lobbying or PAC contributions, else zero.
Internet	Dummy variable equal to one for IPOs of Internet firms, and zero otherwise. Internet firms are classified those with business description containing any of the words "Internet", "Online", eBusiness", "eCommerce", and/or "Website".
Technology firm	Dummy variable: one for IPO firms with SIC codes 3571, 3572, 3575, 3577, 3578 (computer hardware), 3661, 3663, 3669 (communications equipment), 3671, 3672, 3674, 3675, 3677, 3678, 3679 (electronics), 3812 (navigation equipment), 3823, 3825, 3826, 3827, 3829 (measuring and controlling devices), 3841, 3845 (medical instruments), 4812, 4813 (telephone equipment), 4899 (communications services), and 7371, 7372, 7373, 7374, 7375, 7378, and 7379 (software).
Nasdaq	Dummy variable equal to one for NASDAQ-listed IPOs, and zero otherwise.
Leverage	The ratio of total liabilities over total assets in the fiscal year prior to IPO.
OperCyc	Operating cycle is calculated as (365/Sales) × Accounts Receivable + (365/Cost of Goods) × Inventory. In the regressions, we use the natural logarithm of operating cycle.
Foreign Sales	Dummy variable equal to one if the firm has foreign sales, and zero otherwise.
Diversified Index	Factor score from Principal Component Analysis (PCA) using the natural logarithm of sales, the natural logarithm of the number of segments, and the natural logarithm of the number of geographic segments.
Complex Firms	Dummy variable equal to one if the Diversified index is greater than the sample median, and zero otherwise.
Governance Quality	It is constructed by taking the first factor of applying principal component analysis to the following variables: board independent measured as the ratio of the number of independent outside directors to the total number of directors; a dummy variable equal to one if the board has a nominating committee that is composed solely of independent directors, and zero otherwise;, the percentage of outside directors on the board that were appointed after the current CEO took office; the natural logarithm of the average number of other directorships held by independent directors serving on the board; a dummy variable, equal to one if the majority of outside directors on the board serve on three or more other boards; the natural logarithm of the number of board meetings; and the natural logarithm of the number of directors serving on the board.
December	Dummy variable equal to one if the firm's fiscal-year end is December 31, and zero otherwise.
Litigious Industry	An indicator variable that takes the value of one if the IPO firm is in the biotech (SIC codes 2833-2836 and 8731-8734), computer (3570-3577 and 7370-7374), electronics (3600-3674), or retail (5200-5961) industry, and zero otherwise (Francis et al., 1994).
	Panel C: Political Variables
Political Money	The natural logarithm of all lobbying and PAC contributions made in the election cycle most closely preceding the IPO.
Lobby Money	The natural logarithm of total lobbying dollars in the year most closely preceding the IPO.

Lobby Dummy	Dummy variable equal to one for IPOs with lobbying expenditures, else zero.
PAC Money	The natural logarithm of total dollar contributions towards candidates in the election cycle most closely preceding the IPO.
PAC Dummy	Dummy variable equal to one for IPOs with PAC expenses, else zero.
Politically Connected Directors	Dummy variable equal to one if a firm has at least one director who held a political position before sitting on the board. We define political positions as follows: President, presidential candidate, Senator, member of the House of Representatives, (assistant) secretary, deputy secretary, deputy assistant secretary, undersecretary, governor, director (CIA, FEMA), deputy director (CIA, OMB), commissioner (IRS, NRC, SSA, CRC, FDA, SEC), representative to the United Nations, ambassador, staff (the White House's, the president's, a presidential campaign's), chairman of a party caucus, chairman or staff of a presidential election campaign, and chairman or member of the presidential committee/council (following Goldman et al., 2009).
Firms with Politically Connected Directors	Number of firms with at least one politically connected director.
No. of Politically Connected Directors	The natural logarithm of one plus the number of politically connected directors.
CPA	Corporate political activities. Dummy variable equal to one for IPOs with lobbying or PAC contributions or politically connected directors, else zero.
	Panel D: Other Firm Characteristics
Litigious Count	Percentage of words within the S-1 that are classified as legal using the Loughran and McDonald (2011) word list. Examples of legal words include regulations, contracts, settlement, plaintiffs, and litigation.
Uncertainty Count	Percentage of words within the S-1 that are classified as uncertain using the Loughran and McDonald (2011) word list. Examples include believe, pending, approximate, uncertain, and uncertainty.
Negative Count	Percentage of words within the S-1 that are classified as negative using the Loughran and McDonald (2011) word list. Examples of negative words include loss, failure, decline, bankruptcy, and difficult.
Recent IPO Sentiment	It is calculated as the average negative tone for all IPOs in each Fama-French (17) industry grouping field during the 90-day period preceding the initial filing of a sample IPO within that industry grouping (Ferris et al., 2013).
Media Attention	It is the natural logarithm of one plus the number of times IPO firm is cited in media up to 30 days prior to listing. We follow Liu et al. (2014) and use RavenPack data analytics software to measure media attention.
Negative Media Attention	It is the natural logarithm of one plus the number of times IPO firm is cited negatively in media up to 30 days prior to listing.
Positive Media Attention	It is the natural logarithm of one plus the number of times IPO firm is cited positively in media up to 30 days prior to listing.
Distance	It is the natural logarithm of the distance (kilometres) between a firm's headquarters and Washington, DC.
Voter Turnout	It is calculated as ballots counted divided by the voting-eligible population for the general elections (following Heese et al., 2017).

Figure 1: CPA Distribution

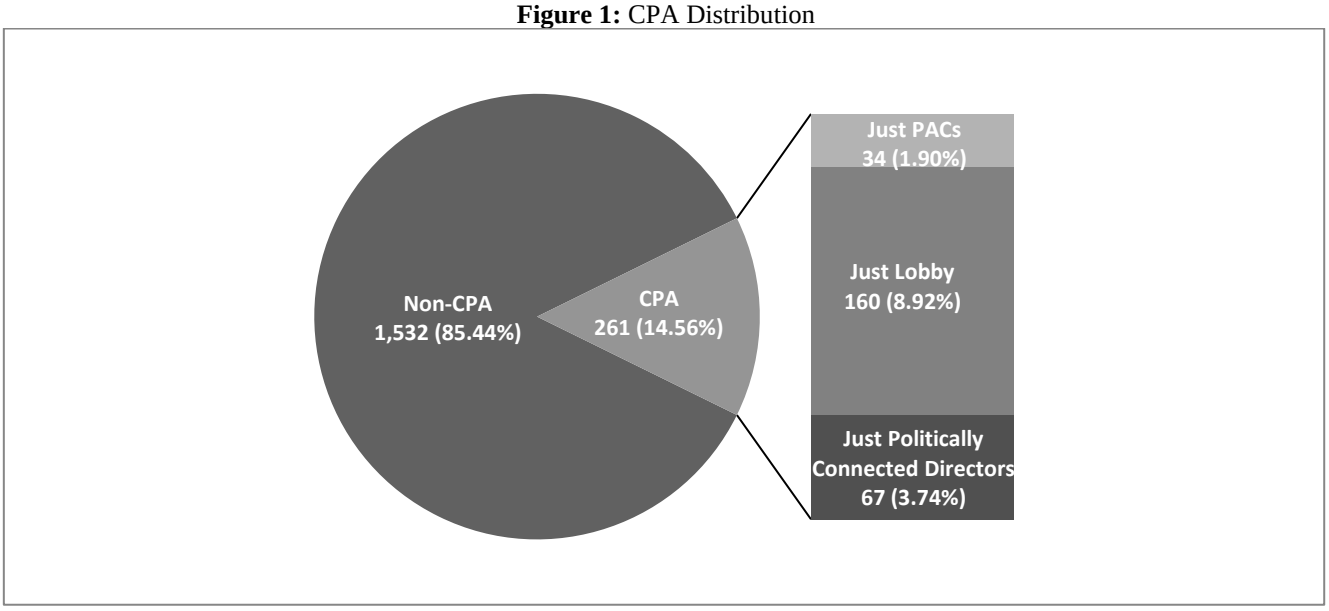

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Table 1: Distributional Analysis By Year and Industry

This table presents distributional statistics for a sample of 1,793 US IPOs from 1 January 2000 to 31 December 2018. The IPOs are described by issue-year in Panel A, whereas in panel B the IPOs are reported by industry. IPO deals are retrieved from the Thomson ONE Banker database. CPA is a dummy variable equal to one for IPOs with lobbying or PAC contributions or politically connected directors, and zero otherwise.

Panel A: Yearly Distribution

Year	Full Sample		IPOs with CPA (261)		IPOs without CPA (1,532)		Accounting Fees
	N.	%	N.	%	N.	%	
2000	260	14.50	11	4.23	249	95.77	$510,269
2001	58	3.23	8	13.79	50	86.21	$660,833
2002	48	2.68	7	14.58	41	85.42	$390,737
2003	47	2.62	4	8.51	43	91.49	$545,600
2004	125	6.97	17	13.60	108	86.40	$570,770
2005	114	6.36	19	16.67	95	83.33	$630,349
2006	124	6.92	18	14.52	106	85.48	$695,047
2007	111	6.19	24	21.62	87	78.38	$890,210
2008	17	0.95	4	23.53	13	76.47	$870,571
2009	37	2.06	8	21.62	29	78.38	$780,285
2010	72	4.02	15	20.83	57	79.17	$704,812
2011	68	3.79	18	26.47	50	73.53	$894,540
2012	80	4.46	16	20.00	64	80.00	$940,190
2013	136	7.59	27	19.85	109	80.15	$865,385
2014	172	9.59	24	13.95	148	86.05	$594,000
2015	103	5.74	14	13.59	89	86.41	$983,033
2016	68	3.79	7	10.29	61	89.71	$879,750
2017	61	3.40	9	14.75	52	85.25	$710,143
2018	92	5.13	11	11.96	81	88.04	$985,102
Total	1,793	100	261	14.56	1,532	85.44	

Panel B: Distribution by Industry

Industry (two-digit SIC codes)		Full Sample		IPOs with CPA (261)		IPOs without CPA (1,532)		Accounting Fees
		N.	%	N.	%	N.	%	
Oil and Gas	(13)	64	3.57	2	3.13	62	96.88	$365,385
Food Products	(20)	19	1.06	7	36.84	12	63.16	$680,379
Chemical Products	(28)	390	21.75	49	12.56	341	87.44	$720,627
Manufacturing	(30-34)	37	2.06	9	24.32	28	75.68	$945,833
Computer Equipment & Services	(35, 73)	454	25.32	61	13.44	393	86.56	$750,383
Electronic Equipment	(36)	137	7.64	16	11.68	121	88.32	$690,133
Scientific Instruments	(38)	131	7.31	13	9.92	118	90.08	$655,273
Transportation & Public Utilities	(41, 42, 44-49)	129	7.19	39	30.23	90	69.77	$545,117
Wholesale & Retail Trade	(50-59)	151	8.42	21	13.91	130	86.09	$455,485
Entertainment Services	(70, 78, 79)	28	1.56	6	21.43	22	78.57	$1,440,800
Other		253	14.11	38	15.02	215	84.98	$716,576

Table 2: Summary Statistics

The table presents descriptive statistics for a sample of 1,793 U.S. IPOs over the period from 2000 to 2018. Panel A presents the summary statistics of accounting and audit variables. Panel B displays the descriptive statistics for firm and offering characteristics as well as the statistics of IPO firms with and without CPA. Panel C reports the descriptive statistics of political contributions and politically connected directors of our IPO firms. CPA is a dummy variable equal to one for IPOs with lobbying or PAC contributions or politically connected directors, and zero otherwise. The number of observations for each variable is 1,793. All variables are defined in Appendix A.

Panel A: Accounting and Audit Variables

	Mean	**SD**	**P25**	**P50**	**P75**	IPOs with CPA	IPOs without CPA	Difference
						Mean	**Mean**	**p-value**
IPO Accounting Fees ($)	735,017	545,356	350,000	600,000	950,000	995,855	690,525	0.0000
DACC	-0.13	2.68	-0.15	0.06	0.23	-0.07	-0.15	0.0469
REM	0.34	2.50	-0.42	0.25	1.04	0.45	0.30	0.0760
GCO	0.02	0.03	0	0	0	0.03	0.01	0.0740
Accounting Quality Problems	0.03	1.07	-0.24	0.02	0.33	0.05	-0.03	0.0331
Restatement	0.08	0.11	0	0	0	0.12	0.07	0.0880
No. of CLs	3.97	1.92	3	4	5	4.21	3.40	0.0472
Panel B: Firm and Offering Characteristics								
Firm Age	13.71	18.23	4	8	15	18.64	13.11	0.0001
Proceeds ($)	213.03	669.92	62.10	101.60	187.98	555.44	171.49	0.0000
Size ($)	702.51	3,962.57	36.20	92.98	353.70	2,597.42	472.12	0.0000
Leverage	0.16	0.41	0.07	0.27	0.54	0.20	0.15	0.0251
ROA	-0.16	-0.18	-0.04	-0.12	0.03	-0.08	-0.18	0.0338
OperCyc	170.04	642.73	49.82	91.74	158.87	124.89	143.63	0.3938
Underpricing	19.70	41.34	0.01	7.26	25.56	16.55	20.08	0.0925
Recent IPO Sentiment	0.04	0.06	0.03	0.04	0.05	0.06	0.02	0.0710
VC	0.53	0.49	0	1	1	0.44	0.54	0.0133
Underwriter	0.41	0.49	0	1	1	0.60	0.38	0.0000
Big 4 Auditor	0.86	0.48	0	0	1	0.88	0.85	0.3325
Auditor Market Share	0.18	0.11	0.10	0.17	0.29	0.17	0.21	0.2138
Technology	0.34	0.47	0	0	1	0.27	0.35	0.0166
Internet	0.09	0.29	0	0	0	0.10	0.09	0.6770
Nasdaq	0.71	0.45	0	1	1	0.50	0.74	0.0000
Foreign Sales	0.38	0.47	0	0	1	0.43	0.35	0.1610
Complex Firms	0.63	0.50	0	0	1	0.74	0.62	0.0062
December	0.83	0.89	1	1	1	0.86	0.82	0.5455
Governance Quality	0.29	0.52	0.15	0.25	0.34	0.23	0.38	0.0859
Distance	5.40	1.45	5.30	6.50	7.80	3.50	7.35	0.0005
Voter Turnout	0.45	0.20	0.37	0.48	0.59	0.50	0.40	0.0840

Panel C: Descriptive Statistics of Political Contributions and Connections

	N	Mean	SD
Political Money	194	$308,344	$659,023
Lobby Money	170	$334,574	$670,972
PAC Money	54	$49,499	$76,725
Firms with Politically Connected Directors	233	0.13	0.33
No. of Politically Connected Directors		1.53	0.96

Table 3: The Relationship between CPA on IPO Accounting Fees

This table displays the relationship between Corporate Political Activities (CPA) and IPO Accounting Fees using ordinary least square (OLS) regressions. The sample consists of 1,793 initial public offerings from 2000 to 2018 in the US stock market. The dependent variable, IPO Accounting Fees, is the natural logarithm of IPO accounting fees obtained from the last amended S-1 registration fillings. CPA is a dummy variable equal to one for IPOs with lobbying or PAC contributions or politically connected directors, and zero otherwise. Panel A presents the effect of the indicator variables which represent political activism, while Panel B displays the effect of the magnitude of each type of political activism on IPO accounting fees. T-statistics are included in parentheses and are adjusted for heteroscedasticity robust standard errors clustered by industry and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix A.

	(1)	(2)	(3)	(4)	(5)	(6)
Lobby Dummy	0.29***	0.26***			0.25***	
	(4.10)	(3.30)			(3.25)	
PAC Dummy		0.24*			0.22*	
		(1.80)			(1.85)	
PMC (Lobby or PAC)			0.28***			
			(3.60)			
Politically Connected Directors				0.13*	0.04	
				(1.90)	(1.15)	
CPA						0.25***
						(3.40)
Size	0.13***	0.12***	0.11***	0.12***	0.09***	0.11***
	(4.01)	(3.45)	(3.60)	(3.65)	(3.45)	(3.60)
Firm Age	0.03**	0.01**	0.02***	0.02***	0.03***	0.02***
	(2.40)	(2.45)	(2.30)	(4.15)	(3.05)	(2.80)
ROA	-0.10*	-0.12*	-0.10*	-0.13*	-0.12*	-0.13*
	(-1.70)	(-1.85)	(-1.80)	(-1.75)	(-1.72)	(-1.78)
LnOperCyc	0.02	0.02	0.03	0.02	0.02	0.02
	(0.19)	(0.15)	(0.20)	(0.14)	(0.11)	(0.09)
Leverage	-0.03	-0.03	-0.04	-0.02	-0.04	-0.03
	(-0.30)	(-0.28)	(-0.26)	(-0.20)	(-0.22)	(-0.18)
Complex Firms	0.43***	0.41***	0.40***	0.43***	0.39***	0.40***
	(6.80)	(8.40)	(7.30)	(6.50)	(6.40)	(6.80)
Foreign Sales	0.21***	0.30***	0.20***	0.22***	0.21***	0.20***
	(2.90)	(4.10)	(3.70)	(3.50)	(3.85)	(3.80)
Governance Quality	-0.07***	-0.07***	-0.08***	-0.07***	-0.08**	-0.05**
	(-3.05)	(-3.10)	(2.80)	(-3.10)	(-2.40)	(-2.30)
Internet	0.13	0.14	0.15	0.13	0.07	0.13
	(0.90)	(1.10)	(1.15)	(1.11)	(1.08)	(1.05)
Technology	0.05	0.06	0.04*	0.04	0.03	0.06
	(0.85)	(1.05)	(1.80)	(1.10)	(1.05)	(0.95)
Nasdaq	-0.09	-0.11	-0.10	-0.12	-0.09	-0.10
	(-1.20)	(-1.10)	(-1.21)	(-1.20)	(-1.10)	(-1.20)
Proceeds	0.11**	0.11**	0.08**	0.08***	0.06**	0.07**
	(2.15)	(2.30)	(2.25)	(3.05)	(2.10)	(2.50)
Underpricing	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***
	(-3.40)	(-3.15)	(-3.30)	(-3.40)	(-3.50)	(-3.65)
Recent IPO Sentiment	0.05*	0.04*	0.06*	0.05*	0.03*	0.05*
	(1.70)	(1.75)	(1.75)	(1.80)	(1.71)	(1.80)
Underwriter	0.06	0.07	0.13	0.08	0.07	0.08
	(1.15)	(0.90)	(1.25)	(1.10)	(1.10)	(1.05)
VC	-0.23***	-0.23***	-0.20**	-0.20**	-0.19***	-0.21**
	(-2.70)	(-2.65)	(-2.55)	(-2.60)	(-2.70)	(-2.40)
Big 4 Auditor	0.40***	0.38***	0.45***	0.43***	0.41***	0.40***
	(4.10)	(3.85)	(4.10)	(3.90)	(4.20)	(4.05)
Auditor Market Share	-0.05*	-0.04*	-0.06	-0.05*	-0.03*	-0.04*
	(-1.80)	(-1.70)	(-1.55)	(-1.70)	(-1.85)	(-1.75)
Overhang	0.01***	0.01***	0.01***	0.01***	0.01***	0.01***
	(4.40)	(3.50)	(4.45)	(4.15)	(3.30)	(4.50)
Accounting Quality Problems	0.06***	0.07***	0.06***	0.07***	0.05***	0.06***
	(3.10)	(2.85)	(2.90)	(2.95)	(2.80)	(2.90)
December	0.12*	0.10*	0.11*	0.08*	0.10*	0.12*
	(1.80)	(1.80)	(1.85)	(1.73)	(1.75)	(1.74)
Year & Industry FE	Y	Y	Y	Y	Y	Y
Adjusted R^2	0.5230	0.5260	0.5150	0.5110	0.5345	0.5240
Number of Observations	1,793	1,793	1,793	1,793	1,793	1,793

Panel B: Strength of Political Connections

	(1)	(2)	(3)	(4)	(5)	(6)
Lobby Money	0.04***				0.02***	
	(5.10)				(2.85)	
PAC Money		0.02**			0.02*	
		(2.051)			(1.804)	
Political Money			0.05***			0.02***
			(3.850)			(3.10)
No. of Politically Connected Directors				0.21*	0.06	0.03
				(1.95)	(1.50)	(0.20)
Control Variables	Y	Y	Y	Y	Y	Y
Year & Industry FE	Y	Y	Y	Y	Y	Y
Adjusted R^2	0.5040	0.4960	0.4975	0.48758	0.5160	0.5055
Number of Observations	1,793	1,793	1,793	1,793	1,793	1,793

Table 4: Two-Stage Least Squares (TSLS)

This table reports the results from the TSLS estimation. In the first-stage (probit) models, the dependent variable is the Corporate Political Activities (CPA) dummy. In the first stage models, we sequentially increase the number of CPA-instruments in order to demonstrate their incremental impact in predicting the probability that an IPO is politically active. In the second-stage models, the outcome variable is the IPO accounting fees and CPA is replaced with its instrumented value from the first-stage models. **, *, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix A.

	(1)	(2)	(3)	(4)	(5)	(6)
	First Stage	**Second Stage**	**First Stage**	**Second Stage**	**First Stage**	**Second Stage**
Instrument for CPA						
Distance	-0.03***				-0.02***	
	(-3.85)				(-3.25)	
Voter Turnout			0.34***		0.32***	
			(3.50)		(3.25)	
Predicted CPA		0.41***		0.51***		0.53***
		(3.10)		(3.05)		(3.00)
Remaining Control Variables						
Size	0.07**	0.14***	0.07**	0.15***	0.06**	0.11***
	(2.40)	(4.15)	(2.45)	(4.05)	(2.20)	(3.85)
Firm Age	0.04	0.02	0.05	0.02	0.05	0.02
	(0.20)	(0.38)	(0.25)	(0.50)	(0.25)	(0.45)
ROA	-0.20	-0.07*	-0.25	-0.07*	-0.15	-0.07*
	(-0.70)	(-1.80)	(-0.75)	(-1.70)	(-0.60)	(-1.80)
LnOperCyc	0.03	0.03	0.03	0.03	0.02	0.03
	(0.15)	(0.40)	(0.20)	(0.30)	(0.15)	(0.40)
Leverage	0.05	1.05	0.04	1.05	0.05	1.10
	(0.90)	(0.30)	(0.85)	(0.60)	(0.90)	(0.45)
Complex Firms	0.09**	0.45***	0.10**	0.50***	0.06**	0.40***
	(2.40)	(5.05)	(2.30)	(4.70)	(2.30)	(4.60)
Foreign Sales	-0.03	0.20**	-0.03	0.18**	-0.03	0.20**
	(-0.11)	(2.55)	(-0.10)	(2.50)	(-0.10)	(2.40)
Governance Quality	-0.03*	-0.09**	-0.03*	-0.09**	-0.03	-0.07**
	(-1.70)	(-2.50)	(-1.75)	(-2.30)	(-1.60)	(-2.40)
Internet	-0.25	0.10	-0.20	0.11	-0.15	0.08
	(-1.05)	(1.01)	(-0.90)	(0.95)	(-0.60)	(1.10)
Technology	-0.07	0.13*	-0.07	0.15*	-0.05	0.10
	(-0.80)	(1.80)	(-0.50)	(1.80)	(-0.60)	(1.55)
Nasdaq	-0.11**	-0.15	-0.10**	-0.10	-0.10*	-0.08
	(-2.10)	(-1.15)	(-2.05)	(-1.30)	(-1.90)	(-1.35)
Proceeds	0.07***	0.07	0.06***	0.08	0.05***	0.05
	(3.20)	(0.80)	(3.05)	(0.95)	(3.05)	(1.15)
Underpricing	-0.02*	-0.03**	-0.02*	-0.03**	-0.02*	-0.02**
	(-1.95)	(-2.10)	(-1.90)	(-2.15)	(-1.95)	(-2.01)
Recent IPO Sentiment	0.06*	0.05*	0.07*	0.05*	0.05*	0.07*
	(1.80)	(1.95)	(1.80)	(1.95)	(1.70)	(1.85)
Underwriter	0.15*	0.06	0.10*	0.05	0.08*	0.05
	(1.75)	(0.70)	(1.70)	(0.60)	(1.70)	(1.05)
VC	0.04*	-0.20	0.05*	-0.15	0.04*	-0.30
	(1.85)	(-1.05)	(1.90)	(-1.05)	(1.80)	(-1.30)
Big 4 Auditor	-0.07	0.45***	-0.06	0.40***	-0.04	0.40***
	(-0.95)	(4.30)	(-0.85)	(4.50)	(-0.60)	(4.45)
Auditor Market Share	-0.04*	-0.07*	-0.05*	-0.07*	-0.07*	-0.09*
	(-1.71)	(-1.80)	(-1.70)	(-1.75)	(-1.70)	(-1.70)
Overhang	0.02	0.01**	0.02	0.01**	0.01	0.01**
	(1.11)	(2.30)	(1.18)	(2.20)	(1.05)	(2.35)
Accounting Quality Problems	0.06*	0.04***	0.07*	0.05***	0.05*	0.07***
	(1.85)	(2.75)	(1.85)	(2.75)	(1.80)	(2.65)
December	0.60**	0.13*	0.55**	0.13*	0.55**	0.12*
	(2.10)	(1.75)	(2.20)	(1.80)	(2.20)	(1.75)
Year & Industry FE	Y	Y	Y	Y	Y	Y
Tests of endogeneity, relevance, and validity of instruments						
First-Stage partial F-Statistic	140.50***		255.30***		160.30***	
Hansen's J Test	0.250		0.320		0.210	
Hausman Test for exogeneity	0.0560**		0.0640**		0.0320**	
Adjusted R^2	0.1440	0.5115	0.1470	0.5100	0.1510	0.5240
N	1,793	1,793	1,793	1,793	1,793	1,793

Table 5: Entropy Balancing

This table presents our entropy balancing estimation that ensures better covariate balance between treatment (CPA) and control (non-CPA) groups by weighing observations such that the post-weighing mean and variance for treated and control samples are equal along the matching estimation. Panels A presents the summary statistics for the treatment and control samples after employing the entropy balancing approach. Panel B presents the results of the effect of CPA on IPO Accounting Fees after employing entropy balancing (Hainmueller, 2012). T-statistics are included in parentheses, are adjusted for heteroscedasticity robust standard errors and clustered by year and industry. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Significance levels are interpreted only for the means in Panels A and B. All variables are defined in Appendix A.

Panel A: Differences in Observables (covariates) after Entropy Balancing

	Mean Treated	Mean Control	Diff.	Variance Treated	Variance Control	Diff.	Skewness Treated	Skewness Control	Diff.
Covariates									
Firm Age	19.32	19.32	0.00	615.7	705.9	-90.20	2.001	2.572	-0.571
Size ($)	367.1	367.1	0.00	46,261	43,449	2,812.00	0.057	0.095	-0.038
Proceeds ($)	579.6	579.2	0.40	3,893,847	1,107,994	2,785,853.00	7.569	2.722	4.847
OperCyc	127.8	127.8	0.00	19772	29634	-9862	2.587	7.728	-5.141
ROA	-0.06	-0.06	0.00	-0.10	-0.05	-0.05	-0.09	0.02	-0.110
Complex Firms	0.63	0.63	0.00	0.23	0.23	0.00	-0.56	-0.56	0.00
Foreign Sales	0.39	0.39	0.00	0.24	0.24	0.00	0.45	0.45	0.00
Leverage	0.42	0.42	0.00	0.18	0.19	-0.01	1.99	2.29	-0.30
Governance Quality	0.32	0.32	0.00	0.38	0.27	0.11	0.39	0.24	0.15
Recent IPO Sentiment	0.05	0.05	0.00	0.14	0.12	0.02	0.40	0.31	0.09
Underwriter	0.63	0.63	0.00	0.23	0.23	0.00	-0.53	-0.53	0.00
VC	0.42	0.42	0.00	0.24	0.24	0.00	0.33	0.33	0.00
Big 4 Auditor	0.50	0.50	0.00	0.25	0.25	0.00	0.10	0.12	-0.02
Auditor Market Share ($)	0.20	0.20	0.00	0.01	0.01	0.00	-0.02	-0.01	-0.01
Nasdaq	0.47	0.47	0.00	0.25	0.25	0.00	0.11	0.11	0.00
Underpricing	16.25	16.27	0.02	800.6	1,066	-265.40	1.336	4.188	-2.852
Overhang	3.86	3.86	0.00	7.02	19.70	-12.68	1.46	12.36	-10.90
DACC	-0.09	-0.09	0.00	0.23	0.23	0.00	-3.45	-3.65	-0.20
REM	0.44	0.44	0.00	2.44	2.42	0.02	2.55	2.56	-0.01
GCO	0.01	0.01	0.00	0.01	0.01	0.00	0.01	0.01	0.00
Accounting Quality Problems	0.14	0.14	0.00	0.53	0.65	-0.12	-0.07	0.25	-0.32
December	0.88	0.88	0.00	0.89	0.85	0.04	0.87	0.81	0.06
Technology	0.25	0.25	0.00	0.19	0.19	0.00	1.14	1.14	0.00
Internet	0.09	0.09	0.00	0.09	0.09	0.00	2.75	2.75	0.00

Panel B: The Relationship between CPA and IPO Accounting Fees after Entropy Balancing

	Dependent Variable: **IPO Accounting Fees**
CPA	0.40***
	(3.95)
Control Variables	Y
Year & Industry FE	Y
Adjusted R	0.4010
Number of Observations	1,793

Table 6: The Relationship between CPA and Financial Reporting and IPO Disclosure Quality

This table displays the effects of Corporate Political Activities (CPA) on various measures of financial reporting and IPO disclosure quality using ordinary least square (OLS) regressions. CPA is a dummy variable equal to one for IPOs with lobbying or PAC contributions or politically connected directors, and zero otherwise. The sample consists of initial public offerings from 2000 to 2018 in the US stock market. All the dependent variables are measured in the IPO-year. The sample for the SEC Comment Letters is from May 2005 to December 2018 because the SEC began disclosing all comment letters on May 12, 2005. Three estimation procedures are used: Ordinary Least-Squares (OLS), Two-Stage Least Squares (TSLS), and Entropy Balancing (EB). T-statistics are included in parentheses and are adjusted for heteroscedasticity robust standard errors clustered by industry and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix A.

	(1)			**(2)**			**(3)**			**(4)**			**(5)**			**(6)**		
	DACC			**REM**			**GCO**			**Accounting Quality Problems**			**Restatement**			**No. of CLs**		
	OLS	TSLS	EB	OLS	TSLS	EB	OLS	TSLS	EB	OLS	TSLS	EB	OLS	TSLS	EB	OLS	TSLS	EB
CPA	0.04**	0.13*	0.07**	0.05*	0.11	0.08*	0.04***	0.08***	0.06**	0.02**	0.09**	0.08*	0.08**	0.07***	0.04*	0.33***	0.40***	0.12**
	(2.06)	(1.95)	(2.00)	(1.70)	(1.61)	(1.75)	(2.84)	(2.75)	(2.55)	(2.22)	(2.45)	(1.85)	(2.17)	(2.75)	(1.77)	(5.65)	(4.30)	(2.75)
Contr. Var.	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year & Industry FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Adj. R^2	0.2455	0.2470	0.3140	0.2040	0.2170	0.2710	0.3560	0.2540	0.4040	0.2042	0.1151	0.3919	0.1480	0.1471	0.3979	0.1095	0.1140	0.1747
Number of Obs.	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793	937	937	937

Table 7: The Relationship between CPA and Litigation Risk and Media Attention

This table displays the effects of Corporate Political Activities (CPA) on litigation risk and media attention using ordinary least square (OLS) regressions. CPA is a dummy variable equal to one for IPOs with lobbying or PAC contributions or politically connected directors, and zero otherwise. The sample consists of 1,793 initial public offerings from 2000 to 2018 in the US stock market. Panel A presents the relationship between CPA and litigation risk, while Panel B reports the results from the effect of CPA on media attention. Three estimation procedures are used: Ordinary Least-Squares (OLS), Two-Stage Least Squares (TSLS), and Entropy Balancing (EB). All the dependent variables are measured in the IPO-year. T-statistics are included in parentheses and are adjusted for heteroscedasticity robust standard errors clustered by industry and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix A.

Panel A: The Relationship between CPA and S-1 Sentiment

	(1)			**(2)**			**(3)**		
	Litigious Count			**Uncertainty Count**			**Negative Count**		
	OLS	TSLS	EB	OLS	TSLS	EB	OLS	TSLS	EB
CPA	0.002**	0.003*	0.001*	0.001*	0.002*	0.001***	0.002*	0.003*	0.001*
	(2.08)	(1.77)	(1.75)	(1.85)	(1.82)	(1.86)	(1.78)	(1.72)	(1.70)
Control Variables	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year & Industry FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Adjusted R^2	0.1520	0.1340	0.2804	0.1730	0.1610	0.3213	0.1210	0.1150	0.3250
Number of Observations	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793

Panel B: The Relationship between CPA and Media Attention

	(1)			**(2)**			**(3)**		
	Media Attention			**Negative Media Attention**			**Positive Media Attention**		
	OLS	TSLS	EB	OLS	TSLS	EB	OLS	TSLS	EB
CPA	0.02*	0.07*	0.03*	0.03**	0.06**	0.02**	0.02	0.10	0.03
	(1.85)	(1.80)	(1.75)	(2.55)	(2.40)	(2.10)	(1.05)	(1.10)	(1.45)
Control Variables	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year & Industry FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Adjusted R^2	0.1635	0.1650	0.2060	0.1640	0.1720	0.1830	0.1760	0.1810	0.2340
Number of Observations	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793	1,793

Table 8: The Role of CPA after Citizens United

This table displays the effects of Corporate Political Activities (CPA) on several outcomes using ordinary least square (OLS) regressions after Citizens United. The sample consists of 385 initial public offerings from January 1, 2007 to December 31, 2012 in the US stock market. The dependent variables are IPO Accounting Fees, Accounting Problems, Restatement, No of CLs, Litigious Count, Uncertainty Count, and Negative Count, respectively. Post CU Dummy is a dummy variable equal to one for IPOs for the sample period 2010-2012, and zero for the sample period 2007-2009. Ban State is a dummy variable equal to one if an IPO company is headquartered in a state with bans on independent expenditures on state elections (Spencer and Wood, 2014). T-statistics are included in parentheses and are adjusted for heteroscedasticity robust standard errors clustered by state. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix A.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	IPO Accounting Fees	**Accounting Quality Problems**	**Restatement**	**No. of CLs**	**Litigious Count**	**Uncertainty Count**	**Negative Count**
CPA	0.38**	0.28*	0.13**	0.19*	0.008**	0.003*	0.002
	(2.30)	(1.87)	(2.53)	(1.72)	(2.33)	(1.74)	(1.42)
Post CU Dummy	0.50	0.48	0.24***	-0.75	0.004	-0.004	-0.004
	(1.11)	(1.18)	(3.52)	(-1.10)	(1.20)	(-1.20)	(-0.80)
Ban State	0.02	-0.20**	0.02	-0.15	-0.002	-0.001	-0.001
	(0.20)	(-2.51)	(0.04)	(-0.46)	(-0.47)	(-0.42)	(-0.38)
Post CU Dummy × CPA	0.31	0.08	-0.02	0.11	0.011*	0.004**	0.001**
	(0.70)	(0.34)	(-0.27)	(1.30)	(1.85)	(2.57)	(2.09)
Post CU Dummy × Ban State	-0.18	0.49	0.03	0.12	0.001	0.001	0.006
	(-0.50)	(1.51)	(0.16)	(0.36)	(0.59)	(0.80)	(1.10)
Ban State × CPA	0.80	0.42*	0.61	1.11***	0.016	0.005***	0.002
	(1.30)	(1.84)	(1.57)	(2.72)	(0.80)	(3.63)	(1.50)
CPA × Ban State × Post CU	0.15**	0.54*	0.38	2.22**	0.016*	0.006	0.005
Dummy	(2.01)	(1.95)	(1.29)	(2.15)	(1.68)	(1.57)	(1.40)
Control Variables	Y	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y	Y
State Cluster	Y	Y	Y	Y	Y	Y	Y
Adjusted R^2	0.1155	0.2195	0.3077	0.2429	0.2232	0.2545	0.2282
Number of Observations	385	385	385	385	385	385	385

Table 9: Cross-Sectional Analyses

This table reports results from OLS regressions in which IPO Accounting Fees is our dependent variable and CPA is the independent variable of interest. The sample consists of 1,793 initial public offerings from 2000 to 2018 in the US stock market. CPA is a dummy variable equal to one for IPOs with lobbying or PAC contributions or politically connected directors, and zero otherwise. T-statistics are included in parentheses and are adjusted for heteroscedasticity robust standard errors clustered by year and industry. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix A.

	(1)	(2)	(3)	(4)
	Complex Firms	**Litigious Industry**	**Negative Media Attention**	**Governance Quality**
CPA	0.31***	0.09*	0.18***	0.20***
	(3.95)	(1.95)	(3.05)	(3.52)
Complex Firms	0.45***			
	(4.50)			
CPA × Complex Firms	0.25**			
	(2.55)			
Litigious Industry		0.01*		
		(1.85)		
CPA × Litigious Industry		0.15***		
		(3.05)		
Negative Media Attention			0.04*	
			(1.85)	
CPA × Negative Media Attention			0.12***	
			(3.10)	
Governance Quality				-0.07***
				(-3.60)
CPA × Governance Quality				-0.04**
				(-2.25)
Control Variables	Y	Y	Y	Y
Year & Industry FE	Y	Y	Y	Y
Adjusted R^2	0.5130	0.5140	0.5080	0.5110
Number of Observations	1,793	1,793	1,793	1,793

Table 10: The Role of Politically Connected IPO Financial Intermediaries

This table reports results from OLS regressions in which IPO Accounting Fees is the dependent variable. The dependent variable, IPO Accounting Fees, is the natural logarithm of IPO accounting fees obtained from the last amended S-1 registration filings. CPA is a dummy variable equal to one for IPOs with lobbying or PAC contributions or politically connected directors, and zero otherwise. Connected Financial Intermediary (i.e., Connected Auditor, Connected VC, and Connected Underwriter) is a dummy variable equal to one for the intermediary with positive lobbying expenditures or PAC contributions, and zero otherwise. Panels A and B present the summary statistics of the IPO financial intermediaries' political contributions. Panel C presents the relationship of intermediaries' political connections with several accounting outcomes, whereas Panel D presents the effect of the politically connected issuers and intermediaries on IPO accounting fees. Year and industry fixed effects are included but coefficient estimates are not reported. T-statistics are included in parentheses and are adjusted for heteroscedasticity robust standard errors clustered by state. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix A.

Panel A: Incidence of Politically Connected Intermediaries

	Mean	**SD**	**Min**	**P25**	**P75**	**Max**
Connected Underwriter	0.63	0.46	0	1	1	1
Connected VC	0.17	0.39	0	0	0	1
Connected Auditor	0.75	0.48	0	1	1	1

Panel B: Average Amounts of Political Contributions

	Connected VC	Connected Underwriter	Connected Auditor
Lobby Money	$1,454,000	$2,930,000	$1,684,000
PAC Money	$45,000	$104,000	$49,000

Panel C: IPO Political Environment and Accounting Outcomes,

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	DACC	**REM**	**GCO**	**Accounting Quality Problems**	**Restatement**	**No. of CLs**
CPA	0.07**	0.06	0.02**	0.01**	0.03**	0.21***
	(2.40)	(1.30)	(2.55)	(2.05)	(2.15)	(3.45)
Connected VC	-0.22***	-0.15	-0.04*	-0.02*	-0.06**	0.08**
	(-3.65)	(-0.70)	(-1.70)	(-1.80)	(-2.05)	(-2.50)
Connected Underwriter	0.07	-0.38*	-0.05	0.04	-0.08	-0.07**
	(1.01)	(-1.80)	(-1.50)	(0.40)	(-0.86)	(-2.21)
Connected Auditor	-0.12*	-0.15*	-0.07*	-0.05*	-0.05*	-0.15*
	(-1.75)	(-1.70)	(-1.75)	(-1.70)	(-1.80)	(-1.75)
Control Variables	Y	Y	Y	Y	Y	Y
Year & Industry FE	Y	Y	Y	Y	Y	Y
Adjusted R^2	0.1240	0.1645	0.37650	0.2550	0.1435	0.1440
Number of Observations	1,793	1,793	1,793	1,793	1,793	937

Panel D: The Mitigating Role of Politically Connected Intermediaries

	(1)	(2	(3)	(4)
CPA	0.24*	0.21*	0.19**	0.20**
	(1.95)	(1.90)	(2.15)	(2.25)
Connected Auditor	0.13***			0.08**
	(2.70)			(2.40)
Connected VC		-0.11*		-0.09
		(-1.75)		(-1.50)
Connected Underwriter			-0.05*	-0.02*
			(-1.70)	(-1.70)
CPA × Connected Auditor	0.04***			0.02**
	(2.85)			(2.55)
CPA × Connected VC		-0.07**		-0.06*
		(-2.45)		(-1.94)
CPA × Connected Underwriter			-0.03**	-0.03**
			(-2.60)	(-2.01)
Control Variables	Y	Y	Y	Y
Year & Industry FE	Y	Y	Y	Y
Adjusted R^2	0.5310	0.5210	0.5130	0.5350
Number of Observations	1,793	1,793	1,793	1,793