Political Activism and Information Transfers*

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Abstract

Prior research suggests politically active firms have an information advantage over firms that do not engage in the political process. We examine whether there are externalities to the processing of political information by politically active firms. Specifically, we study this question in the setting of intra-industry information transfers around earnings announcements. Using campaign financing activity and the presence of a government affairs office to proxy for firm's political activism, we find evidence of stronger intra-industry information transfers from politically active firms to their industry peers. We further find that the magnitude of information transfer from politically active announcing firms to peer firms is stronger when there is more explicit discussion of political topics during earnings conference calls. Our paper highlights an important information externality related to politically active firms' processing of political information and improves our understanding of the impacts politically active firms have on their industries' information environment.

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

JEL Classification: M41, M48

1. Introduction

Political outcomes have material implications for firm value, thus making the assessment of such outcomes important for investment decisions (Pástor and Veronesi 2012, 2013). Yet it is challenging to assess the likelihood that government policies will change and the impact those changes will have on firms (Pástor and Veronesi 2013; Blankespoor, deHaan, and Marinovic 2020). In this regard, politically active firms appear to have an information advantage over industry peers (Wellman 2017; Ovtchinnikov, Reza, and Wu 2020), and more readily anticipate and react to policy developments. This information advantage has raised concerns about an uneven playing field (Ferracuti, Michaely, and Wellman 2020).

However, politically active firms also tend to include more policy-related discussion in their disclosures to help alleviate investor uncertainty (Christensen, Morris, Walther, and Wellman 2020). To the extent policy-related discussion has an industry-relevant component, a potentially unintended consequence of politically active firms' disclosures is that they may be more broadly useful to other firms and their investors (Foster 1981). If so, information revealed through politically active firms' disclosures will reduce their information advantage. To better understand this issue, in this paper we examine whether the processing of political information by politically active firms is informative to peer firms and their investors.

We expect that limited access and ability to integrate political information will lead many peer firms and investors to rely on politically active firms to acquire and process political information. Building on Blankespoor et al. (2020), we posit that firms and investors face non-trivial costs associated with acquiring and integrating information about government actions (e.g., legislative developments, FDA and patent approvals) into their decision-making. Specifically, they may be limited in their ability to access information about policy developments

before government policies are finalized and decisions made public (Gao and Huang 2016). Moreover, even if information about government actions is available, they may have a relative disadvantage in processing the impact of this information compared to firms that are actively involved in the political process. In contrast, politically active firms have more resources available to gather and synthesize information that stems from the policymaking process (Bremmer 2005).

However, it is unclear whether the processing of political information by politically active firms is informative to peer firms and their investors. The answer to this question depends on the nature of the political information disclosed. If politically active firms mainly process and disseminate information about government actions that relate to the politically active firm, it may not be informative to peer firms and their investors. Prior research corroborates this view by documenting that the discussion of government policy risks in conference calls relates primarily to firm-specific risks, rather than industry or market-wide risks (Hassan, Hollander, van Lent, and Tahoun 2019). On the other hand, many policy changes have relevance to the industry and market as a whole, such as changes in industry regulation or other legislative actions (Cohen, Coval and Malloy 2011). To the extent that politically active firms process information about whether policies will change and how such policies will impact current and future profitability, there is potential for it to be informative to peer firms and their investors. Ultimately, whether the processing of political information by politically active firms is informative to peer firms and their investors is an empirical question.

To investigate potential information transfers from politically active firms, we examine information spillovers around corporate disclosures. Following Foster (1981), we consider there to be an information transfer when the announcing firm's disclosures contain information that

investors use to update their expectations about peer firms. We expect that short-window intra-industry information transfers to investors in peer firms also indicate longer-term information transfers to managers in peer firms. Moreover, examining information spillovers around corporate disclosures allows us to perform short-window tests, which help mitigate alternative explanations. We evaluate the degree to which information is transferred from an announcing firm to its peers by measuring the peers' stock return response to the information released by the announcing firm. If politically active firms process and disseminate political information that is valuable to investors in peer firms, we expect to see stronger information transfers when announcing firms are politically active.

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

To perform our empirical analyses, we use a sample of 2,577,231 announcer-peer observations over the period of 1996 to 2018. In our main analyses we define peer firms as those in the same industry (i.e., the same four-digit SIC code) and the same fiscal year-end as the announcing firm. To avoid scenarios where peer equity returns might reflect information leakage

[1] One form of disclosure often released concurrently with earnings announcements is management guidance, and Christensen et al. (2020) document an increased likelihood of management guidance for politically active firms. For firms that bundle guidance with earnings announcements, it is possible that such guidance represents another channel for the dissemination of political information. At the same time, in untabulated robustness tests, we confirm that our results persist amongst announcing firms that do not bundle guidance with their earnings announcements, indicating that such bundling is not the only channel for political information flow.

related to the peer firm's own earnings announcement, we only consider peers whose earnings announcements occur at least five trading days after the announcing firm. Using this sample, we find robust evidence that information transfer from the announcing firm to its peers is stronger when the announcing firm is more politically active. Specifically, our results indicate that intra-industry information transfer is 2.5 percentage points larger when announcer firms engage in political activity, relative to the baseline rate of intra-industry information transfer of 4.0 percentage points for politically inactive firms. This supports the view that the processing of policy-related news by politically active firms is valuable to investors in peer firms.

Our primary tests jointly capture the processing of political information via narrative disclosures and quantitative estimates that impact earnings. We expect there to be greater information transfers associated with the processing of political information through narrative disclosure, since such discussion offers the greatest resolution of the integration costs that peer firms and investors face in interpreting such political information themselves.[2] Prior research on information transfers also supports this prediction; Brochet, Kolev, and Lerman (2018) find that the bulk of information transfer during earnings announcement periods occurs during conference calls. Consequently, we measure the degree of political discussion in earnings conference calls and find that the magnitude of information transfer from politically active announcing firms to investors in peer firms is stronger when there is more narrative discussion of political topics during earnings conference calls.

Collectively, our evidence is consistent with valuable information transfers from politically active firms to their peers around earnings announcements. However, there are several potential alternative explanations for these findings. First, it is possible our results simply capture

[2] See Appendix C for examples of narrative processing and dissemination of political information.

investors overreacting to the announcements of politically active firms. Thomas and Zhang (2008) assert that most information transfers likely reflect anomalous overreactions to early industry announcements. They find support for their hypothesis by showing that the initial reaction amongst peer investors to an announcing firm's earnings is later reversed when the peer firms themselves announce earnings. If the incrementally larger market reaction that we document for peer firms at politically active firms' earnings announcements is also due to an overreaction, then we should observe an even larger reversal when peer firms themselves announce earnings. However, when we examine peer firms' earnings announcements, we do not observe an incrementally larger reversal. This suggests that our primary results capture valuable information disseminated by politically active firms, rather than an anomalous overreaction.

Second, it is possible that our results simply capture investors anticipating the peer firms' impending *current*-quarter earnings announcements, rather than reacting to industry-relevant political news that is processed and disseminated by the politically active firm. To address this concern, we estimate an alternative specification wherein we require peer firms to have already disclosed their current-quarter earnings *prior* to the focal announcing firm. Since these peers have already released their current-quarter earnings, evidence of information transfers to these peers is more plausibly driven by industry-relevant political news than by general anticipation of the peers' own current-quarter performance. Using this alternative sample, we continue to observe a larger information transfer from politically active announcers to investors in peers who have already announced. This further suggests that our results are related to politically active firms' processing of political information that is industry relevant.

Third, if politically active firms in general have an advantage in processing and disseminating information, they may announce earnings more quickly than their peers. As earlier

earnings announcements in general contain more news than later earnings announcements (Noh, So, and Verdi 2020), it is possible we might just be capturing an early announcer effect, and not an information transfer related to the processing of political information. To ensure that early announcements do not explain our results, we split our sample into quintiles based on announcing firms' reporting lag (i.e., the time between the fiscal period end and each firm's earnings announcement) and re-estimate our main tests. We find similar economic and statistical significance across each group, suggesting that the effect of political activism on information transfers is not driven by their disclosure timing decisions.

Fourth, prior research also demonstrates that disclosures made by macroeconomic bellwether firms are more informative to the market (Bonsall, Bozanic, and Fisher 2013; Hann, Kim, and Zheng 2019). Since politically active firms tend to be larger in size (Cooper et al. 2010), it is possible that our proxy for political activism also reflects firms' macroeconomic bellwether status. To confirm that our results are not simply capturing the effect of larger firms announcing earnings, we split our sample into quintiles based on the size of the announcing firm and re-estimate our main tests. We find similar economic and statistical significance across each group, suggesting that the effect of political activism is important above and beyond a firm's bellwether status.

Fifth, we also conduct several robustness tests to confirm that our results are not driven by our specific research design choices. For example, although we use four-digit SIC codes to define peer firms in our main analyses, we also consider the Hoberg and Phillips (2010, 2016) industry classification system as an alternate method of defining peer firms. We use announcing firm and year-quarter fixed effects in our main analysis, but also consider a variety of alternative

fixed effect structures, including industry, year quarter, industry by year-quarter, and announcer-peer pairs. Our inferences are unchanged using any of these different research designs.

Overall, our analyses reveal that valuable information transfers occur around the earnings announcements of politically active firms. In documenting this, our paper makes several contributions to literature. First, our findings suggest that politically active firms' information processing improves the information environment in their industry. These findings complement those of recent studies, such as Nagar, Schoenfeld, and Wellman (2019), who document that economic policy uncertainty leads to an increase in investor uncertainty and a muted response to firms' earnings announcements. Building on these findings, Christensen et al. (2020) show that politically active firms strategically time guidance ahead of legislative developments and are more likely to include policy-related discussion in the forward-looking statements accompanying guidance. However, despite the evidence in those studies, we still have a limited understanding of the broader impact these disclosures have beyond the firm's own investors. Our findings are consistent with the notion that politically active firms' processing of political information creates positive information externalities for peer firms and their investors.

Our study also complements recent work by Hassan et al. (2019), who document the existence of policy-related discussion in earnings conference calls. While Hassan et al. (2019) focus on understanding the impact of such disclosure to the investors of the focal firm, we find that processing of political information by politically active firms is useful for investors in peer firms. In further contrast to Hassan et al. (2019), we study variation in policy-related discussion across politically active and inactive firms because we expect politically active firms possess a relative information advantage. Hassan et al. (2019) suggest that policy discussion in conference

calls largely captures political risk that is firm-specific. Our evidence suggests that policy discussions by politically active firms also convey important industry-relevant information.

Lastly, we also contribute to the literature on intra-industry information transfers. Although a robust literature documents existence of intra-industry information transfers around earnings announcements, we still have a limited understanding about the role firms play in facilitating such transfer (Schipper 1990). Most recent work focuses on understanding how variation in the type of disclosure (e.g., conference call discussion) or in external network commonalities (e.g., shared analysts or investors) impacts the degree of intra-industry transfer. Our study, in contrast, focuses on corporate political activism as a mechanism by which firms generate disclosures with greater potential for intra-industry transfer. Moreover, while prior studies often implicitly assume that information transfers arise from macroeconomic bellwether firms, our findings suggest that politically active firms serve as *political* bellwethers for industry peers. Overall, our results are consistent with the idea that some managers have selective access to political information, and that outside parties use these managers' disclosures to process industry information.

2. Hypothesis Development

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

is likely that uncertainty over whether and how policies will change motivates managers' and investors' information collection activities.

To some extent, managers and investors can learn about regulatory and legislative outcomes through various public disclosure mechanisms. For example, the U.S. Food and Drug Administration (FDA) and the U.S. Patent and Trademark Office (USPTO) disclose product approvals on their websites.[3] Similarly, the U.S. Senate and House of Representatives disclose the progression of bills through public hearing transcripts, videos, and roll call voting records on their websites.[4] While managers and their investors can learn about policy developments as government decisions are made public, constant monitoring of various regulatory and legislative actions can be costly (Blankespoor et al. 2020). Furthermore, even when policy outcomes are known, it is still difficult to accurately assess the impact that policy changes will have on firm profitability (Pástor and Veronesi 2012, 2013). Consistent with this, Nagar et al. (2019) show that policy uncertainty leads to information asymmetry among investors.

Politically active firms likely have a relative advantage in gathering and analyzing policy news. Gaining and maintaining access to policymakers often begins with campaign contributions, signaling a preference to participate in the political process (Hojnacki and Kimball 2001; Austen-Smith 1995). As policies develop, firms with access have an opportunity to inform policymakers on the expected impact of various policy alternatives (Hillman and Hitt 1999). A by-product of this open communication is that firms also have an opportunity to gather institutional details about policy developments. This information can include procedural strategies that members will follow during mark-up sessions, positions that policymakers are

[3] The websites for the FDA and USPTO are www.fda.gov and www.uspto.gov, respectively.
[4] The websites for the U.S. Senate and House of Representatives are www.senate.gov and www.house.gov, respectively.

thinking about taking, and potential amendments that policymakers might offer (Wright 1996). By combining this information with firms' own strategic planning, politically active firms have a relative advantage in assessing the overall likelihood and impact of various policy alternatives (Bremmer 2005). Consistent with the notion that politically active firms have an information advantage over inactive peers, Wellman (2017) and Ovtchinnikov et al. (2020) find evidence that suggests the ability of politically active firms to anticipate and strategically react to policy developments leads to more informed investment and innovation.

Although politically active firms have an advantage in anticipating and analyzing the likelihood and impact of policy alternatives, whether they face incentives to disclose this information is less clear. On one hand, firms may want to alleviate investor uncertainty around periods of heightened policy uncertainty (Nagar et al. 2019). On the other hand, politically active firms may be reluctant to reveal this information for several reasons. For example, politically active firms may be reluctant to issue "bad news" when policy developments are expected to lead to unfavorable outcomes (e.g., Beyer et al. 2010). In addition, even if expected outcomes are favorable, managers may still be reluctant to disclose proprietary information (e.g., Beyer et al. 2010). Nevertheless, Christensen et al. (2020) document that politically active firms are relatively more likely to include policy-related discussion in their disclosures, suggesting that, on average, the benefits of corporate disclosure of policy information outweigh the costs.

Additionally, it is unclear whether political information disclosed by active firms is useful to outsiders. Though the intended audience of most corporate disclosure is the company's own stakeholders, prior research documents robust evidence of intra-industry information transfers by studying equity price reactions of non-announcing peer firms to the disclosures of other firms in their industry (Foster 1981; Clinch and Sinclair 1987; Han, Wild, and Ramesh

1989; Han and Wild 1990; Freeman and Tse 1992). Schipper (1990) highlights the need for deeper understanding of the sources underlying such information transfers. In response to this call, subsequent studies attribute these return co-movements to behavioral over or under reactions, but offer mixed inferences. For instance, Ramnath (2002) finds that analysts tend to underreact to the industry information in early earnings announcements. In contrast, Thomas and Zhang (2008) find that investors overreact to the information contained in early announcers' news releases. Brochet et al. (2018) identify conference calls as a mechanism through which intra-industry information transfers occur. Using intra-day data, they show that the return co-movement between announcing firms and their industry peers is centered during the quarterly earnings conference calls. Despite these advances, there remains relatively little evidence regarding the kinds of information that lead to greater information transfers.

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

H1: Political information has externalities for peer firms in the same industry

Nevertheless, there are at least two reasons why this hypothesis may not hold. First, politically active firms seek to proactively influence political outcomes in a way that is most

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

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

3. Data and Sample

3.1 Measuring political activism

We focus on measuring political activism as it pertains to firms' access to politicians because we expect that firms' ability to process political information is a function of their access. Perhaps the most well-documented tool used by corporations for garnering political access is campaign financing activity, rather than lobbying expenditures, which are typically associated with attempts to *influence* legislative outcomes (e.g., Schuler, Rebheim, and Cramer 2002; Hojnacki and Kimball 2001; Wright 1996; Humphries 1991). Corporations are not allowed to use corporate funds to make federal campaign contributions directly but may legally participate in federal election activities through corporate sponsored Political Action Committees (PACs). Corporate sponsored PACs are managed by employees of the sponsoring corporation. They solicit contributions from the corporation's executives, employees, and stockholders and then strategically allocate these funds to political campaigns.[5] The Federal Election Commission (FEC) requires PACs to disclose these contributions, making this more observable than most other forms of corporate political activity. Moreover, since corporate sponsored PAC campaign contributions are likely highly correlated with other, less observable, forms of political activity, prior research maintains that observable campaign support is a reasonable proxy for firms' overall political activity (Cooper, Gulen, Ovtchinnikov 2010; Christensen, Mikhail, Walther, and Wellman 2017).

Our first measure of political activism, $PolCon\_A^{CandidateD}$ is an indicator variable equal to one if the announcing firm made contributions to any political candidates over years *t-5* to *t*.

[5] There are limits imposed on both the amount of money a PAC can solicit and the amount of money that a PAC can contribute to a federal election. For example, individuals can contribute up to $5,000 per year per corporate sponsored PAC. Contributions from the corporate sponsored PAC to candidate campaigns are limited to $5,000 per candidate per election. The limits on contributions to House and Senate candidates apply separately to each election in which a candidate participates. In House and Senate races, each primary election, general election, runoff, and special election is considered a separate election. There are no limits, however, on PAC "operating costs," which includes fundraising activities and electioneering campaigns.

While useful for assessing economic magnitudes, this indicator variable does not consider variation in the number of connections, and thus the number of information channels established. Our second measure of corporate political activity, $PolCon\_A^{Candidate\#}$, captures the magnitude of a firm's political connections, and is defined as the natural logarithm of 1 plus the number of political candidates that the announcing firm contributed money to over years *t-5* to *t* (Cooper et al. 2010).

In addition to obtaining access through campaign support, firms can also obtain access to legislators by providing them with policy research. By conducting research on the expected impact of proposed policies and sharing their findings with lawmakers, firms can participate more directly in the policymaking process. Policy research is typically executed by firm's in-house government relations offices (Bremmer 2005). These in-house government relations offices often have internal lobbyists on their staff, who also coordinate their efforts with external lobbyists. Moreover, Christensen et al. (2020) demonstrate that firms with government relations office are more likely to include policy-related discussion in their disclosures. Thus, we construct a third proxy for corporate political activity based on whether or not the firm had a government affairs office using data from Columbia Books & Information Services' (CBIS). Specifically, $PolCon\_A^{GovRel}$, is an indicator variable equal to one if the announcing firm during year *t* has a government relations office, zero otherwise.

3.2 Sample construction

To form our sample, we merge our measures of political activism with financial statement data from Compustat's quarterly files and equity returns data from the Center for Research in Security Price (CRSP) database. Following Barth and So (2014), we identify earnings announcement dates by comparing reported dates in Compustat and I/B/E/S and

assuming the earlier date is correct.[6] In our main analyses, we identify industries using four-digit SIC codes, but also explore alternative industry classifications in robustness tests.

Prior research on intra-industry information transfers recommends several sample refinements that we follow. First, we limit our sample to industries that include at least five firms (Hann et al. 2019). Second, we require the announcing firm and its peers to have the same fiscal year end and same fiscal quarter (Freeman and Tse 1992; Thomas and Zhang 2008).[7] Third, to ensure that our findings are not driven by small or illiquid stocks, we require all firms in the sample to have fiscal quarter ending stock prices above $5 (Hilary and Shen 2013). Finally, to mitigate the confounding effect of earnings announcements associated with peer firms' own earnings announcements, we restrict our sample to peer firms that disclose their own earnings at least five trading days *after* the announcer's earnings announcement (Thomas and Zhang 2008). Following this process, we obtain a final sample of 2,577,231 announcer-quarter-peer observations from 8,789 unique announcing firms over the 1997 to 2018 period.

4. Empirical Tests

4.1 Information transfers around Earnings Announcements

To examine whether the processing of political information by politically active firms generates information externalities for peer firms and their investors, we estimate Equation (1) below:

[6] The arrival of new political information could trigger the disclosure of an 8-K, which would reduce the potential for subsequent investor reaction to such information at the earnings announcement. If this is the case, we should not observe any difference in the degree of intra-industry information transfers from politically active firms' disclosures relative to other firms' disclosures at earnings announcements.

[7] In untabulated analyses we confirm that our results are similar if we further require both the announcing firm and peer firms to have a December fiscal year end.

$$CAR\_P_{j,k,t} = \beta_1 CAR\_A_{i,k,t} + \beta_2 PolCon\_A^X_{i,k,t} + \beta_3 CAR\_A_{i,k,t} \times PolCon\_A^X_{i,k,t} + \lambda_n Controls + \alpha_i + \alpha_t + \epsilon_{it} \quad (1)$$

The dependent variable in Equation (1), $CAR\_P_{j,k,t}$, is the cumulative abnormal return of peer firm *j* during days [-1,+1] centered around the announcement of quarter *t* earnings by another ("announcer") firm in industry *k*. We include the announcer firm's cumulative abnormal return to their own earnings announcement, $CAR\_A_{i,k,t}$, as a primary explanatory variable capturing the magnitude of information disclosed in the earnings announcement. The coefficient on this variable, β_1, measures the existence of an intra-industry information transfer. Prior research finds that this coefficient is significantly positive, on average, suggesting that investors in peer firms learn from earlier earnings announcements in the same industry. The explanatory variable $PolCon\_A^X_{i,k,t}$ measures the announcer firm *i*'s corporate political activity in the period preceding the quarter *t* earnings announcement. Our primary hypothesis offers a prediction about the coefficient of the interaction term $CAR\_A_{i,k,t} \times PolCon\_A^X_{i,k,t}$. If politically active firms are more likely to process information that is helpful to investors in peer firms, we expect β_3 to be significantly different from zero. A positive β_3 coefficient indicates a complementary relation between positive news for the announcing firm and its peers. This could arise because of a favorable policy development that improves business conditions for all firms in a particular industry. In contrast, a negative β_3 coefficient indicates a more competitive relation, where positive news for the announcing firm constitutes negative news for its peers.

We follow Brochet et al. (2018) in our choice of control variables in Equation (1). Specifically, we include the market value of equity and equity book-to-market ratios of the announcer and peer firms as control variables. As additional controls, we also include analyst coverage and the percentage of institutional ownership of the announcer firm. While we view

this set of controls to be fairly comprehensive and reflective of prior research on intra-industry information transfers, we recognize that there may still be unobservable firm characteristics or time trends that impact the degree of observed information transfer. To mitigate concerns that our inferences are driven by such unobservable factors, we also include announcer firm and calendar year-quarter fixed effects in Equation (1). Since our sample includes multiple observations for every announcer firm's earnings announcement, we calculate standard errors clustered by earnings announcement (Gow et al. 2010).

Table 1 presents descriptive statistics for the main variables in our regression analyses. Consistent with prior research, we find that the average signed cumulative abnormal return over the announcement window for both announcer and peer firms is close to zero. This reflects the propensity for both good and bad news to be disclosed through earnings announcements (Brochet et al. 2018). The mean value of $PolCon\_A^{CandidateD}$ is 0.178, indicating that 17.8% of announcer firms in our sample make financial contributions to political candidates. The mean value of $PolCon\_A^{Candidate\#}$, indicating that firms in our sample make financial campaign contributions to 14 political candidates, on average. If we focus only on firms that make financial campaign contributions, we observe that firms have connections to 105 candidates, on average. Cooper et al. (2010) and Christensen et al. (2020) report similar means, providing reassurance that our sample is consistent with prior research. In contrast, the mean value of $PolCon\_A^{GovRel}$ indicates that only 4.8% of announcer firms in our sample maintain government relations offices. This supports the view that participating in campaign financing is a more accessible form of political activity for most corporations.

Table 2 presents Pearson correlation coefficients for the main variables in our regression analyses. Our return measures (*CAR_A* and *CAR_P)* are largely uncorrelated with the other

explanatory variables in this univariate context. This is unsurprising as we would not expect abnormal equity returns to be associated with observable firm characteristics. The most economically significant correlations pertain to the relation between corporate political activity and firm size; we observe a Pearson correlation of 0.48 between firm size and the likelihood of the firm making campaign contributions. This is consistent with Cooper et al.'s (2010) observation that larger firms are more likely to participate in the political process.

Table 3 presents results from the estimation of Equation (1). Consistent with prior literature, we observe a positive and significant coefficient on *CAR_A*, which indicates the existence of an intra-industry information transfer. Related to our hypothesis, we observe a significantly positive coefficient on the interaction between $PolCon\_A^{X}$ and *CAR_A*. This indicates that the magnitude of intra-industry information transfer is stronger when the announcer has political connections. For ease of interpretation, we focus on the results in column (1) using $PolCon\_A^{CandidateD}$ as our measure of corporate political activity. Our results indicate that intra-industry information transfer is 2.5% when announcer firms engage in political activity. This represents a substantial increase from the 4.0% baseline transfer associated with disclosure by firms that do not engage in political activity.[8] In columns (2) and (3) we observe similar results using alternative measures of political activity. Our findings are consistent both in sign and in effect size using these alternative measures, which suggests our inferences are not sensitive to how we measure political activism. Overall, the results in Table 3 are consistent with

[8] Because we employ firm fixed effects in Equation (1), our estimation of regression statistics relies exclusively on within-firm variation in information transfers as well as political activity. Within-firm variation in $PolCon\_A^{CandidateD}$ arises when a firm either begins or ceases making financial contributions to political candidates. Within-firm variation in $PolCon\_A^{Candidate\#}$ measures the variation in intensity of a single firm's political contributions over time (i.e., the intensive margin). In untabulated analyses, we confirm that our results persist if we estimate Equation (1) using $PolCon\_A^{Candidate\#}$ on a restricted sample of only those firms that make financial campaign contributions. This provides reassurance that our inferences are not driven solely by the initial decision to be politically active, but also reflect the degree of political activity firms pursue.

the notion that political information processing by politically active firms is useful for investors in industry peers.

4.2. Information transfers and policy discussion in conference calls

Most prior research on intra-industry information transfers takes a broad perspective in documenting the existence of such transfers, rather than identifying a specific piece of information that is transferred. In our primary estimation of Equation (1), we follow this approach to be consistent with the literature. In addition, this broad perspective allows us to jointly consider the multiple channels by which politically active firms might reveal the expected impact of policy changes around earnings announcements. We expect that such channels include, but are not limited to, changes in forward-looking estimates that impact the overall calculation of earnings, narrative discussion of policy topics in the regulatory filings, or conversation about policy topics during conference calls that occur during the announcement period.

A recent investigation of information transfers by Brochet et al. (2018) using intraday data suggests that information transfers around earnings announcements are more likely to occur because of conversation during conference calls. Moreover, Hassan et al. (2019) illustrate that firms often discuss policy-related issues during their earnings conference calls.[9] We expect that such discussion provides investors with the most direct resolution of the integration costs (Blankespoor et al. 2020) that people face in interpreting such political information themselves. If the increased information transfer from politically active firms to peers is related to the processing of political information, we expect there to be greater information transfers when politically active firms offer more policy-related discussion in their earnings conference calls.

[9] In our study, we rely on the data dictionary from Baker et al. (2016), which they use to construct category-specific policy indices. Hassan et al. (2019) do not provide their data dictionary, but they document a strong correlation between their measure of PRisk and the Baker et al. (2016) index.

To test this implication, we first measure the degree of policy-related discussion in earnings conference calls. We use Seeking Alpha to identify all firm-quarters in our sample with available conference call transcripts. For each available transcript, we measure the frequency of policy-related words using the Baker, Bloom, and Davis (2016) policy dictionaries. These dictionaries span topics related to government spending, national defense, healthcare, trade, and fiscal and monetary policy. Appendix C provides examples of such discussion made by firms in our sample. Untabulated descriptive statistics reveal that politically active firms reference an average of 5.35 out of 11 categories per conference call. The five most-referenced categories are taxes, economy, healthcare, regulation, and entitlement programs.

Recognizing that there might be persistent variation across firms in the degree of policy-related discussion they provide, we construct a measure that captures the relative variation in such discussion within a firm's own conference calls over time. *HighPolWords* is an indicator variable that equals one when an announcing firm's policy-related conference call discussion is in the top quartile of that firm's own time-series of policy-related conference call discussion. We re-estimate Equation (1), allowing all coefficients to vary according to the value of *HighPolWords.* Specifically, we partition our sample based on the value of *HighPolWords* and re-estimate Equation (1) separately for these two subsamples. If there are greater information transfers when politically active firms offer more policy-related discussion in their earnings conference calls, we should observe a greater β_3 coefficient when *HighPolWords* equals one.

Table 4 presents the results of this re-estimation for each of the three political activity measures we employ. Consistent with our main results, we find robust evidence of stronger information transfers when announcing firms are politically active. The coefficient on β_3 varies from 0.007 to 0.066 across specifications and is significantly positive in each estimation. We

interpret the significantly positive β_3 estimate in subsamples with low policy word counts as supporting the view that, in addition to conference call discussion, there are multiple disclosure channels through which firms reveal their political information processing.

Our cross-sectional prediction relates to the difference in β_3 when *HighPolWords* equals one versus when *HighPolWords* equals zero. Focusing on columns (1) and (2) where $PolCon^{CandidateD}$ is our measure of political activism, we observe a β_3 estimate of 0.050 (0.022) when *HighPolWords* equals one (zero). A Chi-square test confirms that the two coefficients are significantly different from one another. This suggests that the degree of information transfer induced by politically active firms' disclosures is twice as large when they provide more policy-related discussion during conference calls. The results in columns (3) through (6) confirm that this pattern persists when using the other measures of political activism. Overall, the results in Table 4 indicate that politically active firms are able to process political information in a way that is helpful not only to their own investors but also to peer firms and their investors.

5. Additional Analyses

Our overall evidence is consistent with valuable information transfers from politically active firms to their peers around earnings announcements, particularly when politically active firms discuss policy-related topics during the conference call. However, there are several potential alternative explanations for these findings, which we address in section 5.1 through 5.4. In addition, we test the sensitivity of our research design choices to alternative industry definitions and fixed effects in sections 5.5 and 5.6.

5.1. Investor overreaction?

One potential alternative explanation for our findings is that they simply capture an overreaction to the announcements made by politically active firms. Thomas and Zhang (2008)

suggest that the return co-movements characterized as intra-industry information transfers largely reflect investor overreaction to early announcers' earnings. They find support for this view by documenting a negative correlation between peer firm returns to early announcer earnings and peer firm returns to their own earnings (i.e., they document a return reversal). They further attribute this result to the existence of two components in a firm's earnings report: one that has material implications for peer firms' value, and one that does not. To the extent that a firms' earnings consists primarily of the latter (former) component, we should (not) observe a subsequent reversal of the "information transfer."

Having documented larger intra-industry return co-movements when politically active firms announce earnings, the Thomas and Zhang (2008) framework allows us further examine whether politically active firms process information that is useful to investors in peer firms. If they do, the heightened information transfer we document should not reverse itself when the peer firm subsequently announces their own earnings. In contrast, if our results merely reflect investor overreaction, we should observe a reversal of the "information transfer" relative to political information processing by politically active firms. Following Thomas and Zhang (2008), we test this by estimating following equation:

$$CAR\_P\_EA_{j,k,t} = \beta_1 CAR\_P_{j,k,t} + \beta_2 PolCon\_A^X_{i,k,t} + \beta_3 CAR\_P_{j,k,t} \times PolCon\_A^X_{i,k,t} + \lambda_n Controls_{j,k,t} + \alpha_i + \alpha_t + \epsilon_{it} \quad (2)$$

The dependent variable in Equation (2), $CAR\_P\_EA_{j,k,t}$ is the cumulative abnormal equity return of peer firm *j* in industry *k* during days [-1,+1] relative to the peer firm's own quarter *t* earnings announcement. $CAR\_P_{j,k,t}$ measures the cumulative abnormal equity return of peer firm *j* during days [-1,+1] relative to the announcement of quarter *t* earnings by another ("announcer") firm in

industry k. The coefficient β_1 in Equation (2) measures the degree of reversal of the initial return co-movement associated with information transfer. Thomas and Zhang (2008) find that β_1 is consistently negative and interpret this as evidence that much of the extant intra-industry information transfer is reversed upon peer firms' own earnings reports.

Since our focus is on the extent to which corporate political activism facilitates intra-industry information transfers, Equation (2) includes $PolCon\_A^X_{i,k,t}$, which measures the announcer firm i's corporate political activity in the period preceding the quarter t earnings announcement, and the interaction term $CAR\_P_{i,k,t} \times PolCon\_A^X_{i,k,t}$. Our main results reveal that there is a significantly greater intra-industry information transfer when politically active firms announce earnings. If this additional reaction subsequently reverses, we should observe a significantly negative β_3 coefficient. If β_3 is not be negative, this indicates that our documented information transfer does not reverse, further supporting the view that the information transfer induced by politically active firms' announcements is more likely related to valuable information processing by politically active firms and not investor overreaction.

Following Thomas and Zhang (2008), Equation (2) also includes several peer firm characteristics as controls: cumulative abnormal returns around their own earnings announcement one quarter and one year prior (*CAR_P_EA1* and *CAR_P_EA4*), firm size (*MVE_P*), equity book-to-market ratio (*BVE_P*), prior returns over the prior six months (*RET6_P*), and the level of accruals (*ACC_P*). Because of data availability related to collecting this set of variables, our sample for estimation Equation (2) is reduced to 1,502,368 observations. Equation (2) also includes the announcer firm's returns (*CAR_A*) as a control and employ announcer firm and year-quarter fixed effects.

The results of estimating Equation (2) are shown in Table 5. The three columns in Table 5 correspond to the three different measures of political activity we employ ($PolCon^{CandidateD}$, $PolCon^{Candidate\#}$, and $PolCon^{GovRel}$). Across all three specifications, we observe a consistently negative β_1 coefficient, confirming Thomas and Zhang's (2008) finding that there is a subsequent reversal of the peer firm equity return reaction to early announcer's earnings. However, we also observe that the incremental information transfer related to the announcer's level of political activity does not reverse. Specifically, the estimated β_3 is never negative. Instead, it is positive across all specifications of Equation (2), and even significant in one of them. Overall, the results in Table 5 indicate the existence of persistent intra-industry information transfers associated with disclosures from politically active firms, supporting the view that politically active firms process political information that is valuable to investors in peer firms.

5.2. Anticipation of peers' current-quarter earnings announcements?

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

longer-horizon political information processing, we should continue to observe an information transfer when the politically active firm announces, regardless of when the peer firm announces.

To distinguish between these two explanations, we create an alternate sample wherein, for each announcement, peer firms are defined as those sharing a 4-digit SIC who announced their own earnings five days *prior* to the announcing firm. This sample comprises 2,574,556 announcer-peer-quarter observations. Using this sample, we re-estimate Equation (1). Consistent with our main findings, we observe a significantly positive coefficient on the interaction between $PolCon\_A^X$ and *CAR_A*. This indicates that there are strong intra-industry information transfers - to peers that have *already disclosed* their own earnings - when the announcer has political connections. Our findings are consistently positive across our three measures of political activism, and the magnitude of the estimated coefficients are similar to those reported in Table 3. These results indicate that our main results are not simply capturing information about peer firms' current earnings. In mitigating this concern, we reinforce the view that the heightened information transfers relate to the processing of political information by politically active firms. Overall, the results in Table 6 support our hypothesis that politically active firms process and disseminate political information that is useful for industry peers' investors.

5.3. Earnings announcement timing?

Because politically active firms have an advantage in processing political information, it is also possible that politically active firms may be more likely to announce their earnings relatively early in the earnings announcement period, and this early announcement is what generates heightened information transfer. To ensure that earnings announcement timing does not drive our results, we directly measure each announcing firm's reporting lag (i.e., the number of days between the fiscal period end date and the firm's earnings announcement date). We

partition our sample into quintiles based on reporting lag by industry-quarter, separately re-estimate Equation (1) for each quintile subsample, and compare β_3 estimates across reporting lag quintiles. If our main results are attributable to announcer reporting lag rather than to corporate political activity, we should observe stronger (weaker) results when the reporting lag is smaller (larger).

Table 7 presents the results of re-estimating Equation (1) across reporting lag quintiles.[10] Panels A to C present the results corresponding to each of our three measures of political activity. We focus on Panel A in which we employ $PolCon\_A^{CandidateD}$ as our corporate political activity measure, but note that our inferences are unchanged when using alternative measures. We observe a positive $\beta_1$coefficient in all five announcer-reporting lag quintiles. Consistent with the intuition that there is greater information transfers for announcements made earlier in the reporting period, the estimated $\beta_1$coefficient is largest in quintiles 1 and 2. Focusing on the additional information transfer associated with corporate political activity, we observe the opposite trend in the estimated β_3 coefficients across reporting lag quintiles. In particular, we observe the largest β_3 estimate in the largest announcer-reporting lag quintile (i.e., late announcers), challenging the view that our results reflect political activity proxying for earnings announcement timing. The results in Table 7 generally suggest that there are larger information transfers related to the disclosures of politically active firms regardless of the reporting lag of the announcing firm. This provides reassurance that our primary results are not simply capturing an early announcer effect.

5.4. Bellwether Firms?

[10] The mean (median) reporting lag for announcing firms in our sample is 30 (28) days. Since the reporting lag variable takes discrete values, there is not a continuous density of observations around each industry-quarter quintile breakpoint. As a result, the quintile subsamples constructed using these breakpoints are not perfectly equal in size.

Because politically active firms tend to be larger on average, it is also possible that our proxies for political activism capture the extent to which the announcing firm is a macroeconomic bellwether firm. Prior literature documents different strategies for identifying bellwether firms, such as using firm size (Anilowski, Feng, and Skinner 2007; Bonsall et al. 2013; Hann et al. 2019). In all of our analyses, we control for the size of both the peer and the announcing firms to accommodate the potential impact of firm size and bellwether status on information transfers. Nevertheless, in this section, we further explore whether our results are an artifact of an announcing firm's bellwether status by partitioning our sample into quintiles based on the announcer's market value by industry-quarter. We separately re-estimate Equation (1) for each quintile subsample and compare β_3 across announcer-size quintiles. If our main results are attributable to announcer firm size rather than to corporate political activity, we should observe stronger (weaker) results when the announcing firm is larger (smaller).

Table 8 presents the results of re-estimating Equation (1) across size quintiles. Panels A to C present the results corresponding to each of our three measures of political activity. We focus on Panel A in which we employ $PolCon\_A^{CandidateD}$ as our corporate political activity measure, but note that our inferences are unchanged when using alternative measures. Consistent with the robust prior evidence on general intra-industry information transfers, we observe a positive $\beta_1$coefficient in all five announcer-size quintiles. The estimated coefficient increases slightly with the size of the announcing firm. This conforms to the intuition that larger firms are more likely to be bellwethers and thus induce greater intra-industry information transfers through their disclosures. However, focusing on the additional information transfer associated with corporate political activity, we do not observe a similar increasing trend in the estimated β_3 coefficients. In fact, we find that the smallest β_3 coefficient appears in the largest announcer-

size quintile, effectively contradicting the view that political activity is merely a proxy for firm size. Moreover, we observe no obvious size-related pattern to the magnitude of the β_3 coefficient across all announcer-size quintiles.[11] Overall, the results in Table 8 generally suggest that there are larger information transfers related to the disclosures of politically active firms regardless of the size of the announcing firm. This provides reassurance that our inferences are not driven by differences in firm size.

5.5. Alternative industry classifications

In our main analyses, we follow prior research in defining industries using four-digit SIC codes (Hann et al. 2019). However, a growing body of research challenges this traditional definition of industry membership (Hoberg and Philips 2010, 2016; Lee, Ma, and Wang 2015). Since the concept of intra-industry information transfer depends on the boundaries of a particular industry, understanding the sensitivity of our results to alternative industry definitions is important for assessing the robustness of our inferences. To test this, we re-estimate Equation (1) using the FIC-400 product-based industry classifications introduced by Hoberg and Phillips (2010, 2016).[12] Since these classifications are only available until the end of 2017, our sample comprises 2,749,293 firm-quarter observations for these analyses. Table 9 presents the results of this re-estimation, which confirm that our findings are unchanged using this alternative industry classification. We continue to observe significant additional information transfers when announcing firms are more politically active. This further reinforces our inference that politically

[11] Additionally, we note that announcing firms are, on average, smaller (larger) than peer firms in announcer-size quintiles 1 and 2 (3 through 5), challenging the view that our results in these samples are attributable to announcing firms being larger bellwethers in their industry.

[12] Following Hann et al. (2019), in this analysis we employ the Hoberg and Philips (2010, 2016) text-based fixed industry classifications (FIC).

active firms process political information in a way that is helpful not only to their own investors but also to investors in peer firms.

5.6. Alternative Fixed Effects

Throughout our analyses, we employ both announcing firm and year-quarter fixed effects to eliminate the possibility that our results are contaminated by unobservable time-invariant characteristics of the firm or of particular periods of time. It is still possible that our measures of political activity might somehow be spuriously correlated with unobservable factors that vary across industries or over time and that also influence inter-firm return co-movement. To mitigate this possibility, we re-estimate Equation (1) using several alternative sets of fixed effects and report the results in Table 10. In Panel A, we preserve year-quarter fixed effects and replace firm fixed effects with industry fixed effects, using the four-digit SIC code to construct industries. This allows us to capture time-invariant industry specific factors that may impact the degree of observed intra-industry information transfer. In Panel B, we replace the firm and year-quarter fixed effects with an industry by year-quarter fixed effects, to allow our estimation to incorporate unobservable and time-varying industry specific characteristics. In Panel C, we employ announcer firm-peer firm pair fixed effects and year-quarter fixed effects, which allows us to control for any unobservable relation between a pair of firms that may lead investors to rely more heavily on the announcing firm's disclosure. Using each of these fixed effect structures, we continue to find robust support for the inference that there are stronger intra-industry information transfers when announcing firms are politically active.

In summary, the collective evidence across all of our tests is consistent with politically active firms processing and disseminating political information that is valuable to peer firms and their investors.

6. Conclusion

In this paper, we examine whether there are externalities to firms' processing of political information. Using the framework of information transfers around earnings announcements, we find robust evidence of stronger intra-industry information transfers from politically active firms to their industry peers. Relative to announcements from firms that are not politically active, announcements made by politically active firms are associated with a larger intra-industry information transfer. We focus on earnings announcements because they are summary events where rich information about the likelihood and impact of government policies can be gleaned from both the firms' narrative disclosures and the financial statement themselves. Following prior research illustrating the importance of conference calls to the information transfer process, we measure the degree of political discussion in earnings conference calls. Consistent with discussion helping alleviate processing costs related to political information, we find that the magnitude of information transfer from politically active announcing firms peer firms is stronger when there is more discussion of political topics during earnings conference calls. We also confirm that the information transfer exists even when peers have already disclosed their own earnings, suggesting that is related to processing of political information rather than information about peers' current earnings. Moreover, while there is some evidence to suggest that initial information transfers reverse when peer firms announce their own earnings because they reflect investor overreaction to early announcers' earnings (Thomas and Zhang 2008), we document that such reversals do not apply to the *additional* information transfers arising from disclosures made by politically active firms.

Our results are robust to a variety of measures of political activism, industry classifications and fixed effect structures. They are also not an artifact of strategic disclosure timing by politically active firms, as we observe consistent results when considering announcements made before and after those of peer firms and also when partitioning the sample into quintiles based on announcer's reporting lag. We also confirm that the results are not driven by political activism serving as a proxy for a firm's bellwether status, as we observe the phenomena across various size quintiles.

Overall, our analyses reveal that politically active firms' processing of political information is valuable to peer firms and their investors. In documenting this, our paper highlights an important information externality related to politically active firms' processing of political information. By improving our understanding of the impacts politically active firms have on their industries' information environment, we offer a new perspective on recent concerns regarding the potential uneven playing field between politically active and inactive firms. Our study also extends the literature on intra-industry information transfers by highlighting corporate political activism as a mechanism by which firms generate disclosures with greater potential for intra-industry transfer.

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Appendix A:
Variable Definitions

Variable	Definition	Data Source
ACC_P	The income before extraordinary items minus net operating cashflow, scaled by total assets of the peer.	Compustat
BTM_A	The book value of equity divided by the market value of equity of the announcer.	Compustat
BTM_P	The book value of equity divided by the market value of equity of the peer.	Compustat
CAR_A	The announcer's 3-day return, centered on the announcer earnings announcement date, less the CRSP market return over the same period.	CRSP
CAR_P	The peer's 3-day return, centered on the announcer earnings announcement date, less the CRSP market return over the same period.	CRSP
CAR_P_EA	The peer's 3-day return, centered on the peer's own earnings announcement date, less the CRSP market return over the same period.	CRSP
CAR_P_EA1	*CAR_P_EA* lagged by one quarter.	CRSP
CAR_P_EA4	*CAR_P_EA4* lagged by four quarters.	CRSP
HighPolWords	An indicator variable equaling one when the number of policy words in the announcer's earnings conference call is above the 75th percentile of all the announcer's earnings conference calls in sample period, zero otherwise. The list of policy words come from Baker et al. (2016).	Seeking Alpha
Inst_A	Percentage shares held by institutional investors of the announcer.	Thomson 13F
MVE_A	The log of market value of equity of the announcer.	Compustat
MVE_P	The log of market value of equity of the peer.	Compustat
NumAna_A	The number of analysts that issue earnings forecast for the quarter as reported by I/B/E/S of the announcer.	I/B/E/S
PolCon_A $^{Candidate\#}$	The natural logarithm of one plus the number of political candidates that the announcer contributed money to over years *t-5* to *t.*	FEC
PolCon_A ^{CandidateD}	An indicator variable equals to one if the announcer made contributions to political candidates over years *t-5* to *t*; zero otherwise.	FEC
PolCon_A ^{GovRel}	An indicator variable equals to one if the announcer has a government relation office in year *t*; zero otherwise.	CBIS
Ret6_P	The peer's buy-and-hold six-month stock returns leading up to one week before its own earnings announcement date.	CRSP

Appendix B:
Policy Term List from Baker et al (2016)

Category	Term Sets
Economy	economic, economy, uncertain, uncertainty, Congress, deficit, Federal Reserve, legislation, regulation, White House
Entitlement Programs	entitlement program, entitlement spending, government entitlements, social security, Medicaid, medicare, government welfare, welfare reform, unemployment insurance, unemployment benefits, food stamps, afdc, tanf, wic program, disability insurance, part d, oasdi, Supplemental Nutrition Assistance Program, Earned Income Tax Credit, EITC, head start program, public assistance, government subsidized housing
Financial Regulation	banking supervision, glass-steagall, tarp, bank supervision, thrift supervision, dodd-frank, financial reform, commodity futures trading commission, cftc, house financial services committee, basel, capital requirement, Volcker rule, bank stress test, securities and exchange commission, sec, deposit insurance, fdic, fslic, ots, occ, firrea, truth in lending
Fiscal Policy and Government Spending	government spending, federal budget, budget battle, balanced budget, defense spending, military spending, entitlement spending, fiscal stimulus, budget deficit, federal debt, national debt, Gramm-Rudman, debt ceiling, fiscal footing, government deficits, balance the budget
Health Care	health care, Medicaid, Medicare, health insurance, malpractice tort reform, malpractice reform, prescription drugs, drug policy, food and drug administration, FDA, medical malpractice, prescription drug act, medical insurance reform, medical liability, part d, affordable care act, Obamacare
Monetary Policy	federal reserve, the fed, money supply, open market operations, quantitative easing, monetary policy, fed funds rate, overnight lending rate, Bernanke, Volcker, Greenspan, central bank, interest rates, fed chairman, fed chair, lender of last resort, discount window, European Central Bank, ECB, Bank of England, Bank of Japan, BOJ, Bank of China, Bundesbank, Bank of France, Bank of Italy
National Security	national security, war, military conflict, terrorism, terror, 9/11, defense spending, military spending, police action, armed forces, base closure, military procurement, saber rattling, naval blockade, military embargo, no-fly zone, military invasion

Category	Terms
Regulation	regulation, banking supervision, glass-steagall, tarp, bank supervision, thrift supervision, dodd-frank, financial reform, commodity futures trading commission, cftc, house financial services committee, basel, capital requirement, Volcker rule, bank stress test, securities and exchange commission, sec, deposit insurance, fdic, fslic, ots, occ, firrea, truth in lending, union rights, card check, collective bargaining law, national labor relations board, nlrb, minimum wage, living wage, right to work, closed shop, wages and hours, workers compensation, advance notice requirement, affirmative action, at-will employment, overtime requirements, trade adjustment assistance, davis-bacon, equal employment opportunity, eeo, osha, antitrust, competition policy, merger policy, monopoly, patent, copyright, federal trade commission, ftc, unfair business practice, cartel, competition law, price fixing, class action, healthcare lawsuit, tort reform, tort policy, punitive damages, medical malpractice, energy policy, energy tax, carbon tax, cap and trade, cap and tax, drilling restrictions, offshore drilling, pollution controls, environmental restrictions, clean air act, clean water act, environmental protection agency, epa, immigration policy
Soverign Debt, Currency Crises	sovereign debt, currency crisis, currency crash, currency devaluation, currency revaluation, currency manipulation, euro crisis, Eurozone crisis, european financial crisis, european debt, asian financial crisis, asian crisis, Russian financial crisis, Russian crisis, exchange rate
Taxes	taxes, tax, taxation, taxed
Trade Policy	import tariffs, import duty, import barrier, government subsidies, government subsidy, wto, world trade organization, trade treaty, trade agreement, trade policy, trade act, doha round, uruguay round, gatt, dumping

Appendix C: Examples of political information processing in conference calls

Centene Corporation **2013 Q2**

"We have [a] Washington office that's very active and it's a -- we've said all along that the plan A is to work with the Congress and get the corrective legislation. And it's a matter of finding a healthcare bill to put something on that deals with that. The House has a bill that has a large support. And the Senate -- actually, we're working with the Senate side. We've worked with the RGA and the DGA, Republican Governors Association, Democratic Governors Association, they've all written letters to their delegations to the Congress and their senators, talking about the issue. It's a very circular issue. It's going across the federal government [indiscernible] we believe because they're matching a lot of it, and so it becomes very circular. Plan B is as you've seen in Florida and some other states now talking, putting a line item in that will give us the incremental revenue to offset that to ensure we have actuarially sound rates. And so when you combine those 2 things, there's a plan A and a plan B, and it's really being driven by the government regulatory people. Anybody else want to add anything to that?"

CYS Investments, Inc. **2013 Q3**

"So I actually don't see how they can possibly get to a longer term 4% Fed funds rate if they've got this much accommodation and they can't even get to a 2% inflation environment. Nevertheless this is how they have described this. My expectation is over the next six months that this forward rate guidance will get pushed out. So right now you see that in 2015, that's kind of when they think that the tightening comes once again 2015, I would not be surprised at all if that once again gets pushed out under the year. But that longer term Fed funds number 4% I wouldn't be surprised if that gets pushed down quite significantly."

Radian Group, Inc. **2011 Q1**

"During our visits on the Hill, we continue to hear a resounding support for private capital in overall housing finance reform efforts. ..... While the QRM and GSE reform efforts have a relatively long road ahead, we are encouraged by the bipartisan support for putting private capital at risk."

Validus Holdings, Ltd. **2013 Q3**

"I'd like to spend a minute or 2 on TRIA and terrorism risk in general. Given the climate in Washington, it's probably a fool's errand to predict anything, but we think there are a number of scenarios in play. Congress may let the legislation sunset by doing nothing, we think that's unlikely. While the current bill could be reauthorized as is, but we also think that's got a relatively low probability. Or the industry deductible and copayments could be modified upward to reduce government involvement, which we think has a higher probability. Or finally, the legislation could be changed to cover only nuclear, biological, chemical and radiological events, known as NBCR, with the industry covering conventional terrorism."

Table 1
Descriptive Statistics
This table presents summary statistics for the main variables used in our analyses. All variables definitions appear in Appendix A.

	N	Mean	Std	P25	Median	P75
CAR_A	2,577,231	0.002	0.078	-0.032	0.001	0.035
CAR_P	2,577,231	-0.002	0.048	-0.024	-0.002	0.019
PolCon_A ^{CandidateD}	2,577,231	0.178	0.383	0.000	0.000	0.000
PolCon_A $^{Candidate\#}$	2,577,231	0.682	1.584	0.000	0.000	0.000
PolCon_A ^{GovRel}	2,577,231	0.048	0.214	0.000	0.000	0.000
MVE_P	2,577,231	6.335	1.441	5.306	6.213	7.241
MVE_A	2,577,231	7.100	1.689	5.879	6.920	8.102
BTM_P	2,577,231	0.498	0.383	0.211	0.416	0.706
BTM_A	2,577,231	0.473	0.340	0.205	0.415	0.675
NumAna_A	2,577,231	6.106	6.335	1.000	4.000	9.000
Inst_A	2,577,231	0.579	0.308	0.334	0.617	0.835

Table 2 Correlations

This table presents the Pearson correlations for the main variables used in our analyses. Correlations significant at the five percent level are highlighted in bold. All variables definitions appear in Appendix A.

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1)	*CAR_A*	1.00										
(2)	*CAR_P*	**0.07**	1.00									
(3)	*PolCon_A* ^{CandidateD}	**0.00**	-0.00	1.00								
(4)	*PolCon_A* $^{Candidate\#}$	**-0.00**	0.00	**0.92**	1.00							
(5)	*PolCon_A* ^{GovRel}	**-0.00**	-0.00	**0.44**	**0.56**	1.00						
(6)	*MVE_P*	**-0.01**	**0.02**	**0.11**	**0.13**	**0.11**	1.00					
(7)	*MVE_A*	**-0.01**	0.00	**0.48**	**0.56**	**0.39**	**0.23**	1.00				
(8)	*BTM_P*	**0.00**	**0.01**	**0.05**	**0.04**	**-0.01**	**-0.18**	**0.03**	1.00			
(9)	*BTM_A*	**0.01**	**-0.00**	**0.02**	-0.00	**-0.03**	**0.01**	**-0.22**	**0.26**	1.00		
(10)	*NumAna_A*	**-0.00**	**-0.00**	**0.36**	**0.42**	**0.32**	**0.07**	**0.54**	**-0.01**	**-0.14**	1.00	
(11)	*Inst_A*	**-0.00**	**-0.00**	**0.14**	**0.14**	**0.10**	**0.14**	**0.41**	**0.02**	**-0.14**	**0.28**	1.00

Table 3
Information transfers around politically active firms' earnings announcements
This table reports results from the estimation of Equation (1). The dependent variable is the peer firm's cumulative abnormal equity return during the earnings announcement window of an announcer firm in the same industry. We examine how this return response varies with the announcer firm's degree of political activity, measured three different ways in columns (1) through (3). All variables definitions appear in Appendix A. All specifications include announcer firm and calendar year-quarter fixed effects. Standard errors are clustered by earnings announcement and T-statistics and are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable =	*CAR_P*		
PolCon_A =	*CandidateD*	*Candidate#*	*GovRel*
	(1)	(2)	(3)
CAR_A	0.040***	0.040***	0.042***
	(27.13)	(27.17)	(30.12)
PolCon_A	-0.001	-0.000	0.001
	(-0.86)	(-1.61)	(1.64)
CAR_A × *PolCon_A*	0.025***	0.008***	0.026***
	(5.58)	(6.41)	(2.94)
MVE_P	0.001***	0.001***	0.001***
	(27.74)	(27.75)	(27.72)
MVE_A	0.001***	0.001***	0.001***
	(3.38)	(3.45)	(3.38)
BTM_P	0.001***	0.001***	0.001***
	(9.72)	(9.71)	(9.75)
BTM_A	0.001	0.001	0.001
	(1.33)	(1.36)	(1.32)
NumAna_A	-0.000*	-0.000*	-0.000*
	(-1.74)	(-1.75)	(-1.92)
Inst_A	0.000	0.000	0.000
	(0.77)	(0.75)	(0.79)
Focal Firm FE	YES	YES	YES
Year-Quarter FE	YES	YES	YES
# of Obs.	2,577,231	2,577,231	2,577,231
Adj. R^2	0.03	0.03	0.03

Table 4
Information transfer related to explicit policy-related discussion
This table reports results from the estimation of Equation (1) separately for sample partitions based on the degree of policy-related discussion in earnings conference calls. We examine how information spillovers vary with the number of policy words in the announcing firm's earnings conference call. The dependent variable is the peer firm's cumulative abnormal equity return during the earnings announcement window of an announcer firm in the same industry. All variables definitions appear in Appendix A. All specifications include announcer firm and calendar year-quarter fixed effects. Standard errors are clustered by earnings announcement and T-statistics and are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable =	*CAR_P*					
PolCon_A =	*CandidateD*		*Candidate#*		*GovRel*	
	(1)	(2)	(3)	(4)	(5)	(6)
HighPolWords	= 1	= 0	= 1	= 0	= 1	= 0
CAR_A	0.026***	0.027***	0.026***	0.027***	0.032***	0.029***
	(5.04)	(11.44)	(5.03)	(11.50)	(6.62)	(12.77)
PolCon_A	-0.006**	-0.002	-0.002**	-0.001*	0.002	0.000
	(-2.48)	(-1.61)	(-2.52)	(-1.94)	(1.13)	(0.08)
CAR_A × PolCon_A	0.050***	0.022***	0.013***	0.007***	0.066***	0.026*
	(4.50)	(2.92)	(5.19)	(3.05)	(3.64)	(1.90)
Control Variables	YES	YES	YES	YES	YES	YES
Focal Firm FE	YES	YES	YES	YES	YES	YES
Year-Quarter FE	YES	YES	YES	YES	YES	YES
# of Obs.	157,748	730,194	157,748	730,194	157,748	730,194
Adj. R^2	0.04	0.03	0.04	0.03	0.04	0.03
Test of the difference in *CAR_A * PolCon_A*						
Chi-square	4.30		4.17		3.21	
p-value	0.038		0.041		0.073	

Table 5
Investor overreaction to information transfers
This table reports results from the estimation of Equation (2). The dependent variable is the peer firm's cumulative abnormal equity return during its own earnings announcement. *CAR_P* is the peer firm's cumulative abnormal return at the prior earnings announcement of the original announcing firm in the same industry. We examine how this return response varies with the announcer firm's degree of political activity, measured three different ways in columns (1) through (3). All variables definitions appear in Appendix A. All specifications include announcer firm and calendar year-quarter fixed effects. Standard errors are clustered by earnings announcement and T-statistics and are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable =	*CAR_P_EA*		
PolCon_A =	*CandidateD*	*Candidate#*	*GovRel*
	(1)	(2)	(3)
CAR_P	-0.019***	-0.019***	-0.019***
	(-10.17)	(-10.21)	(-10.74)
PolCon_A	0.000	0.000	0.001
	(0.09)	(0.42)	(1.20)
CAR_P × PolCon_A	0.007	0.002	0.044***
	(1.14)	(1.15)	(2.92)
CAR_A	-0.002**	-0.002**	-0.002**
	(-1.97)	(-1.96)	(-1.96)
CAR_P_EA1	0.002*	0.002*	0.002*
	(1.81)	(1.81)	(1.81)
CAR_P_EA4	-0.014***	-0.014***	-0.014***
	(-13.26)	(-13.26)	(-13.26)
MVE_P	0.001***	0.001***	0.001***
	(17.23)	(17.23)	(17.22)
BTM_P	0.001***	0.001***	0.001***
	(6.12)	(6.13)	(6.14)
Ret6_P	0.003***	0.003***	0.003***
	(9.85)	(9.85)	(9.85)
ACC_P	0.003***	0.003***	0.003***
	(3.03)	(3.03)	(3.03)
Focal Firm FE	YES	YES	YES
Year-Quarter FE	YES	YES	YES
# of Obs.	1,502,368	1,502,368	1,502,368
Adj. R^2	0.01	0.01	0.01

Table 6
Information transfers after peers' earnings announcements
This table reports results from the estimation of Equation (1) using a sample of peer firms that have already announced their earnings at least five days prior to the announcer. The dependent variable, *CAR_P,* is the peer firm's cumulative abnormal return at the later earnings announcement of a firm in the same industry. We examine how this return response varies with the announcer firm's degree of political activity, measured three different ways in columns (1) through (3). All variables definitions appear in Appendix A. All specifications include announcer firm and calendar year-quarter fixed effects. Standard errors are clustered by earnings announcement and T-statistics and are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable =	*CAR_P*		
PolCon_A =	*CandidateD*	*Candidate#*	*GovRel*
	(1)	(2)	(3)
CAR_A	0.028***	0.028***	0.029***
	(26.70)	(26.86)	(28.56)
PolCon_A	0.000	0.000	-0.001
	(0.28)	(0.50)	(-1.49)
CAR_A × PolCon_A	0.025***	0.008***	0.033***
	(7.23)	(8.36)	(4.22)
MVE_P	0.000***	0.000***	0.000***
	(6.37)	(6.37)	(6.37)
MVE_A	0.000	0.000	0.000
	(0.11)	(0.11)	(0.22)
BTM_P	0.000	0.000	0.000
	(0.52)	(0.51)	(0.51)
BTM_A	-0.001*	-0.001*	-0.001
	(-1.75)	(-1.76)	(-1.63)
NumAna_A	0.000	0.000	0.000
	(0.02)	(0.02)	(0.03)
Inst_A	0.000	0.000	0.000
	(0.69)	(0.69)	(0.66)
Focal Firm FE	YES	YES	YES
Year-Quarter FE	YES	YES	YES
# of Obs.	2,574,556	2,574,556	2,574,556
Adj. R^2	0.02	0.02	0.02

Table 7

Information transfers, political activism, and the timing of earnings announcements

This table reports results from the estimation of Equation (1). The dependent variable is the peer firm's cumulative abnormal return during the earnings announcement window of an announcer firm in the same industry. We examine how this peer return response varies with the timing of announcing firms' earnings announcements by constructing quintile subsamples based on the reporting lag (in days) between the fiscal period end date and the announcer firm's earnings announcement date. Quintile 1 captures peer reactions to the announcing firms with the shortest lag (i.e., early announcers) and quintile 5 captures peer reactions to the announcing firms with the longest lag (i.e., late announcers). All variables definitions appear in Appendix A. All specifications include announcer firm and calendar year-quarter fixed effects. Standard errors are clustered by earnings announcement and T-statistics and are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Measure political activity of the announcing firm using *PolCon_A* ^{CandidateD}

Dependent variable =	*CAR_P*				
PolCon_A =	*CandidateD*				
	Earliest				Latest
Reporting Lag Quintile	1	2	3	4	5
	(1)	(2)	(3)	(4)	(5)
CAR_A	0.037***	0.041***	0.032***	0.032***	0.032***
	(6.62)	(10.72)	(11.69)	(13.69)	(19.42)
PolCon_A	0.002	0.000	-0.002*	-0.002*	0.001
	(0.95)	(0.33)	(-1.85)	(-1.89)	(1.38)
CAR_A × *PolCon_A*	0.031**	0.024***	0.013*	0.039***	0.035***
	(2.47)	(2.67)	(1.65)	(5.49)	(6.53)
Control Variables	YES	YES	YES	YES	YES
Focal Firm FE	YES	YES	YES	YES	YES
Year-Quarter FE	YES	YES	YES	YES	YES
# of Obs.	379,349	475,617	520,150	538,760	663,355
Adj. R^2	0.06	0.05	0.06	0.06	0.03

Table 7 (continued)
Panel B: Measure political activity of the announcing firm using *PolCon_A* $^{Candidate\#}$

Dependent variable =	*CAR_P*				
PolCon_A =	*Candidate#*				
	Earliest				Latest
Reporting Lag Quintile	1	2	3	4	5
	(1)	(2)	(3)	(4)	(5)
CAR_A	0.036***	0.040***	0.031***	0.032***	0.032***
	(6.54)	(10.53)	(11.75)	(13.80)	(19.51)
PolCon_A	0.000	0.000	-0.001*	-0.000	0.000
	(0.29)	(0.31)	(-1.66)	(-1.40)	(0.36)
CAR_A × *PolCon_A*	0.010***	0.008***	0.004*	0.011***	0.011***
	(3.46)	(3.64)	(1.85)	(6.27)	(8.27)
Control Variables	YES	YES	YES	YES	YES
Focal Firm FE	YES	YES	YES	YES	YES
Year-Quarter FE	YES	YES	YES	YES	YES
# of Obs.	379,349	475,617	520,150	538,760	663,355
Adj. R^2	0.06	0.05	0.06	0.06	0.03

Panel C: Measure political activity of the announcing firm using *PolCon_A* ^{GovRel}

Dependent variable =	*CAR_P*				
PolCon_A =	*GovRel*				
	Earliest				Latest
Reporting Lag Quintile	1	2	3	4	5
	(1)	(2)	(3)	(4)	(5)
CAR_A	0.041***	0.044***	0.033***	0.035***	0.034***
	(7.70)	(12.54)	(12.85)	(15.77)	(21.36)
PolCon_A	-0.001	0.002*	0.000	0.003***	-0.000
	(-0.49)	(1.79)	(0.24)	(3.27)	(-0.03)
CAR_A × *PolCon_A*	0.018	0.045***	0.022	0.043***	0.058***
	(0.91)	(2.68)	(1.47)	(3.69)	(5.20)
Control Variables	YES	YES	YES	YES	YES
Focal Firm FE	YES	YES	YES	YES	YES
Year-Quarter FE	YES	YES	YES	YES	YES
# of Obs.	379,349	475,617	520,150	538,760	663,355
Adj. R^2	0.06	0.05	0.06	0.06	0.03

Table 8
Information transfers, political activism, and firm size
This table reports results from the estimation of Equation (1). The dependent variable is the peer firm's cumulative abnormal return during the earnings announcement window of an announcer firm in the same industry. We examine how this return response varies across size quintiles, which are constructed based on the announcer firm's size. Quintile 1 captures peer reactions to the smallest announcing firms and quintile 5 captures peer reactions to the largest announcing firms. All variables definitions appear in Appendix A. All specifications include announcer firm and calendar year-quarter fixed effects. Standard errors are clustered by earnings announcement and T-statistics and are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Measure political activity of the announcing firm using *PolCon_A* ^{CandidateD}

Dependent variable =	*CAR_P*				
PolCon_A =	*CandidateD*				
	Smallest				Largest
Focal Firm Size Quintile	1	2	3	4	5
	(1)	(2)	(3)	(4)	(5)
CAR_A	0.034***	0.037***	0.041***	0.045***	0.050***
	(12.57)	(12.85)	(12.96)	(12.01)	(12.88)
PolCon_A	0.001	-0.001	0.003**	-0.003***	-0.002
	(0.46)	(-0.58)	(2.17)	(-2.72)	(-1.35)
CAR_A × *PolCon_A*	0.011	0.032***	0.022**	0.035***	0.011
	(1.10)	(2.94)	(2.29)	(3.97)	(1.40)
Control Variables	YES	YES	YES	YES	YES
Focal Firm FE	YES	YES	YES	YES	YES
Year-Quarter FE	YES	YES	YES	YES	YES
# of Obs.	513,464	518,931	515,609	512,084	517,143
Adj. R^2	0.03	0.04	0.04	0.03	0.03

Table 8 (continued)
Panel B: Measure political activity of the announcing firm using *PolCon_A* $^{Candidate\#}$

Dependent variable =	*CAR_P*				
PolCon_A =	*Candidate#*				
	Smallest				Largest
Focal Firm Size Quintile	1	2	3	4	5
	(1)	(2)	(3)	(4)	(5)
CAR_A	0.034***	0.037***	0.040***	0.045***	0.050***
	(12.54)	(12.59)	(12.74)	(12.17)	(13.16)
PolCon_A	0.001	0.000	0.001	-0.001***	-0.001
	(0.77)	(0.66)	(1.38)	(-2.69)	(-1.51)
CAR_A × *PolCon_A*	0.006**	0.016***	0.010***	0.010***	0.003
	(1.97)	(6.40)	(4.04)	(4.26)	(1.32)
Control Variables	YES	YES	YES	YES	YES
Focal Firm FE	YES	YES	YES	YES	YES
Year-Quarter FE	YES	YES	YES	YES	YES
# of Obs.	513,464	518,931	515,609	512,084	517,143
Adj. R^2	0.03	0.04	0.04	0.03	0.03

Panel C: Measure political activity of the announcing firm using *PolCon_A* ^{GovRel}

Dependent variable =	*CAR_P*				
PolCon_A =	*GovRel*				
	Smallest				Largest
Focal Firm Size Quintile	1	2	3	4	5
	(1)	(2)	(3)	(4)	(5)
CAR_A	0.035***	0.039***	0.043***	0.049***	0.054***
	(13.02)	(13.83)	(14.00)	(13.80)	(15.22)
PolCon_A	0.002	-0.001	0.000	0.002**	0.001
	(1.14)	(-0.46)	(0.41)	(2.52)	(0.81)
CAR_A × *PolCon_A*	0.023	0.042**	0.045***	0.041**	-0.003
	(1.30)	(2.27)	(3.19)	(2.49)	(-0.18)
Control Variables	YES	YES	YES	YES	YES
Focal Firm FE	YES	YES	YES	YES	YES
Year-Quarter FE	YES	YES	YES	YES	YES
# of Obs.	513,464	518,931	515,609	512,084	517,143
Adj. R^2	0.03	0.04	0.04	0.03	0.03

Table 9

Alternative industry definition: Product market peers

This table reports results from the estimation of Equation (1). The dependent variable is the peer firm's cumulative abnormal return during the earnings announcement window of an announcer firm in the same industry. We examine how this return response varies with the announcer firm's degree of political activity, measured three different ways in columns (1) through (3). We define peer groups using the Hoberg and Philips (2010, 2016) text-based fixed industry classifications. All variables definitions appear in Appendix A. All specifications include announcer firm and calendar year-quarter fixed effects. Standard errors are clustered by earnings announcement and T-statistics and are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dependent variable =	*CAR_P*		
PolCon_A =	*CandidateD*	*Candidate#*	*GovRel*
	(1)	(2)	(3)
CAR_A	0.066***	0.065***	0.068***
	(41.20)	(41.69)	(47.06)
PolCon_A	-0.001	-0.000*	0.000
	(-1.31)	(-1.90)	(0.57)
CAR_A × *PolCon_A*	0.014***	0.004***	0.010
	(4.02)	(4.46)	(1.58)
MVE_P	0.000***	0.000***	0.000***
	(12.47)	(12.47)	(12.47)
MVE_A	0.001***	0.001***	0.001***
	(3.11)	(3.22)	(3.02)
BTM_P	0.002***	0.002***	0.002***
	(14.02)	(13.99)	(14.01)
BTM_A	-0.000	-0.000	-0.000
	(-0.88)	(-0.80)	(-0.92)
NumAna_A	-0.000*	-0.000*	-0.000**
	(-1.84)	(-1.71)	(-1.97)
Inst_A	-0.000	-0.000	-0.000
	(-0.26)	(-0.41)	(-0.09)
Focal Firm FE	YES	YES	YES
Year-Quarter FE	YES	YES	YES
# of Obs.	2,749,293	2,749,293	2,749,293
Adj. R^2	0.03	0.03	0.03

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

Panel A: Industry Fixed Effects and Year-Quarter Fixed Effects

Dependent variable =		*CAR_P*	
PolCon_A =	*CandidateD*	*Candidate#*	*GovRel*
	(1)	(2)	(3)
CAR_A	0.038***	0.038***	0.040***
	(24.66)	(24.78)	(27.51)
PolCon_A	-0.000	-0.000	0.000
	(-0.94)	(-0.39)	(0.54)
CAR_A × *PolCon_A*	0.024***	0.007***	0.022**
	(5.37)	(5.96)	(2.18)
Industry FE	YES	YES	YES
Year-Quarter FE	YES	YES	YES
# of Obs.	2,577,231	2,577,231	2,577,231
Adj. R^2	0.02	0.02	0.02

Panel B: Industry by Year-Quarter Fixed Effects

Dependent variable =		*CAR_P*	
PolCon_A =	*CandidateD*	*Candidate#*	*GovRel*
	(1)	(2)	(3)
CAR_A	0.033***	0.033***	0.034***
	(21.33)	(21.46)	(23.47)
PolCon_A	-0.000	-0.000	0.000
	(-0.61)	(-0.11)	(0.49)
CAR_A × *PolCon_A*	0.015***	0.005***	0.011
	(3.45)	(3.84)	(1.14)
Industry × Year-Quarter FE	YES	YES	YES
# of Obs.	2,577,231	2,577,231	2,577,231
Adj. R^2	0.04	0.04	0.04

Table 10 (continued)
Panel C: Focal Firm-Peer Firm Pair Fixed Effects and Year-Quarter Fixed Effects

Dependent variable =	*CAR_P*		
PolCon_A =	*CandidateD*	*Candidate#*	*GovRel*
	(1)	(2)	(3)
CAR_A	0.041***	0.041***	0.044***
	(25.37)	(25.40)	(28.27)
PolCon_A	-0.000	-0.000	0.001
	(-0.42)	(-0.63)	(1.53)
CAR_A × *PolCon_A*	0.024***	0.008***	0.027***
	(5.02)	(5.77)	(2.75)
Focal Firm-Peer Firm FE	YES	YES	YES
Year-Quarter FE	YES	YES	YES
# of Obs.	2,577,231	2,577,231	2,577,231
Adj. R^2	0.10	0.10	0.10