

CSR Performance and SEC Comment Letter Review Process

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Abstract.

We build on the stakeholder theory and reputation literature to document an implicit benefit of firms' corporate social responsibility (CSR) performance through a novel channel—the Comment Letter (CL) review process by the Securities and Exchange Commission (SEC). We find that a firm's CSR performance is inversely related to the likelihood of receiving an SEC CL. Moreover, we document that for firms that receive a CL from the SEC, a higher CSR performance is associated with a less severe and less complex review process and, thus, lower associated costs of resolving the CL review. Our results are robust to a comprehensive list of firm-level controls, the inclusion of industry and state fixed effects, and the clustering of standard errors by firm and year. In addition, we show that the findings are robust to potential sample selection bias, alternative specifications and estimation methods, and other endogeneity concerns.

Keywords: Corporate Social Responsibility, CSR Performance, Stakeholder Theory, Reputation, Trust, SEC Comment Letter Process, Disclosure Quality

JEL Classification: G38, K22, M14, M41

1. Introduction

Prior research has shown that explicit claims, such as employment contracts and product warranties, can create value for corporate stakeholders by reducing the costs of uncertainties (Cornell & Shapiro, 2021; Holder et al., 1998). More recently, several studies have argued that implicit claims to stakeholders, such as intra-party trust, corporate social responsibility (CSR) performance, and treatment of employees and suppliers, are also value-enhancing in a multi-period setting. The literature provides clear evidence of the benefits of honoring such implicit contracts to enhance firm value, during both economic shocks (such as the 2008 financial crisis) and normal economic times. For instance, with respect to stress events, Lins et al. (2017) document that, during the 2008 financial crisis, firms with high CSR ratings—a proxy for CSR performance or social capital—significantly outperformed firms with low CSR ratings.¹ Likewise, during normal economic times, it is well accepted by academics and practitioners alike that implicit contracts, such as reputation and earned trust, are key for well-functioning financial markets. Specifically, the literature documents that countries and societies with higher trust (proxied using social capital) exhibit higher economic development (Zak & Knack, 2001).

We proxy a firm's implicit claims to stakeholders or earned trust through enhanced reputation with the firm-level CSR performance. Here, we posit that CSR performance, captured by firm-level environmental, social, and governance (ESG) ratings, provides a comprehensive representation of overall firms' implicit claims for multiple reasons. First, these ratings include the multi-faceted activities of a firm for a broad set of internal and external stakeholders. Second, extant literature generally supports the idea of using ESG ratings to capture firm-specific CSR performance.² Finally, this measure captures a large cross-section of firms, as the Governance & Accountability Institute reports a remarkable increase in the percentage of S&P 500 Index companies that publish sustainability/responsibility reports, from under 20% in 2011 to nearly 99% in 2024, highlighting their importance for corporate managers.³

However, the mechanisms through which such implicit claims create firm value are not yet clearly understood. In other words, there is a gap in the literature with respect to identifying channels of such value creation. We build on stakeholder theory and reputation literature (Amiraslani et al., 2023; Tran & O'Sullivan, 2020) and attempt to narrow this gap by exploring a novel channel of possible value creation through stakeholders' implicit claims or earned trust—specifically, through the Securities and Exchange Commission (SEC) oversight actions. The stakeholder theory and reputation literature argues that firms can generate earned trust internally through investment in social capital, which can then act as a “quasi-insurance policy” during times of crisis to reduce the transaction cost and create economic benefits, keeping all else constant. For example, CSR performance positively signals firms' values, ethical standards, transparency, and intentions to honor product quality standards (Chakraborty et al., 2023; Fombrun et al., 2000). Likewise, CSR performance is considered a

¹ For consistency, in this paper, we use the term “CSR performance” to represent CSR ratings or ESG scores, a proxy for firm-level earned trust.

² See: Eccles et al. (2014), Lins et al. (2017), and Halbritter and Dorfleitner (2015).

³ See: <https://www.ga-institute.com/research/ga-research-directory/sustainability-reporting-trends/2024-sustainability-reporting-in-focus/>

necessity for strategic and operational reasons in order to build customer loyalty and investor engagement (Kulova & Nikolova-Alexieva, 2023; Wang et al., 2025). In addition, high CSR performance firms enjoy positive perception against negative externalities such as litigation and SEC enforcement actions, which help protect brand reputation and mitigate scrutiny from regulators (Chakraborty et al., 2023; Minor & Morgan, 2011). Overall, this stream of research contends that enhancing CSR performance builds reputational and moral capital for the firm and hence creates a positive signal and perception of goodwill among stakeholders. In return, stakeholders allow the management of a high CSR performance firm the “benefit of the doubt” during negative externalities. Thus, an enhanced firm’s reputation not only could reduce the likelihood of facing negative events from external stakeholders, such as the SEC, but also diminish the impact of such negative shocks, if faced. It is known that SEC oversight using the Comment Letter (CL) process imposes additional costs for firms (Cassell et al., 2019; Johnston & Petacchi, 2017). Therefore, we predict that better firm-level CSR performance can reduce the probability and complexity of SEC CL oversight actions and, hence, lower the firm-level disclosure costs. Specifically, we first explore whether a firm’s CSR performance can help mitigate the likelihood of receiving an SEC CL and, second, conditional on receiving a CL, whether CSR performance is associated with reduced complexity and costs of resolving the SEC CL process. If true, in both scenarios, a lower cost of handling SEC CLs due to a reputation built through better CSR performance can lead to increased firm value, all else constant.

CLs are part of the SEC’s regulatory oversight process, which involves systematic reviews of the reporting quality and transparency of corporate filings. The goal of the CL process, as stated by the SEC, is to protect investors, monitor firm actions, and enhance compliance with SEC rules for listed companies.⁴ Each year, the SEC reviews approximately one-third of publicly listed firms as per its mandate under Section 408 of the Sarbanes–Oxley (SOX) Act of 2002. When that review identifies discrepancies, or if the SEC has questions about the firm’s financial reporting, it issues a CL indicating its concern and provides an opportunity for the firm to respond and remediate. The outcomes of the CL process vary considerably—from no action if the SEC’s questions are answered satisfactorily, to extreme cases where the SEC’s Division of Corporation Finance (DCF) recommends the case to the SEC’s Division of Enforcement (DOE) for legal action. Nonetheless, the initiation of a CL is a first step in identifying possible irregularities or misreporting in corporate filings. We hypothesize that a firm’s CSR performance, captured by its ESG scores, is a good indicator of the firm’s earned trust, reputation, and reporting quality and should be indirectly related to the probability of receiving a CL. Specifically, using the extant literature we argue that a firm with higher CSR performance is more likely to honor its implicit claims, have stronger internal values, and benefit from higher stakeholder trust. Therefore, we expect it to be more transparent and show higher disclosure quality and reporting compliance.

Consequently, we explore two main questions in this paper. First, we investigate whether a firm’s CSR performance is associated with the probability of receiving a CL during the SEC review process, extending the existing literature on determinants of receiving a CL. Second, we acknowledge that a firm with high CSR performance may still receive a CL through

⁴ See “How the SEC Protects Investors, Maintains Market Integrity, and Facilitates Capital Formation” at <http://www.sec.gov/about/whatwedo.shtml> for the SEC mission to protect investors.

discretionary selection by the SEC or unintentional mistakes in disclosed information. We examine whether, in such instances, the CL process will be easier and resolved quicker and, therefore, be less costly. Extant literature contends that the CL remediation process is costly to firms, as it diverts significant time and resources from the normal operations of the firm (Cassell et al., 2019; Johnston & Petacchi, 2017). We therefore investigate the relationship between CSR performance and variables aimed at capturing the severity and complexity of the CL process (Do & Zhang, 2022). In particular, we expect higher CSR performance to reduce the costs associated with the CL review process, measured indirectly by the severity and complexity of the process.

We use three alternative proxies for CSR performance: a firm's overall ESG score based on self-reported information on the environmental, social and corporate governance matters, adjusted for ESG Controversies, and the average of the firm's environmental and social pillar scores. We source the ESG data from Refinitiv (currently known as LSEG ESG), CL data from Audit Analytics, and fundamental data from Compustat for US firms during the fiscal year period of 2004 to 2023. Our full sample includes 31,819 firm-year observations from 4,235 unique firms. First, consistent with our conjectures, we find that firms with higher CSR performance are less likely to receive CL correspondence from the SEC. Our main empirical model shows that a one-standard-deviation increase in CSR performance is associated with a 2.92 percentage point drop in the likelihood of receiving a CL. The negative correlation between CSR performance and the likelihood of receiving a CL is robust to a comprehensive set of firm-level controls, such as firm size, market-to-book ratio, return on equity, dividend yield, bankruptcy risk, discretionary accruals, firm age, and litigation risk. In addition, the findings are robust to the clustering of standard errors by firm and year and the inclusion of industry and state fixed effects.

Second, with respect to severity, we explore whether firms with high CSR performance are subject to fewer *Number of Topics* or issue codes raised in the initial CL from the SEC. We assume that more topics raised in the CL process indicate that SEC's concerns are more severe. Consistent with our assertion, we find that firms with higher CSR performance have fewer topics raised in CL correspondence. The result is economically and statistically significant, as we note that a one-standard-deviation increase in the CSR performance measure is associated with a 12.12% decrease in the number of topics (or approximately one topic for an average firm in our sample). Once again, this finding is robust to the inclusion of a set of controls, industry and state fixed effects, and two-way clustering of standard errors by firm and year. Third, we explore the relationship between CSR performance and the complexity of the CL process. In this setting, we use two proxies for complexity: *Resolution Time*, the number of days to resolve the CL process, and *Number of Rounds*, the number of letters in the CL conversation with the firm. Both a longer resolution time and higher number of rounds signal more complex process to resolve the CL process. Consistent with our hypothesis, we observe that firms with a higher CSR performance experience a relatively simple CL process. Specifically, we find that a one-standard-deviation increase in the CSR performance measure is associated with a 7.30% reduction in resolution time (or 4.5 days for an average firm in our sample) and a 1.94% drop in the number of rounds (or 0.09, almost one-tenth of a round, for an average firm in our sample). Taken together, our results show strong evidence of a negative relationship between CSR performance and the associated costs of the CL process—i.e., its severity and complexity.

Since the SEC reviews each firm every three years, the probability of receiving a CL is not constant over time and may vary systematically depending on the time passed since the firm's last review.⁵ To address this concern, we estimate additional dynamic and hazard models that incorporate the lags of our CL indicator or time elapsed since the last CL, respectively (Arellano & Bond, 1991; Beck et al., 1998; Jenkins, 1995; Shumway, 2001; Wooldridge, 2005). We report that the inclusion of these additional controls to account for the serial dependence of the CL process does not diminish the impact of CSR performance on the likelihood of receiving a CL.

Moreover, it could be argued that our results suffer from the sample-selection bias, as a firm receiving a CL may be systematically different from firms that do not, and the CL review process may not be completely random. Additionally, the extant literature highlights a concern about endogeneity in the relationship between CSR performance and other firm-specific events. For instance, it is argued that financially successful firms are more likely to have high CSR performance (Lys et al., 2015). This may suggest that more transparent firms may invest more in CSR performance and hence have a lower likelihood of receiving CL. Therefore, CSR performance may be endogenous as a firm could increase its ESG investment ex-ante, expecting a CL review. To address the potential selection bias, we use the two-stage Heckman model (Heckman, 1979) as a robustness test for our severity and complexity regressions. In these regressions, we use the percentage of votes cast for the Republican candidate in the firm's headquarters state in the most recent U.S. Presidential election as the excluded variable. This is motivated by empirical evidence that the SEC's enforcement actions, including its CL reviews, are sensitive to firms' political connections and the political environment of their headquarters states (Heese et al., 2017; Khokhar & Shahriari, 2022), while the severity and complexity of an ongoing CL review are determined primarily by the substance of the firm's disclosures and other firm-specific factors.

To address endogeneity stemming from unobservable factors that jointly determine CSR performance and disclosure quality, we estimate two-stage least squares (2SLS) regressions using state-level social capital (Rupasingha et al., 2006) as an instrument for CSR performance (Jha & Cox, 2015). We argue that firms headquartered in high social capital states exhibit stronger CSR performance, as informal civic norms and social networks in the surrounding community foster more socially responsible corporate behavior (Jha & Cox, 2015; Hoi et al., 2018). Moreover, conditional on CSR performance, we do not expect state-level social capital to directly impact the characteristics of the CL process. The results of our 2SLS regressions also show a statistically and economically significant negative correlation between CSR performance and the likelihood of receiving a CL, as well as the measures of the CL process's severity and complexity, alleviating the endogeneity concerns. Finally, since our severity and complexity measures are non-negative count variables, we estimate the corresponding models using Poisson regressions. Our results remain robust to this alternative estimation approach.

This paper identifies a novel channel through which investment in CSR performance can enhance firm-level earned trust and reputation and benefit firms and their stakeholders. It also makes several contributions to literature in finance and accounting. First, the study supplements the analysis of Lins et al. (2017) by documenting that the benefits of CSR performance extend beyond periods of economic crises and equally apply in normal economic

⁵ We thank the anonymous reviewer for pointing out this issue.

conditions. Second, by reporting a negative correlation between CSR performance and the propensity and consequences of the CL process, our paper shows a new indirect channel of value creation through firm-level reputational capital to honor implicit contracts. Third, the study provides additional evidence of the effectiveness of the SEC's monitoring role through the CL process. The results also show that while the selection of firms for disclosure review through the CL process is discretionary, it imposes a relatively lower cost on high CSR performance firms that honor implicit claims to a broad set of stakeholders.

The findings of this research have potential implications for multiple stakeholders. We find that CSR performance indirectly reduces firm's disclosure cost through two channels: first, reducing the likelihood of receiving CL and, second, mitigating the severity and complexity of the CL resolution process. Thus, higher CSR performance could be value-enhancing for shareholders, all else equal, who in turn may demand higher investment in CSR performance from their management. Likewise, our result that firms with high CSR performance seem to resolve the CL process quickly may help regulators and policy makers, such as the SEC, optimize resource allocation and prioritize their efforts accordingly. Finally, our findings may provide incentives to low CSR performance firms to increase investment in CSR initiatives, hence generating societal benefits, especially with respect to protecting the environment.

The rest of the paper is organized as follows. Section 2 provides an overview of the increasing role CSR principles play in markets, describes the details of the SEC CL process, and reviews the literature in these areas that are closely related to our study. Section 3 presents our data, variables, and empirical methodology. Section 4 presents and discusses our empirical results. Section 5 concludes the paper.

2. Background

2.1 CSR Performance: Background and Prior Literature

We follow the definition of CSR commonly adopted in the academic literature: "CSR is the commitment of a business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve the quality of life" (WBCSD, 2000). A growing body of research argues that firms can enhance their CSR performance through improved ESG disclosure (for example, Lins et al., 2017; Eccles et al., 2014; Sacconi & Antoni, 2010). We therefore use overall ESG scores from Refinitiv as a proxy for firm-level CSR performance. This measure has multi-faceted characteristics and encompasses all activities companies undertake to mitigate social, environmental, and governance concerns associated with their business and adopt a long-term sustainability approach.

In recent years, there has been growing interest in CSR-related issues across multiple aspects of the firm. Among these, several studies have focused on the characteristics of the market in which firms operate, aspects of the governance structures, including ownership and executive compensation as well as firm risk and performance.⁶ Overall, the literature presents some robust findings. For example, studies show that the level of economic development of the country in which a firm operates and the social capital of the country are positively related

⁶ For a comprehensive meta-analysis of all corporate finance studies related to ESG, see Gillan et al. (2021).

to the degree of social responsibility of the firm (Cai et al., 2016; Jha & Cox, 2015; Lins et al., 2017). With respect to ownership, the general findings confirm a positive relationship between CSR and the size of institutional ownership and the level of engagement by institutional investors (Cao et al., 2019; Chen et al., 2020; Dimson et al., 2015; Naaraayanan et al., 2021; Nofsinger et al., 2019), as well as family and state ownership levels (Abeysekera & Fernando, 2020; Gillan et al., 2020). While results are not completely elucidating, firms' CSR profiles are associated with firm risk, returns, and different measures of value (El Ghouli et al., 2011; Lins et al., 2017; Schiller, 2018). In addition, several studies document that firms with better CSR performance tend to have lower information asymmetries (Cui et al., 2018), have lower risk and higher returns (Friede et al., 2015), and be more resilient in times of crisis (Flammer, 2013; Lins et al., 2017).

Prior research in economics and finance has interpreted CSR performance as a proxy for firm-level *earned trust*—trust generated internally through investment in firm-level social capital, as distinct from the *endowed trust* a firm derives from operating in a high-trust society (Amiraslani et al., 2023; Lins et al., 2017; Sacconi & Antoni, 2010). However, there is a challenge in measuring trust at the firm level. We therefore focus on CSR performance as a more observable and measurable indicator of firms' engagement with stakeholders and broader social capital.⁷

This paper investigates the relationship between firm-level CSR performance and its disclosure quality and transparency, measured through the likelihood, severity, and complexity of the CL process, contributing to the above literature streams. We posit that CSR performance influences the firm's degree of accountability and trustworthiness and, thus, the quality of its disclosures. In this context, management's choices regarding investment in CSR performance are good indicators of disclosure quality and reporting compliance and should be reflected in the lower probability of a firm becoming a target of the SEC CL process. Moreover, if targeted by the process, firms with more investment in CSR performance should be able to resolve the process quickly.

2.2 SEC Comment Letter Process

Next, we describe the SEC CL process as part of the SEC's mandate that "*all investors, whether large institutions or private individuals, should have access to certain basic facts about an investment prior to buying it, and so long as they hold it.*"⁸ The SEC plays a vital role in the oversight and regulation of the securities markets and in protecting investors and is one of the first lines of defense for maintaining trust in financial markets. One process in this important capacity is assigned to the SEC's DCF, which reviews publicly listed companies' financial statements. In cases where the SEC requires clarification or identifies a disclosure

⁷ The extant literature in finance and other disciplines has investigated positive influences of trust, measured mainly through CSR performance, on macro-economic outcomes such as investment rate, economic growth, international trade, and financial market development (Arrow, 1974; Fukuyama, 1996; Guiso et al., 2004, 2008, 2011; Knack & Keefer, 1997; La Porta et al., 1997; Stiglitz, 2008; Zak & Knack, 2001). It is also argued that a high level of trust can act as a "quasi-insurance policy" against excessive risk-taking during times of crisis (Amiraslani et al., 2023) and against litigation (Barnett et al., 2018). More recent literature has explored the effects of trust on microeconomic or firm-level variables, such as firm value, executive compensation, corporate financing, merger and acquisition transactions, and litigation (Ahern et al., 2015; Bottazzi et al., 2016; Duarte et al., 2012; Kanagaretnam et al., 2018; Lins et al., 2017).

⁸ See: <http://www.sec.gov/about/whatwedo.shtml>.

inadequacy, it sends a CL to the company requiring clarification. The company responds with additional documentation, restatements, or amendments to previously issued financial statements. The SEC selection process for reviewing a particular firm is not public. However, Section 408 of the SOX Act requires the SEC to review each company once every three years.⁹ Though the SEC has discretion in the selection of firms for review, Tran and O'Sullivan (2020) report that the factors considered include firm size in terms of market capitalization, significant economic impact of its operations, major financial restatement, significant share price volatility, disparities in price-earnings ratio, news reports, and anonymous tips.

In 2005, the SEC decided to publicly disclose the comment letters and companies' responses to them once the reviews were complete. This action prompted several studies in accounting and finance to examine the firm or auditor characteristics associated with receiving a CL. For example, Ertimur and Nondorf (2006), using a sample of IPO firms, find that managerial expertise and better corporate governance are associated with fewer CLs and fewer issues flagged by the SEC. Similarly, Ettredge et al. (2011), using the 8-K filings, and Robinson et al. (2011), using proxy statements, report that non-compliant firms have lower corporate governance quality, less need for external financing, and higher excess CEO compensation. In addition, more recent studies, like Cassell et al. (2013, 2019), find that larger, older, and less profitable firms are more likely to become the subject of a CL review process and have a higher probability of a restatement following the CL.

Several recent studies shifted their focus to the information content of CLs and their impact on the information environment of targeted firms from various angles. Firms subject to a CL review show improvements in their disclosures and an overall increase in the quality of their information environment (Bozanic et al., 2017). Johnston and Petacchi (2017) show that firms with poor financial reporting quality are more likely to get a CL. After a firm receives a CL, prompt response and clarity seem to lower the probability of follow-up letters or a restatement (Cassell et al., 2019), thus contributing to a reduction in the information asymmetry of the firm.

The informational benefits are confirmed by studies that look at the market price reaction to the public release of CLs. Dechow et al. (2016) report a quick reaction of the stock price to a CL disclosure, particularly for firms with more EDGAR requests for viewing, while Ryans (2021) documents significant negative returns following the receipt of a CL. Further, Cunningham et al. (2017) find that loan pricing reflects the information contained in CLs, as banks charge higher interest rates when firms receive a CL, confirming that reviewing comment letters is part of the information production role of banks.

While the above literature shows that, by and large, there are significant benefits arising from the information captured by CLs, a couple of issues are not completely elucidated. First, the CL review process imposes substantial internal costs on targeted companies (Cassell et al., 2019; Johnston & Petacchi, 2017), and the literature is not conclusive as to whether the benefits outweigh the costs of the processes involved. Second, the direct link between CL information disclosure and the quality of the information environment is not completely established, as Bozanic et al. (2017) find that in certain circumstances, CL reviews do not

⁹ For more details on the SEC Filing Review Process and Comment letters, see <https://www.sec.gov/divisions/corpfin/cffilingreview.htm>, and for the Sarbanes-Oxley Act, see https://pcaobus.org/About/History/Documents/PDFs/Sarbanes_Oxley_Act_of_2002.pdf

enhance disclosures, and Ertimur and Nondorf (2006) find no association between the CL process and improvements in IPO firms' information environment.

Finally, since the SEC has limited resources, it is likely to prioritize cases with a high probability of success (Feroz et al., 1991) and the ones that signal a strong deterrent effect and visibility (Cox et al., 2003). Based on the preceding discussion, we assert that firms with high CSR performance are less likely to receive a CL, and conditional on receiving one, such firms face a quicker and less complex CL process.

2.3 CSR Performance, Reputation, and Disclosure Quality

Given the argument that endowed and earned trust can indirectly reduce transaction cost and, all else equal, enhance firm value, it is important to understand the theoretical underpinning of the link between firm-level CSR performance and the probability and consequences of receiving a CL. We borrow from stakeholder theory and reputation literature to establish a link between CSR performance and disclosure quality and contend that earned trust and reputation through high CSR performance is associated with a lower probability of receiving a CL and, conditional on receipt of a CL, mitigates the severity and complexity of resolving it. Extensive literature supports the argument for enhanced reputation earned through CSR performance and its economic benefits. For instance, Tran and O'Sullivan (2020) argue that high CSR firms are less likely to engage in financial restatement to start with, but the reputation earned through CSR performance may also reduce the likelihood of SEC enforcement actions. Extant literature reports that CSR performance sends a positive signal about the firm's character, values, and intentions to stakeholders (Fombrun et al., 2000; Gardberg & Fombrun, 2006; Tran & O'Sullivan, 2020). Consequently, we observe an increasing trend among firms to allocate time and resources to CSR activities in order to capture the benefits of enhanced reputation earned through CSR performance. Likewise, prioritizing CSR performance or ESG strategy is a necessity for a firm's operations and strategy to avoid negative consequences such as loss of corporate and brand reputation, and to enhance customer loyalty, and, more importantly, investors' engagement (Kulova & Nikolova-Alexieva, 2023; Wang et al., 2025).

Another source of reputation building is the fact that high CSR performance signals high moral and ethical standards, policy transparency, and a firm's willingness to honor its implicit contracts for product quality (Boyer & Kordonsky, 2020; Chakraborty et al., 2023; McWilliams & Siegel, 2001). Similarly, it is reported that past CSR activities create a positive perception of a firm's negative events as "bad luck" rather than "bad management" and hence help to preserve corporate and brand reputation, create financial savings, and mitigate regulatory scrutiny (Minor & Morgan, 2011). CSR performance is also believed to develop reputational (Fombrun et al., 2000) or moral (Godfrey, 2005) capital, thus creating a perception of goodwill among the stakeholders, who then give the benefit of the doubt to management during negative external shocks regarding their intentionality, knowledge, and negligence. It is also suggested that socially responsible firms not only have a lower probability of facing negative external shocks (such as litigation or SEC enforcement actions) but also face fewer negative consequences when such negative external events occur (Barnett et al., 2018; Chakraborty et al., 2023; Hong & Liskovich, 2015). In other words, CSR performance is a signal of good management, thus firms with high CSR performance are less likely to engage in activities (legal or illegal) to hurt stakeholders. In addition, given their

scarce monitoring resources, stakeholders allocate limited attention to monitoring firms with high past CSR performance after the occurrence of negative events. CSR performance is reported to result in transparent and responsible disclosure and a lower probability of SEC enforcement for financial restatement (Gao & Zhang, 2015; Hoi et al., 2013; Lanis & Richardson, 2015; Tran & O’Sullivan, 2020). In addition, a good corporate reputation earned through better CSR performance can attract cooperation from stakeholders and hence reduce potential for disputes and litigation (Wang et al., 2025).

In summary, the preceding discussion highlights that firms with strong CSR performance have an incentive to produce higher-quality disclosures, thereby reducing the likelihood of attracting SEC scrutiny in the form of a comment letter and its associated reputational and compliance costs.

3. Data, Variables, and Empirical Methodology

3.1 Data Description and Sources

To construct our sample, we start with the list of all U.S.-based firms with available financial data from Standard & Poor’s Compustat from 2004 to 2023.¹⁰ The list of firms is then matched (using CUSIP, ISIN, or SEDOL identifier, in that order) with the Refinitiv dataset of ESG ratings (currently known as LSEG ESG) in the same period. The sample is further restricted to firms with positive annual sales and total assets, a market capitalization of at least one million dollars, and available data to calculate the control variables (described in Section 3.2). This strategy results in 4,235 unique firms and 31,819 firm-year observations.

Next, we identify firms with comment letters from the SEC (CL firms) from 2005 to 2024, obtained from the Audit Analytics SEC Comment Letter database. The identified firms’ data are merged with the financial and ESG data using the SEC’s Central Index Keys (CIKs). For each firm, we first choose the most recent fiscal year in which the fiscal year-end month is before the month of the CL filing. If the difference is six months or less, we choose the previous fiscal year instead. This procedure leads to 6,655 firm-year observations (corresponding to 2,349 unique firms over the sample period), in which the firm has received a CL, and the fiscal year-end lags the CL filing between seven and eighteen months. Table 1 reports our sample’s annual distribution of comment letters, including the number of topics, resolution time, and number of rounds of comment letter correspondence. Each fiscal year during our sample period (2004–2023), 9.49% to 48.70% of firms in our sample received a comment letter, peaking in the years following the financial crisis.

Table 1: Sample Distribution

This table reports the total number of firms in the sample and the number and percentage of firms that received a comment letter (CL) from the SEC each year. It also reports the annual statistics related to the comment letters: *Number of Topics* is the total number of issue codes in the initial comment letter from the SEC; *Resolution Time* is

¹⁰ Our sample period (fiscal year) begins the year before the SEC started making CL publicly available.

the number of days between the first letter from the SEC and the final “no further comment” letter; *Number of Rounds* is the number of SEC letters in the conversation between the SEC and the firm.

Fiscal Year	Number of Firms with Complete Data	Number of Firms Issued a C.L.	Percentage of Firms Issued a C.L.	Mean - Number of Topics	Median - Number of Topics	Mean - Resolution Time (Days)	Median - Resolution Time (Days)	Mean - Number of Rounds	Median - Number of Rounds
2004	462	60	12.99%	16.00	14.00	55.62	43.00	3.82	3.00
2005	519	164	31.60%	16.98	15.00	81.32	61.00	4.57	4.00
2006	522	242	46.36%	16.17	14.00	89.84	72.00	4.73	4.00
2007	568	243	42.78%	15.47	13.00	77.99	54.00	4.78	4.00
2008	743	338	45.49%	15.15	13.00	81.74	65.00	5.25	5.00
2009	843	392	46.50%	12.22	11.00	91.04	61.00	5.35	5.00
2010	883	430	48.70%	10.59	9.00	76.54	51.50	4.99	4.00
2011	913	425	46.55%	9.30	8.00	70.55	45.00	4.79	4.00
2012	919	360	39.17%	8.22	7.00	67.13	44.00	4.80	4.00
2013	938	329	35.07%	7.08	6.00	59.22	36.00	4.25	3.00
2014	958	261	27.24%	7.27	6.00	54.51	37.00	4.16	3.00
2015	1513	496	32.78%	6.87	6.00	54.63	35.00	4.20	3.00
2016	2139	461	21.55%	5.93	5.00	46.38	31.50	3.96	3.00
2017	2523	411	16.29%	5.19	4.00	51.80	34.00	3.91	3.00
2018	2636	295	11.19%	5.41	4.00	41.20	25.00	3.68	3.00
2019	2817	319	11.32%	5.47	5.00	40.07	26.00	3.67	3.00
2020	2992	284	9.49%	5.99	5.00	53.23	34.50	4.20	3.00
2021	3004	407	13.55%	6.83	6.00	51.89	36.00	4.17	3.00
2022	2986	424	14.20%	5.91	5.00	53.30	29.00	4.02	3.00
2023	2941	316	10.74%	6.16	6.00	51.13	33.00	4.09	3.00

3.2 Key Variables

We consider several aspects of the CLs to investigate the relationship between CSR performance, a proxy for earned trust in the firm, and the SEC filing review process. First, for all firms in our sample, we define an indicator variable, *Comment Letter*, which takes the value of one if the firm received a CL in a particular year, and zero otherwise. We include a measure of severity and two measures of complexity of the CL process: *Number of Topics* (total issue codes in the initial CL), *Resolution Time* (days between the first CL and the final “no further comment” letter), and *Number of Rounds* (SEC letters in the conversation between the SEC and the firm), respectively. In our regressions, we use the natural logarithm of each measure.

We follow the extant literature and create multiple CSR performance measures (Albuquerque et al., 2019; Deng et al., 2013; Dhaliwal et al., 2011; Halbritter & Dorfleitner,

2015). Particularly, our CSR performance explanatory variables are constructed using the environmental, social, governance, and controversies scores from Refinitiv ESG. According to Berg et al. (2021), Refinitiv ESG score has been referenced or utilized in more than 1,500 academic articles. We directly use two alternative ESG scores provided in the database: *Refinitiv ESG* is the firm's overall ESG score in the environmental, social and corporate governance categories (pillars). The score in each pillar is calculated as the weighted average of multiple items (e.g., Workforce Score or Emissions Score) related to the pillar, based on the firm's self-reported information. *Refinitiv ESGC*, our primary measure, is the firm's overall ESG score adjusted for ESG Controversies (e.g., Public Health Controversies). Finally, Lins et al. (2017) argue that ESG data related to corporate governance category includes several elements that are outside the scope of CSR.¹¹ Thus, we test the robustness of our results to another alternative measure, *Refinitiv ES*, which is the average of the firm's environmental and social pillar scores. All our ESG explanatory variables are bounded between 0 and 1.

We use a range of firm-level control variables identified from previous literature for our panel regressions (e.g., Blackburne, 2014; Heese et al., 2017; Huang et al., 2019; Voinea et al., 2022). *Size* is measured as the natural log of market equity. Market equity is the closing price in U.S. dollars multiplied by the number of shares outstanding (in millions) at the end of the fiscal year. *Market-to-Book*, a measure of valuation, is the ratio of market equity to book equity. Book equity is common equity plus deferred taxes and investment tax credits. *Return on Equity*, a measure of profitability or firm financial performance, is income before extraordinary items divided by book equity. *Dividend Yield* is the total dividend on common stock divided by market equity. *Altman Z-Score*, a proxy for bankruptcy risk, is calculated according to Altman (1968).¹² A higher value of *Altman Z-Score* indicates a lower bankruptcy risk. *Discretionary Accruals*, a proxy for earnings management, is calculated as the absolute value of the difference between income before extraordinary items and operating activities net of cash flow, scaled by total assets.

Firm Age is the number of years between the firm's IPO date or the first year it appears on Compustat, whichever earlier, and 2026. *Loss Indicator* equals one if the firm's net income is negative, and zero otherwise. *High Litigation Risk* equals one if a firm operates in a high-litigation industry, and zero otherwise. Industries with high litigation risk include biotech, computer, electronics, and retail, according to Huang et al. (2019). Financial ratios are winsorized at the lower and upper 1% levels of their sample distributions each year to avoid outliers. We expect larger and older firms, those with higher bankruptcy and litigation risks, and those experiencing a loss or using earnings management to have a higher likelihood of receiving a CL. The source and description of all our variables are provided in Table A1 in the Appendix.

¹¹ Lins et al. (2017) exclude product and governance categories from the KLD ESG STATS data to calculate their measure of CSR performance, a proxy for trust in the firm. KLD ESG was discontinued after 2019 and replaced with an updated MSCI ESG rating scheme. The two datasets use different methodologies and are not directly comparable with each other or with Refinitiv ESG (Berg et al., 2022).

¹² Specifically, $ZScore = 3.3 \times \frac{EBIT}{Total\ Assets} + 0.99 \times \frac{Net\ Sales}{Total\ Assets} + 0.6 \times \frac{Market\ Equity}{Total\ Liabilities} + 1.2 \times \frac{Current\ Assets}{Total\ Assets} + 1.4 \times \frac{Retained\ Earnings}{Total\ Assets}$, where EBIT is earnings before interest and taxes.

3.3 Empirical Methodology

3.3.1 The Likelihood, Severity, and Complexity of the CL Process

Our empirical analysis begins by examining the relationship between CSR performance and the likelihood of receiving a comment letter. To test this relationship in a multivariate setting, we employ Logistic regressions and estimate the following model:

$$\Pr(CL_t^i = 1) = \alpha_0 + \alpha_j + \alpha_k + \beta \times CSR_{t-1}^i + \Gamma \times \mathbf{Z}_{t-1}^i + \varepsilon_t^i; \quad (1)$$

where CL_t^i is the *Comment Letter* indicator for firm i in year t , CSR_{t-1}^i is the CSR performance measure of the firm in the previous year (one of the alternative ESG scores), and $\mathbf{Z}_{t-1}^i$ is the vector of control variables in the previous year. Our set of control variables, discussed in Section 3.2, is in line with the extant literature on the CL review process (see, for example, Heese et al., 2017). The right-hand-side variables are lagged to reduce the endogeneity issue. To account for potential industry, state, time, and firm effects, which could introduce bias in our estimations or standard errors (Petersen, 2009), the standard errors in our baseline models are clustered by firm and year¹³, and we estimate specifications that include industry and state fixed effects.

We argue that better CSR performance, indicating a higher earned trust in the firm, can affect both the likelihood of comment letters and their severity and complexity. We test this hypothesis by estimating linear models with a log-transformed dependent variable that are limited to firm-year observations with a CL. Specifically, we estimate the following equation:

$$\ln(CL\ Characteristic_t^i) = \alpha_0 + \alpha_j + \alpha_k + \beta_1 \times CSR_{t-1}^i + \Gamma \times \mathbf{Z}_{t-1}^i + \varepsilon_t^i; \quad (2)$$

where the dependent variable, $CL\ Characteristic_t^i$, is either *Number of Topics*, *1 + Resolution Time*, or *Number of Rounds*, proxies for the severity and complexity of the CL process.

3.3.2 Robustness Tests

In our baseline regressions of the likelihood of receiving a CL, we treat each firm-year independently. That is, for each firm, we assume the probability of receiving a CL to be constant over time. However, due to the three-year review cycle of the SEC, this probability may vary systematically, depending on the time passed since the firm's last review. We employ two approaches to address this concern. First, in the spirit of Arellano and Bond (1991), we estimate a dynamic model that includes the first three lags of the CL indicator in Eq. (1). Moreover, since the initial condition—i.e., the CL status of each firm in the first year of its inclusion in our sample—is different, we follow Wooldridge (2005) and include each firm's first observed CL status as an additional regressor in our dynamic model. Second, we estimate a discrete-time hazard model (Jenkins, 1995; Shumway, 2001) by including the years

¹³ Our models include industry and state fixed effects to absorb time-invariant heterogeneity across sectors and geographic locations, and we cluster standard errors by firm and year to accommodate within-firm serial correlation and cross-sectional correlation among firms in the same period (Petersen, 2009). We do not include firm and year fixed effects because CSR performance is highly persistent within firms and across firms in the same industry (Cheng et al., 2014; El Ghoul et al., 2011) and geographical location (Chintrakarn et al., 2017); therefore, their inclusion would absorb most of the identifying variation in our main explanatory variable and amplify the attenuation bias induced by any measurement error in CSR performance (Gormley & Matsa, 2014).

since the firm last received a CL as an additional control variable. As an alternative, we incorporate the elapsed time as a cubic polynomial to allow for potential non-linearity in the SEC's review cycle (Beck et al. 1998).

Since our severity measure—the number of topics raised in the CL—and our complexity measures—resolution time and the number of rounds of correspondence—are non-negative discrete variables, log-linear models estimated by ordinary least squares (OLS) regressions could lead to biased estimates (Silva & Tenreyro, 2006). The Poisson pseudo-maximum likelihood estimator addresses this concern directly by modeling the conditional mean of the count outcome without imposing distributional assumptions of OLS (Cameron & Trivedi, 2013). Therefore, for robustness, we estimate Poisson models of our severity and complexity regressions with the same explanatory and control variables and fixed effects as our baseline specifications.

We argue that better CSR performance influences the severity and complexity of the CL. However, firms that receive a CL in a particular year may be systematically different from those that do not, namely, the CL review process may not be completely random. Moreover, expecting a CL review, a firm could increase its ESG investment ex-ante. These factors could potentially introduce selection bias to our estimates. We use the two-stage Heckman method to control for such bias (Heckman, 1979). In the first stage, we estimate a variation of Eq. (1) using Probit regressions, as follows:

$$\Pr(CL_t^i = 1) = \alpha_0 + \alpha_j + \alpha_k + \beta_1 \times \%Republican\ Vote_{k,t-1}^i + \beta_2 \times CSR_{t-1}^i + \Gamma \times Z_{t-1}^i + \varepsilon_t^i; \quad (3)$$

where $\%Republican\ Vote_{t-1}^i$ is our excluded variable, defined as the ratio of votes for the Republican candidate to the total votes cast in the firm's headquarters state in the most recent U.S. Presidential election.¹⁴ Prior research documents that the SEC's enforcement priorities and scrutiny of corporate disclosures may not be immune to political influence. That is, the SEC's enforcement actions, including its CL reviews, are sensitive to firms' political connections or the political environment of their states (Heese et al., 2017; Khokhar & Shahriari, 2022). Consequently, the political orientation of the firm's headquarters state could influence the likelihood of the firm receiving a CL. On the other hand, once a firm has been selected for review and a CL is issued, the severity and complexity of the ensuing CL process are mainly determined by the substance of the firm's financial and non-financial disclosures and other firm-specific factors.¹⁵ Therefore, we expect the state-level $\%Republican\ Vote$ to satisfy the exclusion restriction. Next, in the second stage of our Heckman model, we estimate Eq. (2) with the addition of the inverse Mills ratio (Mills lambda) from the first stage as a control.

Finally, we use the 2SLS regression approach to mitigate further potential endogeneity concerns. Specifically, despite the inclusion of the multiple controls in our specification, we cannot completely rule out the possibility that there are unobservable factors—such as management quality—that simultaneously lead to higher CSR performance and better disclosure quality, and in turn, lower likelihood and less severity and complexity of the CL.

¹⁴ Election data are retrieved from MIT Election Data + Science Lab at <https://electionlab.mit.edu/data>.

¹⁵ Notwithstanding, Heese et al. (2017) report that the number of issues raised in the CL could be impacted by a firm's lobbying activities and political donations.

To address this concern, we instrument our primary explanatory variable, *Refinitiv ESGC*, with a measure of *Social Capital* in the firm's headquarters state (Rupasingha et al., 2006). This measure is retrieved from the Northeast Regional Center for Rural Development (NERCRD).¹⁶ It is provided for 1997, 2005, 2009, and 2014, and the most recent year is matched with each firm-year observation. The extant literature shows a firm's CSR performance to be highly associated with the level of social capital in its community, that is, its county or headquarters state (e.g., Hoi et al., 2018; Jha & Cox, 2015). Therefore, we argue that *Social Capital* satisfies the relevance criterion. Moreover, the state-level *Social Capital* is expected to affect the likelihood, severity, and complexity of CLs for any specific firm only through its impact on the firm-level CSR performance. In other words, once we control for CSR performance and disclosure quality of the firm, *Social Capital* has no plausible direct path to impact the CL process—that is, it satisfies the exclusion criterion. In the first stage of the 2SLS, we estimate the regressions of CSR performance on our instrument and set of control variables, as follows:

$$CSR_t^i = \alpha_0 + \alpha_j + \alpha_k + \beta_1 \times Social\ Capital_{k,t-1}^i + \Gamma \times Z_{t-1}^i + \varepsilon_t^i; \quad (4)$$

where CSR_t^i is *Refinitiv ESGC* of firm i in year t . Then, in the second stage, we estimate Eq. (1) and Eq. (2) using the predicted values from the first stage of the 2SLS as the main explanatory variable.¹⁷

4. Results and Discussion

4.1 Summary Statistics

Table 2 shows descriptive statistics of the main variables of interest in our study. Recall that our full sample of 31,819 observations includes all Compustat firm-years in the fiscal years of 2004-2023 with available Refinitiv ESG data and control variables. However, only 6,655 firm-year observations (20.92% of the full sample) include a comment letter (Panel B), with a mean (median) of 8.6 (7) topics (ranging from 1 to 63), a mean (median) resolution time of 61.8 (40) days (ranging from 0 to 1,144 days), and a mean (median) of 4.4 (3) rounds (ranging from 1 to 38), as shown in Panel A of the table. Pairwise correlations between the main explanatory and control variables are presented in Table 3, which shows that the three CSR performance measures are highly correlated—with the correlation coefficients ranging between 0.87 and 0.97. The correlation between all our control variables is below 60%, with the largest positive correlations observed between *Altman Z-Score* and *Market-to-Book* (Spearman $\rho = 0.54$), and between *Size* and CSR performance (ESG) variables. The latter is consistent with the reported size bias in Refinitiv ESG data (Dobrick et al., 2023).¹⁸

Table 2: Summary Statistics

This table presents the descriptive statistics for the main variables. The comment letter-related variables are described in Table 1. Panel A reports the statistics for the continuous variables. *Refinitiv ESGC*, *ESG*, and *ES* are

¹⁶ <https://nercrd.psu.edu/data-resources/county-level-measure-of-social-capital/>

¹⁷ Note that we do not use the Heckman method (and, consequently, Mills lambda) in conjunction with the 2SLS method.

¹⁸ Note that due to the large sample size, virtually all correlation coefficients in Table 3 are statistically significant at the 1% level. Thus, the significant levels are not reported.

the ESG Combined Score, ESG Score, and the average of Environmental Pillar Score and Social Pillar Score from the Refinitiv ESG database, respectively. The ESG Score (and the corresponding pillar scores) is based on a firm's self reported information on environmental, social, and governance matters. The Combined ESG Score is adjusted for ESG Controversies. Market capitalization (market equity) is the closing price multiplied by the number of shares outstanding (in millions) at the end of the fiscal year. *Market-to-Book* is the ratio of market equity to book equity. Book equity is common equity plus deferred taxes and investment tax credits. *Return on Equity* is income before extraordinary items divided by book equity. *Dividend Yield* is the ratio of dividends on common equity to market equity. *Altman Z-Score* is calculated as $3.3 \times \frac{EBIT}{Total Assets} + 0.99 \times \frac{Net Sales}{Total Assets} + 0.6 \times \frac{Market Equity}{Total Liabilities} + 1.2 \times \frac{Current Assets}{Total Assets} + 1.4 \times \frac{Retained Earnings}{Total Assets}$ (Altman, 1968). EBIT is earnings before interest and taxes. *Discretionary Accruals* is the absolute value of the difference between earnings before extraordinary items and cash flow from operations, scaled by total assets. *Firm Age* is the number of years that the firm appears on Compustat until 2026. *%Republican Vote* is the ratio of votes for the Republican candidate to the total votes cast in the firm's headquarters state in the most recent U.S. Presidential election. *Social Capital* in each firm's headquarters state is retrieved from the Northeast Regional Center for Rural Development (NERCRD) (Rupasingha et al., 2006). The data are provided for 1997, 2005, 2009, and 2014, and the most recent year is matched with each firm-year observation. Panel B reports the statistics for the indicator variables. *Comment Letter* equals one if the firm's annual report is the subject of a comment letter review by the SEC in a given year, and zero otherwise. *Loss Indicator* equals one if the firm's net income is negative, and zero otherwise. *High Litigation Risk* equals one if a firm operates in a high-litigation industry, and zero otherwise. Industries with high litigation risk include biotech, computer, electronics, and retail (Huang et al., 2019).

Panel A: Continuous Variables						
Variable	Mean	Median	Standard Deviation	Min	Max	N
Number of Topics	8.649	7.000	7.216	1.000	63.000	6,655
Resolution Time	61.764	40.000	68.321	0.000	1144.000	6,655
Number of Rounds	4.388	3.000	2.127	1.000	38.000	6,655
Refinitiv ESGC	0.389	0.364	0.180	0.004	0.936	31,819
Refinitiv ESG	0.403	0.373	0.192	0.004	0.952	31,819
Refinitiv ES	0.347	0.286	0.223	0.002	0.966	31,819
Market Capitalization	13,648	2,865	57,422	1	2,662,326	31,819
Market-to-Book	3.275	2.006	6.575	-30.854	56.579	31,819
Return on Equity	0.053	0.090	0.548	-3.982	3.564	31,819
Dividend Yield	0.017	0.009	0.024	0.000	0.211	31,819
Altman Z-Score	3.667	2.498	5.280	-12.654	55.044	31,819
Discretionary Accruals	0.066	0.045	0.077	0.000	0.728	31,819
Firm Age	35.900	31.000	19.354	4.000	80.000	31,819
%Republican Vote	0.445	0.449	0.095	0.041	0.728	27,810
Social Capital	-0.220	-0.387	0.579	-1.823	3.338	27,749

Panel B: Indicator Variables				
Variable	N		Percentage	
	= 0	= 1	= 0	= 1
Comment Letter	25,164	6,655	79.08%	20.92%
Loss Indicator	24,558	7,261	77.18%	22.82%
High Litigation Risk	24,181	7,638	76.00%	24.00%

Table 3: Full-sample Pairwise Correlations

This table reports the pairwise correlations between the main explanatory and control variables. The variables are described in Table 2. *Size* is the natural logarithm of market capitalization in millions of U.S. dollars. Pearson correlations are presented below the main diagonal, and Spearman correlations are presented above it.

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Refinitiv ESGC	-	0.97	0.88	0.47	0.06	0.16	0.21	0.04	-0.10	0.27
(2) Refinitiv ESG	0.96	-	0.91	0.52	0.06	0.17	0.22	0.04	-0.10	0.30
(3) Refinitiv ES	0.87	0.93	-	0.56	0.06	0.16	0.23	0.02	-0.10	0.29
(4) Size	0.47	0.55	0.59	-	0.33	0.32	0.21	0.24	-0.13	0.40
(5) Market-to-Book	0.02	0.03	0.03	0.17	-	0.30	-0.17	0.54	0.11	-0.01
(6) Return on Equity	0.09	0.09	0.09	0.16	0.06	-	0.19	0.26	-0.21	0.24
(7) Dividend Yield	0.09	0.10	0.11	0.07	-0.10	0.07	-	-0.20	-0.27	0.31
(8) Altman Z-Score	-0.04	-0.05	-0.05	0.15	0.26	0.06	-0.16	-	0.17	0.10
(9) Discretionary Accruals	-0.14	-0.14	-0.13	-0.22	0.04	-0.17	-0.13	-0.03	-	-0.15
(10) Firm Age	0.29	0.33	0.33	0.40	-0.04	0.12	0.14	-0.05	-0.17	-

4.2 Main Findings

4.2.1 CSR Performance and the Likelihood of Receiving a Comment Letter

Our first test investigates the relationship between CSR performance and its disclosure quality and transparency, reflected by the probability of receiving a CL from the SEC. We posit that a firm with a higher *Refinitiv ESGC* score will be less likely to receive an SEC comment letter, all else equal, as a higher score reflects more trust in the firm, higher reporting quality, and higher social capital overall. Results of different specifications of this first analysis, as described in Eq. (1), are presented in Table 4. All models include the likelihood of receiving a CL as the dependent variable. The coefficient estimates of the average marginal effects (probabilities) are reported in the table. Columns (1) and (2) use *Refinitiv ESGC*, Columns (3) and (4) employ *Refinitiv ESG*, and Columns (5) and (6) use *Refinitiv ES*, which excludes the governance pillar, as the main explanatory variable, as described in Section 3.2. In all models, standard errors are clustered by firm and year. All columns include industry fixed effects, while Columns (2), (4), and (6) also include state fixed effects. Finally, all specifications include our set of firm-level controls, which expected to impact the likelihood and outcome of the CL process (e.g., Heese et al., 2017): *Size*, *Market-to-Book* ratio, *Return on Equity*, *Dividend Yield*, *Altman Z-Score*, *Discretionary Accruals*, *Firm Age*, *Loss Indicator*, and the *High Litigation Risk Indicator*.

Table 4: CSR Performance and the Likelihood of Comment Letter

This table reports the results of the full-sample logistic (logit) regressions of the likelihood of the comment letter. The dependent variable is the *Comment Letter* indicator. In Columns (1) and (2), the explanatory variable is *Refinitiv ESGC*. In Columns (3) and (4), the explanatory variable is *Refinitiv ESG*. In Columns (5) and (6), the explanatory variable is *Refinitiv ES*. The variables are described in Tables 1 and 2. Columns (1), (3) and (5) include

industry (based on the Fama–French 48-industry classification) fixed effects. Columns (2), (4) and (6) include industry and state fixed effects. Standard errors are clustered by firm and fiscal year. The estimates of the average marginal effects (probabilities) and clustered standard errors (appearing below in parentheses) are reported. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

Variable	(1)	(2)	(3)	(4)	(5)	(6)
Refinitiv ESGC	-0.170*** (0.036)	-0.162*** (0.037)				
Refinitiv ESG			-0.170*** (0.038)	-0.167*** (0.039)		
Refinitiv ES					-0.142*** (0.035)	-0.132*** (0.036)
Size	0.045*** (0.006)	0.044*** (0.005)	0.048*** (0.006)	0.046*** (0.006)	0.049*** (0.006)	0.047*** (0.005)
Market-to-Book	-0.002*** (0.000)	-0.002*** (0.001)	-0.002*** (0.000)	-0.002*** (0.001)	-0.002*** (0.000)	-0.002*** (0.001)
Return on Equity	0.007 (0.005)	0.006 (0.005)	0.007 (0.004)	0.006 (0.005)	0.007 (0.004)	0.006 (0.005)
Dividend Yield	-0.306 (0.244)	-0.033 (0.225)	-0.278 (0.244)	-0.002 (0.224)	-0.272 (0.244)	-0.002 (0.224)
Altman Z-Score	-0.003*** (0.000)	-0.003*** (0.001)	-0.003*** (0.000)	-0.003*** (0.001)	-0.003*** (0.000)	-0.003*** (0.001)
Discretionary Accruals	0.057 (0.041)	0.052 (0.043)	0.061 (0.041)	0.055 (0.043)	0.064 (0.041)	0.058 (0.044)
Firm Age	0.002*** (0.000)	0.001*** (0.000)	0.002*** (0.000)	0.001*** (0.000)	0.002*** (0.000)	0.001*** (0.000)
Loss Indicator	0.007 (0.012)	0.004 (0.013)	0.009 (0.012)	0.007 (0.013)	0.010 (0.012)	0.008 (0.013)
High Litigation Risk	0.008 (0.012)	0.009 (0.013)	0.009 (0.013)	0.010 (0.013)	0.011 (0.013)	0.012 (0.013)
<i>Standard Errors Clustered by Firm</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Standard Errors Clustered by Year</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Industry Fixed Effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>State Fixed Effects</i>	No	Yes	No	Yes	No	Yes
<i>Observations</i>	31,819	31,819	31,819	31,819	31,819	31,819
<i>Pseudo R²</i>	4.88%	6.71%	4.88%	6.73%	4.83%	6.64%

The results show, on aggregate, that firms with a higher CSR performance are less likely to receive a comment letter in the following year, as shown by the negative and statistically significant coefficients in all our models. Economically, considering Column (2), our main specification, a one-standard-deviation increase in the *Refinitiv ESGC* corresponds to a drop

of 2.92 percentage points ($\beta \times \sigma_{ESGC} = -.162 \times .180 \approx -.0292$) in the probability of receiving a CL. Our findings show that a higher *Refinitiv ESG* score leads to a lower likelihood of receiving an SEC comment letter, supporting the idea that *Refinitiv ESG* (and its alternatives) is a good indicator of a firm's CSR performance (and trust in the firm), possibly by leading to more transparency, higher disclosure quality, and better reporting compliance. Our results extend the existing literature on the determinants of a firm's becoming the target of the SEC's review process.

The coefficient estimates of our firm-specific controls are also in line with the prior literature and generally consistent across the various models: larger and older firms are more likely to receive a CL. On the other hand, a firm's CL propensity decreases with a higher *Market-to-Book* ratio and *Altman Z-Score*.

4.2.2 CSR Performance and Comment Letter Process Characteristics

Next, we examine the link between a firm's CSR performance and three specific characteristics of the CL process: *Number of Topics* covered in the CL, number of days between initial receipt of the CL and its conclusion (*Resolution Time*), and total *Number of Rounds* in the conversation. In all our specifications, we use the general form of Eq. (2) and restrict the sample to firms that received a CL—i.e., the “selected” sample of 6,655 firm-year observations (2,349 firms).

First, we look at the relationship between *Refinitiv ESGC* and the *Number of Topics* encountered in the comment letters received. That is, once a firm has become a target of CL, whether its CSR performance is indicative of the severity of the CL process. We count the *Number of Topics* using the distinct comment letter issues assigned by Audit Analytics, following the method described by Cassell et al. (2013).¹⁹ Table 5 presents the results. We estimate several specifications with industry and state fixed effects, two-way clustering of standard errors, and alternative ESG measures similar to Table 4. In all specifications, the coefficient estimates of the variables of interest, *Refinitiv ESGC*, *Refinitiv ESG*, and *Refinitiv ES*, are negative and significant, confirming a robust inverse relationship between a firm's CSR performance and the *Number of Topics* in the SEC correspondence, a proxy for the severity of the CL process. In economic terms, considering Column (2), a one-standard-deviation increase in *Refinitiv ESGC* is associated with a 12.12% ($e^{\beta \times \sigma_{ESGC}} - 1 = e^{-.718 \times .180} - 1 \approx -.1212$) drop in the number of topics, which corresponds to a drop of one topic from the mean of 8.65 topics in our sample.

Table 5: CSR Performance and the Number of Topics

This table reports the results of the linear regressions of the natural logarithm of *Number of Topics*. The observations are limited to firms that are issued a comment letter (i.e., selected firms). The regression specifications are similar to Table 4. The variables are described in Tables 1 and 2. The coefficient estimates and clustered

¹⁹ Audit Analytics assigns comments to one of six distinct types: Accounting Rule and Disclosure Issues, Internal Control Disclosure Issues, Management Discussion and Analysis (MD&A), Regulatory Filing Issues (e.g., specific Reg S-K and Reg S-X disclosure requirements), Risk Factors, and Other (e.g., disclosures relating to executive and director compensation, legal matters, non-GAAP measures, related party transactions).

standard errors (appearing below in parentheses) are reported. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

Variable	(1)	(2)	(3)	(4)	(5)	(6)
Refinitiv ESGC	-0.712*** (0.140)	-0.718*** (0.140)				
Refinitiv ESG			-0.682*** (0.156)	-0.689*** (0.156)		
Refinitiv ES					-0.541*** (0.157)	-0.551*** (0.157)
Size	0.058*** (0.017)	0.055*** (0.017)	0.070*** (0.019)	0.067*** (0.019)	0.070*** (0.021)	0.068*** (0.022)
Market-to-Book	-0.003* (0.002)	-0.003* (0.002)	-0.003** (0.002)	-0.003* (0.002)	-0.003* (0.002)	-0.003 (0.002)
Return on Equity	0.007 (0.016)	0.008 (0.017)	0.007 (0.016)	0.008 (0.016)	0.005 (0.016)	0.006 (0.017)
Dividend Yield	-0.721 (1.309)	-0.812 (1.365)	-0.593 (1.297)	-0.676 (1.353)	-0.630 (1.304)	-0.718 (1.363)
Altman Z-Score	-0.006** (0.003)	-0.005* (0.003)	-0.006** (0.002)	-0.006** (0.002)	-0.006** (0.002)	-0.006** (0.002)
Discretionary Accruals	0.158 (0.210)	0.153 (0.218)	0.181 (0.212)	0.173 (0.220)	0.180 (0.215)	0.173 (0.224)
Firm Age	0.005*** (0.001)	0.006*** (0.001)	0.006*** (0.001)	0.006*** (0.001)	0.005*** (0.001)	0.006*** (0.001)
Loss Indicator	0.041 (0.045)	0.035 (0.045)	0.053 (0.045)	0.046 (0.044)	0.058 (0.044)	0.052 (0.044)
High Litigation Risk	0.058 (0.046)	0.062 (0.046)	0.063 (0.046)	0.066 (0.047)	0.067 (0.046)	0.072 (0.047)
<i>Standard Errors Clustered by Firm</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Standard Errors Clustered by Year</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Industry Fixed Effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>State Fixed Effects</i>	No	Yes	No	Yes	No	Yes
<i>Observations</i>	6,655	6,655	6,655	6,655	6,655	6,655
<i>Adjusted R²</i>	6.19%	6.48%	6.07%	6.37%	5.72%	6.04%

In Table 6, we present the results of the log-linear OLS regressions of the *Resolution Time* (in days) as a function of the firm's CSR performance in the previous year and our set of control variables. The regression specifications are similar to the ones presented in the previous tables. Once again, we report negative and significant coefficients for *Refinitiv ESGC* (and the alternative explanatory variables) in all specifications of Table 6. The results show that, on average, after controlling for all firm characteristics, firms with a higher *Refinitiv ESGC* tend

to have a shorter *Resolution Time* to the SEC comment letter correspondence. Economically, increasing the *Refinitiv ESGC* score by one-standard-deviation corresponds to an approximately 7.30% ($e^{\beta \times \sigma_{ESGC}} - 1 = e^{-.421 \times .180} - 1 \approx -.0730$) drop in the average *Resolution Time* (from 61.8 to 57.3 days).

Table 6: CSR Performance and the Resolution Time

This table reports the results of the linear regressions of the natural logarithm of $1 + \text{Resolution Time}$. The observations are limited to firms that are issued a comment letter (i.e., selected firms). The regression specifications are similar to Table 4. The variables are described in Tables 1 and 2. The coefficient estimates and clustered standard errors (appearing below in parentheses) are reported. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

Variable	(1)	(2)	(3)	(4)	(5)	(6)
Refinitiv ESGC	-0.409*** (0.082)	-0.421*** (0.082)				
Refinitiv ESG			-0.340*** (0.103)	-0.357*** (0.102)		
Refinitiv ES					-0.224** (0.096)	-0.241** (0.092)
Size	0.100*** (0.015)	0.095*** (0.016)	0.103*** (0.016)	0.099*** (0.016)	0.099*** (0.016)	0.096*** (0.016)
Market-to-Book	-0.001 (0.002)	-0.001 (0.002)	-0.001 (0.002)	-0.001 (0.002)	-0.001 (0.002)	-0.001 (0.002)
Return on Equity	-0.028 (0.027)	-0.029 (0.028)	-0.029 (0.027)	-0.029 (0.028)	-0.030 (0.028)	-0.031 (0.029)
Dividend Yield	-0.867 (1.107)	-1.080 (1.140)	-0.832 (1.118)	-1.037 (1.149)	-0.890 (1.125)	-1.097 (1.158)
Altman Z-Score	-0.007* (0.003)	-0.007* (0.003)	-0.007* (0.003)	-0.007* (0.004)	-0.007* (0.003)	-0.006* (0.004)
Discretionary Accruals	0.330 (0.240)	0.315 (0.243)	0.344 (0.242)	0.329 (0.244)	0.346 (0.244)	0.331 (0.246)
Firm Age	0.004*** (0.001)	0.005*** (0.001)	0.004*** (0.001)	0.005*** (0.001)	0.004*** (0.001)	0.005*** (0.001)
Loss Indicator	0.061 (0.040)	0.061 (0.039)	0.066 (0.041)	0.066 (0.040)	0.067 (0.041)	0.067 (0.040)
High Litigation Risk	0.094 (0.058)	0.101* (0.058)	0.097 (0.057)	0.104* (0.057)	0.098 (0.057)	0.106* (0.057)
<i>Standard Errors Clustered by Firm</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Standard Errors Clustered by Year</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Industry Fixed Effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>State Fixed Effects</i>	No	Yes	No	Yes	No	Yes
<i>Observations</i>	6,655	6,655	6,655	6,655	6,655	6,655
<i>Adjusted R²</i>	5.76%	6.11%	5.61%	5.97%	5.45%	5.81%

Finally, we estimate the models for the *Number of Rounds* in the correspondence as our dependent variable. The results are presented in Table 7, which mirrors our previous findings: the coefficients of *Refinitiv ESGC* are negative and statistically significant (at the 1% level). This indicates that firms with higher CSR performance that receive a CL from the SEC resolve the issue in fewer rounds. The coefficient estimates in Column (2) of Table 7 indicates a drop of 0.09 rounds (1.94%) in the CL process from the sample mean of 4.39 rounds for a one-standard-deviation increase in the *Refinitiv ESGC* score. However, we note that the coefficient estimates of *Refinitiv ESG* and *Refinitiv ES* are not statistically significant in our baseline regressions of the *Number of Rounds*.

Overall, the results in this section extend our main findings in Table 4, showing that firms with a high CSR performance are not only less likely to be subject to SEC investigation, but if they *do* become a subject of such investigation, the severity (*Number of Topics*) and complexity (*Resolution Time* and *Number of Rounds*) of their CL process are significantly reduced.

Table 7: CSR Performance and the Number of Rounds

This table reports the results of the linear regressions of the natural logarithm of *Number of Rounds*. The observations are limited to firms that are issued a comment letter (i.e., selected firms). The regression specifications are similar to Table 4. The variables are described in Tables 1 and 2. The coefficient estimates and clustered standard errors (appearing below in parentheses) are reported. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

Variable	(1)	(2)	(3)	(4)	(5)	(6)
Refinitiv ESGC	-0.116*** (0.034)	-0.109*** (0.035)				
Refinitiv ESG			-0.074 (0.043)	-0.068 (0.044)		
Refinitiv ES					-0.033 (0.040)	-0.029 (0.040)
Size	0.030*** (0.007)	0.028*** (0.007)	0.029*** (0.006)	0.027*** (0.007)	0.027*** (0.006)	0.025*** (0.007)
Market-to-Book	-0.000 (0.001)	-0.000 (0.001)	-0.000 (0.001)	-0.000 (0.001)	-0.000 (0.001)	-0.000 (0.001)
Return on Equity	-0.016 (0.013)	-0.016 (0.013)	-0.016 (0.013)	-0.017 (0.013)	-0.016 (0.013)	-0.017 (0.013)
Dividend Yield	-0.100 (0.509)	-0.194 (0.515)	-0.107 (0.522)	-0.201 (0.529)	-0.133 (0.525)	-0.227 (0.531)
Altman Z-Score	-0.003** (0.001)	-0.002* (0.001)	-0.002* (0.001)	-0.002* (0.001)	-0.002* (0.001)	-0.002 (0.001)
Discretionary Accruals	-0.096 (0.117)	-0.092 (0.121)	-0.091 (0.118)	-0.088 (0.122)	-0.090 (0.119)	-0.086 (0.123)

Variable	(1)	(2)	(3)	(4)	(5)	(6)
Firm Age	0.001*** (0.000)	0.001** (0.000)	0.001*** (0.000)	0.001** (0.000)	0.001** (0.000)	0.001** (0.000)
Loss Indicator	0.048** (0.020)	0.044** (0.020)	0.049** (0.020)	0.045** (0.020)	0.048** (0.020)	0.044** (0.020)
High Litigation Risk	0.046* (0.025)	0.055** (0.024)	0.047* (0.025)	0.056** (0.024)	0.047* (0.025)	0.056** (0.024)
<i>Standard Errors Clustered by Firm</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Standard Errors Clustered by Year</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Industry Fixed Effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>State Fixed Effects</i>	No	Yes	No	Yes	No	Yes
<i>Observations</i>	6,655	6,655	6,655	6,655	6,655	6,655
<i>Adjusted R²</i>	3.23%	3.40%	3.11%	3.29%	3.04%	3.24%

4.3 Robustness Test Results

In this section, we present the results of a variety of robustness tests described in Section 3.3.2. First, to address the concern that the probability of receiving a CL may not be constant over time due to the three-year review cycle of the SEC, we estimate dynamic and hazard model extensions of Eq. (1). The results are provided in Table 8. In Column (1), we include the first three lags of the CL indicator. We expect receiving a CL in a given year to impact the likelihood of receiving another comment letter in the subsequent three years, since the SEC reviews approximately one-third of publicly listed firms annually under its SOX mandate. Column (2) additionally includes each firm's comment letter status in the first year of sample inclusion, to account for potential biases arising from the initial condition of the CL indicator (Wooldridge, 2005). We find that only the second and third lag of *CL* are positive and statistically significant, confirming the temporal dependence of the variable. However, the coefficient estimate of *Refinitiv ESGC* remains negative and statistically significant at the 1% level.²⁰

Table 8: CSR Performance and the Likelihood of Comment Letter: Dynamic and Hazard Models

This table reports the results of the alternative logistic (logit) regressions of the likelihood of the comment letter. The dependent variable is the *Comment Letter* indicator. The explanatory variable is *Refinitiv ESGC*. All specifications include industry and state fixed effects. Standard errors are clustered by firm and fiscal year. The variables are described in Tables 1 and 2. Columns (1) and (2) include the first three lags of the *Comment Letter* indicator. Column (2) also includes the *Comment Letter* indicator for the first firm-year observation in the sample. Columns (3) and (4) include the number of years since the last *Comment Letter* for each firm-year observation.

²⁰ A related concern is that there are fewer firms with complete data in the early years of our sample. Thus, the observed proportion of firm-years with a CL is mechanically higher in those years. We assess whether this imbalance drives our findings in two ways. First, we re-estimate our likelihood regressions on the second half of the sample period (fiscal year ≥ 2014). Second, we restrict the sample to the 289 firms present in every year of the sample period. In both subsamples, the coefficient of *Refinitiv ESGC* remains negative and statistically significant (at the 10 percent level or better). These results are not reported for brevity.

Column (4) also includes the square and cube values of the number of years since the last *Comment Letter*. The estimates of the average marginal effects (probabilities) and clustered standard errors (appearing below in parentheses) are reported. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

Variable	(1)	(2)	(3)	(4)
Refinitiv ESGC	-0.115*** (0.033)	-0.115*** (0.033)	-0.117*** (0.032)	-0.124*** (0.028)
CL _{t-1}	0.001 (0.011)	0.001 (0.011)		
CL _{t-2}	0.074*** (0.013)	0.074*** (0.013)		
CL _{t-3}	0.074*** (0.015)	0.073*** (0.015)		
First Observed CL		0.001 (0.010)		
Years Since Last CL			-0.014*** (0.005)	0.017 (0.016)
(Years Since Last CL) ²				-0.006* (0.003)
(Years Since Last CL) ³				0.000* (0.000)
Size	0.033*** (0.005)	0.033*** (0.005)	0.041*** (0.005)	0.041*** (0.004)
Market-to-Book	-0.002** (0.001)	-0.002** (0.001)	-0.002*** (0.000)	-0.002*** (0.000)
Return on Equity	0.013* (0.007)	0.013* (0.007)	0.006 (0.005)	0.006 (0.005)
Dividend Yield	0.076 (0.222)	0.076 (0.222)	0.007 (0.212)	0.010 (0.213)
Altman Z-Score	-0.002*** (0.001)	-0.002** (0.001)	-0.002*** (0.000)	-0.002*** (0.001)
Discretionary Accruals	0.074 (0.049)	0.074 (0.049)	0.036 (0.038)	0.039 (0.038)
Firm Age	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
Loss Indicator	0.013 (0.013)	0.013 (0.013)	0.002 (0.013)	0.003 (0.013)
High Litigation Risk	0.014 (0.015)	0.014 (0.015)	0.007 (0.012)	0.006 (0.012)
<i>Standard Errors Clustered by Firm</i>	Yes	Yes	Yes	Yes

Variable	(1)	(2)	(3)	(4)
<i>Standard Errors Clustered by Year</i>	Yes	Yes	Yes	Yes
<i>Industry Fixed Effects</i>	Yes	Yes	Yes	Yes
<i>State Fixed Effects</i>	Yes	Yes	Yes	Yes
<i>Observations</i>	23,027	23,027	31,819	31,819
<i>Pseudo R²</i>	7.28%	7.28%	7.28%	7.42%

In Columns (3) and (4) of Table 8, we report estimates from discrete-time hazard models (Beck et al. 1998; Jenkins, 1995; Shumway, 2001). Column (3) includes *Years Since Last CL*, the number of years elapsed since the last time the firm received a CL, as an additional control, while Column (4) further includes its square and cubic terms. We find that a greater number of years since the last CL is associated with a lower likelihood of receiving a new CL in a given year. Nonetheless, the coefficient of *Refinitiv ESGC* remains economically and statistically significant across these alternative specifications.

Our measures of CL severity and complexity—*Number of Topics*, *Number of Rounds*, and *Resolution Time* (in days)—are count variables. In our baseline specifications, we use the natural logarithm of each variable (adding one to *Resolution Time* to handle zero values) as the dependent variable and estimate OLS models. However, OLS estimation of log-transformed count variables is sensitive to the treatment of zero values and could produce biased estimates (Silva & Tenreiro, 2006). Thus, as a robustness check, we estimate Poisson regressions of the raw count variables. The results are presented in Table 9. The coefficient estimates of *Refinitiv ESGC* are negative and statistically significant for all three dependent variables. Moreover, the coefficient magnitudes are comparable to those from the OLS regressions. Thus, our results remain robust to this alternative estimator.

Table 9: CSR Performance and CL Severity/Complexity: Poisson Regressions

This table reports the results of the Poisson regressions of the *Number of Topics*, *Resolution Time*, and *Number of Rounds*. The sample is limited to firm-year observations in which the *Comment Letter* indicator equals 1. The regression specifications are similar to Table 4. The variables are described in Tables 1 and 2. The coefficient estimates and clustered (by firm) standard errors (appearing below in parentheses) are reported. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

Variable	(1)	(2)	(3)
	Number of Topics	Resolution Time	Number of Rounds
Refinitiv ESGC	-0.818*** (0.068)	-0.384*** (0.089)	-0.114*** (0.038)
Size	0.057*** (0.008)	0.100*** (0.011)	0.031*** (0.005)
Market-to-Book	-0.004** (0.002)	-0.001 (0.002)	-0.000 (0.001)
Return on Equity	0.002 (0.021)	-0.043 (0.029)	-0.022 (0.014)

Variable	(1)	(2)	(3)
	Number of Topics	Resolution Time	Number of Rounds
Dividend Yield	-0.894 (0.592)	-1.747** (0.792)	-0.320 (0.355)
Altman Z-Score	-0.005* (0.003)	-0.006 (0.004)	-0.003* (0.002)
Discretionary Accruals	0.055 (0.165)	0.397 (0.284)	-0.061 (0.139)
Firm Age	0.006*** (0.001)	0.005*** (0.001)	0.002*** (0.000)
Loss Indicator	0.052* (0.031)	0.074* (0.042)	0.051*** (0.019)
High Litigation Risk	0.100* (0.059)	0.141* (0.076)	0.078** (0.034)
<i>Standard Errors Clustered by Firm</i>	Yes	Yes	Yes
<i>Standard Errors Clustered by Year</i>	No	No	No
<i>Industry Fixed Effects</i>	Yes	Yes	Yes
<i>State Fixed Effects</i>	Yes	Yes	Yes
<i>Observations</i>	6,655	6,655	6,655
<i>Pseudo R²</i>	6.09%	8.51%	1.22%

Next, we address potential selection bias arising from the possibility that firms receiving a CL may be systematically different from those that do not. We employ the Heckman (1979) two-step procedure, using the ratio of Republican presidential votes to total votes cast in the firm's headquarters state as the excluded variable in the selection equation. Table 10 presents the results. Column (1) reports the estimates from the first-stage Probit regression in Eq. (3), while Columns (2)-(4) report second-stage estimates with measures of CL severity and complexity as the dependent variables. In Column (1), we find that the state-level *%Republican Vote* is positive and significant at the 5% level. This confirms that *%Republican Vote* is a relevant excluded variable and a significant predictor of CL receipt. In the second stage, the coefficients of *Refinitiv ESGC* in the *Number of Topics* and *Number of Rounds* regressions—reported in Columns (2) and (4), respectively—remain negative and statistically significant, indicating that our core findings are, at least partially, robust to the Heckman correction. Moreover, the significant Wald tests of independent equations across Columns (2)-(4) support the validity of the Heckman model.

Table 10: CSR Performance and CL Severity/Complexity: Heckman Regressions

This table reports the results of the Heckman selection regressions. Column (1) presents the results from the first-stage Probit regression (Heckman, 1979). The regression specification is similar to Table 4, with the addition of state-level *%Republican Vote* as the excluded variable. Columns (2)-(4) present the results of the second-stage regressions, where the dependent variable is $\ln(\text{Number of Topics})$, $\ln(1 + \text{Resolution Time})$, and $\ln(\text{Number of Rounds})$.

Rounds), respectively. The specifications include the inverse Mills ratio from the first-stage regression. They are limited to firm-year observations in which the *Comment Letter* indicator equals 1. The variables are described in Tables 1 and 2. The coefficient estimates and clustered (by firm) standard errors (appearing below in parentheses) are reported. The table also reports χ^2 -statistics for the Wald test of independent equations; a significant χ^2 indicates potential selection and justifies the use of the selection model. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

Variable	(1)	(2)	(3)	(4)
	Pr(CL=1)	Number of Topics	Resolution Time	Number of Rounds
State-Level %Republican Vote	0.720** (0.348)			
Refinitiv ESGC	-0.649*** (0.060)	-0.266*** (0.078)	0.056 (0.089)	-0.093*** (0.034)
Size	0.163*** (0.007)	-0.071*** (0.011)	-0.026** (0.013)	0.021*** (0.005)
Market-to-Book	-0.006*** (0.001)	0.001 (0.002)	0.003 (0.002)	0.000 (0.001)
Return on Equity	0.024 (0.017)	-0.008 (0.026)	-0.045 (0.029)	-0.016 (0.011)
Dividend Yield	0.034 (0.473)	-0.765 (0.568)	-1.104* (0.635)	-0.185 (0.282)
Altman Z-Score	-0.010*** (0.002)	0.004 (0.003)	0.000 (0.004)	-0.002 (0.001)
Discretionary Accruals	0.208 (0.136)	0.025 (0.198)	0.199 (0.236)	-0.085 (0.094)
Firm Age	0.005*** (0.001)	0.002** (0.001)	0.001 (0.001)	0.001*** (0.000)
Loss Indicator	0.023 (0.027)	0.040 (0.037)	0.056 (0.041)	0.047*** (0.016)
High Litigation Risk	0.028 (0.047)	0.040 (0.059)	0.087 (0.068)	0.058** (0.027)
<i>Wald Test of Independent Equations χ^2</i>		762.50***	381.72***	15.52***
<i>Standard Errors Clustered by Firm</i>	Yes	Yes	Yes	Yes
<i>Standard Errors Clustered by Year</i>	No	No	No	No
<i>Industry Fixed Effects</i>	Yes	Yes	Yes	Yes
<i>State Fixed Effects</i>	Yes	Yes	Yes	Yes
<i>Observations</i>	27,810	6,299	6,299	6,299
<i>Pseudo R²</i>	5.06%			
<i>Adjusted R²</i>		8.57%	6.48%	3.67%

Lastly, we cannot completely rule out the possibility that unobservable variables—such as the quality of the firm’s management or the strength of its corporate governance—drive both the firm-level CSR performance and disclosure quality simultaneously. To address this potential endogeneity of CSR performance in our CL likelihood and characteristic regressions, we employ the 2SLS model with the state-level *Social Capital* (Rupasingha et al., 2006) as the instrument for *Refinitiv ESGC*. The validity of this instrument rests on two conditions. First, relevance: firms headquartered in high social capital states exhibit systematically stronger CSR performance, as informal civic norms and social networks in the surrounding community foster more socially responsible corporate behavior (Jha & Cox, 2015; Hoi et al., 2018). Second, exclusion: conditional on CSR performance and the full set of firm-level controls, state-level social capital has no plausible direct effect on either the probability of CL receipt or the characteristics of the CL process, both of which are determined by the content of the firm’s financial disclosures and governed by uniform federal standards administered by the SEC.

The results are reported in Table 11. Column (1) reports the first-stage estimates, in which we regress *Refinitiv ESGC* on the instrument and the full set of control variables. The coefficient of *Social Capital* is positive and statistically significant, confirming instrument relevance. In Columns (2) – (5), the predicted value of *Refinitiv ESGC* from the first stage is used as the main explanatory variable, while the dependent variables are the *Likelihood of CL*, *Number of Topics*, *Resolution Time*, and *Number of Rounds*, respectively. The results in Columns (2)-(5) are consistent, in sign and significance, with our baseline findings, providing further evidence that high CSR performance is associated with a lower probability of receiving a CL and—once a CL is issued—fewer topics, shorter resolution time, and fewer rounds. Collectively, these findings confirm that our main results are not attributable to the endogeneity of CSR performance due to omitted variables or reverse causality.

Table 11: CSR Performance and CL Likelihood and Severity/Complexity: 2SLS Regressions

This table reports the results of the IV/2SLS regressions. Column (1) presents the results from the first-stage regressions. The instrumental variable is state-level *Social Capital*. The predicted (fitted) values of *Refinitiv ESGC* from the first stage are used as the explanatory variable in the second stage in Columns (2)–(5), where the dependent variable is *Comment Letter*, $\ln(\text{Number of Topics})$, $\ln(1 + \text{Resolution Time})$, and $\ln(\text{Number of Rounds})$, respectively. The regression specifications are similar to Table 4. The variables are described in Tables 1 and 2. The coefficient estimates and clustered (by firm) standard errors (appearing below in parentheses) are reported. The table also reports *F*- or *Chi*²-statistics of the endogeneity tests for the second-stage regressions; a significant test statistic indicates potential endogeneity and justifies the use of the two-stage model. *, **, and *** denote the statistical significance of the coefficients at the 10%, 5%, and 1% levels, respectively.

Variable	(1)	(2)	(3)	(4)	(5)
	Refinitiv ESGC	Pr(CL=1)	Number of Topics	Resolution Time	Number of Rounds
State-Level Social Capital	0.069*** (0.013)				
Fitted Refinitiv ESGC		-5.912*** (0.288)	-7.138*** (1.513)	-3.389*** (1.105)	-1.477*** (0.498)
Size	0.047*** (0.001)	0.350*** (0.010)	0.351*** (0.072)	0.232*** (0.053)	0.090*** (0.024)
Market-to-Book	-0.001***	-0.007***	-0.007**	-0.003	-0.001

Variable	(1)	(2)	(3)	(4)	(5)
	Refinitiv ESGC	Pr(CL=1)	Number of Topics	Resolution Time	Number of Rounds
	(0.000)	(0.001)	(0.003)	(0.002)	(0.001)
Return on Equity	0.006***	0.045***	0.060*	-0.003	-0.006
	(0.002)	(0.015)	(0.035)	(0.029)	(0.012)
Dividend Yield	0.274***	1.571***	2.308*	0.356	0.483
	(0.087)	(0.578)	(1.266)	(0.940)	(0.424)
Altman Z-Score	-0.004***	-0.028***	-0.033***	-0.021***	-0.009***
	(0.000)	(0.002)	(0.008)	(0.006)	(0.003)
Discretionary Accruals	-0.078***	-0.317**	-0.235	0.162	-0.160
	(0.017)	(0.134)	(0.295)	(0.245)	(0.108)
Firm Age	0.001***	0.008***	0.011***	0.007***	0.003***
	(0.000)	(0.001)	(0.002)	(0.001)	(0.001)
Loss Indicator	0.012***	0.088***	0.092*	0.086**	0.055***
	(0.004)	(0.027)	(0.054)	(0.043)	(0.019)
High Litigation Risk	-0.015	-0.072	0.003	0.078	0.046
	(0.012)	(0.073)	(0.114)	(0.078)	(0.035)
<i>Test of Endogeneity Chi²</i>		55.37***			
<i>Test of Endogeneity F</i>			43.28***	9.46***	9.99***
<i>Standard Errors Clustered by Firm</i>	Yes	Yes	Yes	Yes	Yes
<i>Standard Errors Clustered by Year</i>	No	No	No	No	No
<i>Industry Fixed Effects</i>	Yes	Yes	Yes	Yes	Yes
<i>State Fixed Effects</i>	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	27,749	27,749	6,279	6,279	6,279
<i>Pseudo R²</i>		5.13%			
<i>Adjusted R²</i>	29.77%		5.88%	5.95%	3.64%

Finally, since our results show that investment in ESG and high CSR performance can help reduce disclosure costs for a firm, a valid follow-up could explore whether this mechanism helps firms with high CSR performance face a weaker negative stock price reaction from investors in response to the news about the initiation of a CL. Given the lengthy and complicated CL process, it is difficult to assess such an effect clearly. We nevertheless compute the cumulative abnormal returns (CARs) around the CL initiation date and conduct cross-sectional regression analysis to estimate whether high CSR performance firms have faced relatively weaker negative stock price reaction. The results, though weaker, support this conjecture and are available upon request.

5. Conclusion

This paper examines whether firm-level CSR performance—captured by alternative ESG measures—affects the quality of corporate disclosure through a novel channel: the SEC’s comment letter process. Drawing on the earned trust and reputational capital literature, we observe that firms with stronger CSR performance have higher disclosure quality, as reflected in their interactions with the SEC’s Division of Corporation Finance. More precisely, we document that higher CSR performance is associated with a lower likelihood that a firm receives a comment letter, consistent with the view that socially responsible firms invest in the transparency and integrity of their disclosures in ways that reduce regulatory concern. For firms that do receive a comment letter, we further show that the review process is less burdensome for high CSR performance firms across multiple dimensions: the comment letter raises fewer distinct topics requiring explanation, the time to resolution is shorter, and the number of rounds of correspondence is lower.

Our findings are robust to alternative proxies for CSR performance, an expanded set of control variables—including firm size and age, return on equity, market-to-book ratio, and both litigation and bankruptcy risk—the clustering of standard errors by firm and year, and the inclusion of industry and state fixed effects. We address the dynamic structure of comment letter receipt—which reflects the SEC’s approximately three-year review cycle—using dynamic logit models with lagged dependent variables and discrete-time hazard models, confirming that our baseline results are not artifacts of temporal dependence in the selection process. Our count-based severity and complexity measures yield consistent results under Poisson regression, addressing potential concerns about the distributional assumptions of our baseline log-linear models. We further address potential selection bias using the Heckman two-stage model with the state-level percentage of votes cast for Republican candidates in Presidential elections as the excluded variable, and the endogeneity of CSR performance using a 2SLS framework with state-level social capital as the instrument. Across our robustness checks, the sign, magnitude, and statistical significance of the CSR performance coefficient remain stable, lending confidence that our findings reflect a robust relationship between firm-level CSR performance and the SEC comment letter process.

Taken together, our findings establish the SEC comment letter process as a meaningful and previously unexplored channel through which CSR performance shapes firms’ regulatory experiences and contribute to a growing body of literature that investigates the relationship between CSR performance, investment, and various corporate finance outcomes. Our findings carry practical implications for firm managers, investors, and regulators. For managers, they suggest that genuine investment in CSR performance may yield tangible benefits in the form of reduced regulatory friction and lower compliance costs associated with SEC review. For regulators and policymakers, they highlight the informational value embedded in firms’ non-financial disclosures and the potential role of CSR performance as a signal of overall reporting quality. Future research could explore the specific mechanisms—such as board quality, auditor choice, or voluntary disclosure practices—through which CSR performance translates into better regulatory outcomes.

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Appendix

Table A1: Variable descriptions and data sources

Variable	Descriptions	Source
Number of Topics	The natural logarithm of the total number of issue codes in the initial comment letter from the SEC.	Audit Analytics
Resolution Time	The natural logarithm of 1 + the number of days between the first letter from the SEC and the final “no further comment” letter.	Audit Analytics
Number of Rounds	The natural logarithm of the number of SEC letters in the conversation between the SEC and the firm.	Audit Analytics
Refinitiv ESGC	The firm’s overall ESG score based on the self-reported information on the environmental, social and corporate governance matters, adjusted for ESG Controversies.	Refinitiv
Refinitiv ESG	The firm’s overall ESG score, based on the self-reported information in the environmental, social and corporate governance pillars. Each pillar score is the weighted average relative rating of the firm (based on self-reported information) in the pillar’s corresponding categories.	Refinitiv
Refinitiv ES	The average of the firm’s environmental and social pillar scores.	Refinitiv
Size	The natural log of market equity, where market equity is the closing price in U.S. dollars multiplied by the number of shares outstanding (in millions) at the end of the fiscal year.	Compustat
Market-to-Book	The ratio of market equity to book equity, where book equity is common equity plus deferred taxes and investment tax credits.	Compustat
Return on Equity	Income before extraordinary items divided by book equity.	Compustat
Dividend Yield	Total dividend on common stock divided by market equity.	Compustat
Altman Z-Score	$3.3 \times \text{EBIT} / \text{Total Assets} + 0.99 \times \text{Net Sales} / \text{Total Assets} + 0.6 \times \text{Market Equity} / \text{Total Liabilities} + 1.2 \times \text{Current Assets} / \text{Total Assets} + 1.4 \times \text{Retained Earnings} / \text{Total Assets}$, where EBIT is earnings before interest and taxes.	Compustat, Altman (1968)
Discretionary Accruals	The absolute value of the difference between income before extraordinary items and operating activities net of cash flow, scaled by total assets.	Compustat
Firm Age	The number of years between the first year that the firm appears on Compustat and 2026.	Compustat
Loss Indicator	An indicator that equals one if the firm’s net income is negative, and zero otherwise.	Compustat
High Litigation Risk	An indicator that equals one if a firm operates in a high-litigation industry, including biotech, computer, electronics, and retail, and zero otherwise.	Huang et al. (2019)

Variable	Descriptions	Source
State-Level %Republican Vote	The ratio of votes for the Republican candidate to the total votes cast in the firm's headquarters state in the most recent U.S. Presidential election.	MIT Election Data + Science Lab
State-Level Social Capital	Social capital in the firm's headquarters state in the most recent year (available for 1997, 2005, 2009, and 2014).	Northeast Regional Center for Rural Development (NERCRD)