Professor John C. Coates IV
John F. Cogan Professor of Law and Economics
Harvard Law School
1525 Massachusetts Avenue, Griswold 400
Cambridge, MA 02138

April 30, 2013

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, Northeast
Washington, D.C. 20549

Re: File No. 4-637, Petition for rulemaking to require public companies to disclose to shareholders the use of corporate resources for political activities

Dear Ms. Murphy:

A comment recently filed by Robert Shapiro requires correction. Mr. Shapiro makes misstatements about my research, and misrepresents research on corporate political activity.

Misstatements about my research. With respect to my research:

- Mr. Shapiro nonsensically claims that I use a "regression design which introduced self-selection bias into his sample." The only criterion for the sample was for a firm to be in the S&P 500[1] – something firms do not meaningfully "select." The regressions model industry-adjusted shareholder price/book ratios as a function of the ***incidence*** of corporate political activity, "yes/no" decisions that create no "self-selection bias."[2]

- Contrary to Mr. Shapiro's comment, I also examined the ***extent*** of corporate political activity, and found qualitatively similar results.[3]

- Finally, Mr. Shapiro claims my article "concedes" something inconsistent with an earlier paper. Both halves of this claim are false, and Mr. Shapiro provides no cites to my work to back it up. Even in regulated or government-dependent industries, shareholders have

[1] John C. Coates IV, Corporate Politics, Governance and Value Before and After Citizens United, 9 J. Emp. L. Stud. 657 (2012).

[2] Cf. J. Heckman, Sample Selection Bias as a Specification Error, 47 Econometrica 153 (1979) (selection bias introduced in a model of wages where a prior decision (to find/take a job) prevented nonworking individuals from having reported wages).

[3] Coates supra note 1 at n. 39. As explained there, I did not focus on those results precisely because of potential self-selection bias. I explained why two-stage models that might address that bias are not useful here: factors used to predict first-stage choices (to be politically active) also likely correlate with second-stage outcomes (shareholder wealth). See P. Puhani, The Heckman Correction for Sample Selection and Its Critique, 14 J. Econ. Surveys 53 (2000).

legitimate reasons to worry about the effects of political activity:

(a) if firms are earning profits from subsidies, barriers to competition, tax breaks, etc. shareholders would reasonably want to know whether and how intensively firms are directly or indirectly lobbying or campaigning to preserve those advantages, because that would bear directly on the riskiness of an investment in those firms; and

(b) if firms base investments (e.g., mergers and acquisitions) on policy outcomes of political activities, shareholders would reasonably want to know those facts, so as to assess the risks of the political strategies and related investments.

Misstatements about research on corporate political activity generally. Mr. Shapiro also claims that I ***alone*** "among ... 54 peer-reviewed articles and books" find that corporate political activity could have a negative impact on or be motivated by something other than shareholder value. This claim is also incorrect.

- Numerous books and articles not cited by Mr. Shapiro reach conclusions consistent with shareholders needing to be concerned about political activity, as illustrated by the list in the **Annex** to this comment.

- Even studies Mr. Shapiro cites reach more nuanced findings than he presents, e.g., "most lobbying expenditures are not associated with abnormal [stock] returns, and ... spending the most on lobbying does not necessarily lead to better financial performance."[4]

- Only a small number of publications reviewed by Mr. Shapiro study whether corporate political activity harms shareholders. For example, a book cited by Mr. Shapiro is Kay Schlozman et al.,[5] which focuses on "the deeply embedded and durable character of socio-economic inequalities in political voice," and ***not*** on the effect of interest group activity on shareholders.

If I can be of further assistance as you consider the rule petition, please contact me at jcoates@law.harvard.edu.

Very truly yours,

John C. Coates IV

[4] H. Chen, D. Parsley and Y-W. Yang, Corporate Lobbying and Financial Performance (Nov. 2012).

[5] The Unheavenly Chorus (Princeton U. Press 2012).

Annex

Non-exhaustive List of Studies Inconsistent with Corporate Political Activity Being Generally Good for Shareholder Interests

1. Rajesh K. Aggarwal, Meschke, Felix, and Wang, Tracy Yue, Corporate Political Donations: Investment or Agency?, Business and Politics : Vol. 14: Iss. 1, Article 3 (2012) (political activity public companies spent less on R&D and political donations correlated negatively with long-term firm-specific stock performance)
2. Stephen Ansolabehere, James M. Snyder and Michiko Ueda, Did Firms Profit From Soft Money (Jan. 2004) (event study finding no stock market reaction to events leading to approval of Bi-Partisan Campaign Reform Act), available at http://ssrn.com/abstract=513062
3. Holly Brasher and David Lowery, The Corporate Context of Lobbying Activity, Business and Politics Vol. 8: Iss. 1, Article 1 (2006) (public companies, with dispersed owners, more likely to lobby than otherwise similar private companies, with concentrated owners)
4. Paul K. Chaney, Mara Faccio, and David Parsley, The Quality of Accounting Information in Politically Connected Firms, 51 J. Acc't & Econ. 58-76 (2011) (earnings quality of politically connected firms significantly poorer than those not politically connected)
5. John C. Coates IV, Corporate Politics, Governance and Value Before and After Citizens United, 9 J. Emp. Leg. Stud. 657 (2012), available at http://ssrn.com/abstract=2128608
6. Mara Faccio, Differences between Politically Connected and Non-Connected Firms: A Cross-Country Analysis, 39 Fin. Mgt. 905-927 (2010) (politically connected firms have higher leverage and market shares but underperform relative to non-connected firms)
7. Mara Faccio, Ronald W. Masulis and John J. McConnell, Political Connections and Corporate Bailouts, 56 J. Fin. 2597-2635 (2006) (politically connected firms more likely to need and obtain bailouts and perform worse than non-connected companies, including those that also obtained bailouts)
8. Michael Hadani and D. Schuler, In Search of El Dorado: The Elusive Financial Returns on Corporate Political Investments, 34 Str. Mgt. J. 165-181 (2013) (political investments by public companies are negatively associated with market performance)
9. John P. Heinz, Edward O. Laumann, Robert L. Nelson and Robert Saintsbury 1993. The Hollow Core (Cambridge: Harvard U. Press) (markets for lobbying firms plagued by asymmetric information, market failures)
10. Deniz Igan, Prachi Mishra and Thierry Tressel, A Fistful of Dollars: Lobbying and the Financing Crisis (2009) (lenders lobbying more on issues related to mortgage lending had higher delinquency rates and negative abnormal stock returns during key financial crisis events, available at http://www.imf.org/external/pubs/ft/wp/2009/wp09287.pdf
11. Jin-Hyuk Kim, Corporate Lobbying Revisited, 10 Business and Politics (2008) (negative relationship between corporate governance and corporate lobbying)
12. David Lowery, Why Do Organized Interests Lobby? A Multi-Goal, Multi-Context Theory of Lobbying, 39 Polity 29–54 (2007) (public companies lobby in part to make evaluation of managers by shareholders more difficult)
13. A. Newton et al., The Impact of Political Connectedness on Cash Holdings: Evidence from *Citizens United* (Revised Feb. 2013) (significant increase in cash holdings of politically active firms relative to inactive firms following *Citizens United*, exacerbated by poor corporate governance, and documenting a significantly negative market reaction to politically connected firms around *Citizens United*), available at https://www.ou.edu/content/dam/price/Finance/CFS/paper/pdf/NewtonPaper.pdf
14. Mark Smith, American Business and Political Power (U. Chi. 2000) (corporate political activity may impeded ability of shareholders to evaluate managers)
15. Philip Tetlock, Expert Political Opinion (Princeton U. Press 2005) (expert political opinion commonly wrong, consistent with expenditures on or reliance on predictions of lobbyists leading to mistakes)
16. T. Werner & J. Coleman, Assessing the Potential Effects of Citizens United: Policy and Corporate Governance in the States (Feb. 2013) (finding that firms subject to weak campaign finance regimes

lobby for and obtain shifts in anti-takeover laws that benefit management at the expense of shareholders), available at http://users.polisci.wisc.edu/coleman/wernercolemanpcs2013.pdf

17. Frank Yu and Ziaoyun Yu, Corporate Lobbying and Fraud Detection, 46 J. Fin'l & Quant. Anal. 1865 (2011) (public firms engaged in lobbying and fraud are less likely to be detected as fraudulent, and evade fraud detection for longer, allowing managers more time to sell shares and leading to greater misallocation of resources during fraudulent periods)