The impact of redacting information from SEC filings on the SEC oversight process

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Abstract

We study the interplay between a firm's decision to redact information pertaining to material contracts from its regulatory filings and SEC oversight. We find that redactions are associated with more intense oversight, as evidenced by higher incidence of comment letters and a longer letter resolution process. Pointing to a direct link, the effect is stronger among comment letters targeting issues related to proprietary information. We also find evidence the redactions relate to firms' overall approach to managing proprietary information, rather than reflecting one-off reporting choices. Collectively, our findings shed light on how various SEC monitoring processes interact and support one another, helping the SEC identify broader deficiencies related to the disclosure of proprietary information and alleviates the information gap between the redacting firms and their stakeholders.

Research Questions

How does the SEC balance two competing objectives?

Financial information transparency

VS.

Avoiding competitive harm to firms

Q1. What is the effect of a firm's redaction on SEC oversight?

Q2.What is the role of redactions in a firm's approach to managing the disclosure of proprietary information?

Research Design

Redactions on SEC review

- CL likelihood, Remediation costs, CL topics

Redactions on firms' disclosure policy on proprietary information

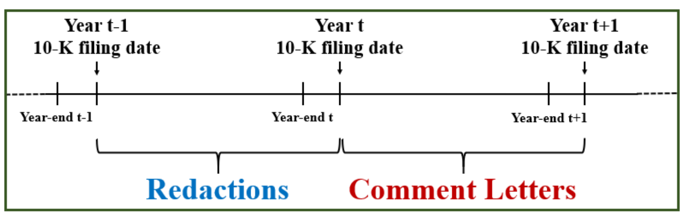
- undisclosed major customer identity and sales

Hypotheses

H1: Firms that redact disclosures from their SEC filings are more likely to receive comment letters from the SEC.

H2: Firms seeking to redact information through CT requests are more likely to have disclosure deficiencies related to proprietary information in their SEC filings.

Data and Method



CT orders and CLs from EDGAR and Audit Analytics

- 2006-2018, Python to scrape information

Results

Variables	(1) CL	(2) RespTime	(3) Rounds	(4) Supervisor
Redaction	0.123**	0.052**	0.028**	0.139*
	(2.000)	(2.259)	(2.411)	(1.710)
SE clustered by Firm	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Observations	21,684	8,874	8,874	8,878
Pseudo R^2/Adj R^2	0.24	0.29	0.37	0.10

- Redacting firms: **7% higher** likelihood of CL

Variables	(1) Core Earnings	(2) MC	(3) RD	(4) Segment	(5) CT_letter
Redaction	0.240***	0.226*	0.432***	-0.021	0.835***
	(3.420)	(1.668)	(2.654)	(-0.243)	(5.778)
SE clustered by Firm	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Observations	8,878	8,878	8,284	8,878	8,878
Pseudo R2	0.04	0.08	0.22	0.04	0.14

Variables	(1) MC_Hidden Name	(2) MC_Hidden Sales	(3) MC_Hidden Name_up	(4) MC_Hidden Sales_up
Redaction	-0.021	0.245***	0.250***	0.378***
	(-0.250)	(2.950)	(2.795)	(4.863)
SE clustered by Firm	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Observations	13,271	13,271	13,271	13,271
Pseudo R^2	0.03	0.04	0.040	0.030

Conclusion

Various SEC oversight processes **interact and support** one another, helping identify broader deficiencies related to proprietary information.

Redacting firms **under-report** proprietary information mandated by disclosure rules.

Intense SEC review: ***joint effect*** of regulatory scrutiny and redacting firms' reporting deficiencies.