Corporate Communications with Government Executive Officials: Evidence from the STOCK Act

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Abstract

The regulation of information flow between government officials and firms is crucial in shaping corporate transparency and market dynamics. This paper investigates the impact of the Stop Trading on Congressional Knowledge (STOCK) Act, which creates an exogenous shock by restricting private communication between federal executive branch officials and firms, particularly affecting those with substantial government contracts. Using a difference-in-differences approach, we find that firms with significant government customers reduce the frequency of their management forecasts following the Act's implementation. This reduction is most pronounced in firms where government sales are critical to operations, in those with a strong reliance on political engagement, and in competitive industries. In contrast, non-financial disclosures remain largely unaffected, and the Act's impact on firms tied to Congress members is less significant. Additionally, firms that reduce their disclosures experience a significant increase in their implied cost of capital. These findings highlight the broader consequences of limiting access to government-sourced information, revealing how regulatory efforts to curb insider trading can unintentionally alter corporate disclosure practices and increase firm financing costs.

***Keywords*:** STOCK Act, disclosure, management forecast, private communication

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1. Introduction

Access to non-public information is a critical concern at the intersection of government and corporate decision-making. Executive branch officials—such as the President, Vice President, agency heads, and appointed officers—routinely gain access to such information through regulatory oversight, policy formulation, and negotiations with firms, particularly those heavily involved in government business. While exploiting this information for personal gain is widely viewed as unethical rent-seeking behavior (Moore, 1990), the flow of proprietary information from government officials to firms can significantly shape corporate disclosure practices. Firms engaged in government contracts often rely on this privileged information to inform business forecasts and guide strategic decisions.

In response to public outcry regarding public allegations that Congress members were capitalizing on private information, the Stop Trading on Congressional Knowledge (STOCK) Act was passed in 2012 to curtail private communication between government officials and firms.[1] Leveraging a difference-in-differences design, we examine how the disruption of information channels between federal officials and firms impacts the ability of firms, particularly those with government contracts, to issue forward-looking disclosures. We find that post-STOCK Act, firms with government contracts significantly decrease these disclosures, suggesting that restricted access to executive branch officers may hinder management's ability to accurately forecast performance, thereby increasing uncertainty. Our findings highlight the broader role of government relationships in shaping corporate transparency and decision-making, with significant implications for firms reliant on public sector contracts.

In government procurement, agencies manage their own contracts, necessitating discussions between government officials and corporate managers, which naturally creates opportunities for information exchange. Executive branch officials, in particular, evaluate the economic effects on contractors and may gain access to proprietary information throughout the procurement process. Although agency practices are governed by the Federal Acquisition Regulation (FAR), which standardizes federal purchasing, this setting allows us to focus on communications with executive branch officers. This is a key relationship that, to the best of our knowledge, has been overlooked in prior studies on the STOCK Act.

[1] The term "government officials" includes (1) the President and the Vice President; (2) executive officers and employees; (3) appointed administrative law judges; (4) Members of Congress and their employees. The complete list of affected individuals can be found in Section 6 of the S.2038 STOCK Act https://www.congress.gov/bill/112th-congress/senate-bill/2038

The impact of the STOCK Act on voluntary disclosure practices, particularly for firms involved in government business, remains an open empirical question. Theoretically, restricted access to government-sourced information may increase investor uncertainty about firm performance, especially for companies engaged in government contracts. In response, management might increase voluntary disclosures to alleviate investor concerns and maintain transparency. Prior research suggests that management is incentivized to enhance disclosures to reduce uncertainty, improve the firm's information environment, and mitigate negative market reactions (e.g., Verrecchia, 1990; Diamond and Verrecchia, 1991). Empirical studies also show a positive relationship between investor uncertainty and the level of voluntary disclosures, indicating that firms often respond to heightened uncertainty with greater transparency (e.g., Balakrishnan, Core, and Verdi, 2014; Nagar, Schoenfeld, and Wellman, 2019). However, the specific effects of the STOCK Act's information restrictions on disclosure behavior, particularly for firms reliant on government contracts, remain unclear.

The STOCK Act, which limits access to critical government-sourced information, introduces tension for firms involved in government business. On the one hand, reduced access to executive branch officers complicates management's ability to predict firm performance, especially in government dealings, where uncertainty about securing contracts, pricing, and quantities can hinder accurate earnings forecasts (e.g., Anantharaman and Zhang, 2011; Guay, Samuels, and Taylor, 2016). This disruption may lead firms to decrease voluntary disclosures to avoid the risk of issuing inaccurate or incomplete guidance. On the other hand, the heightened uncertainty resulting from restricted access to government information could motivate firms to increase disclosures to reassure investors and maintain market confidence. The tension between these competing forces suggests that the impact of the STOCK Act on voluntary disclosure practices, particularly for firms engaged in government business, is not straightforward and warrants further empirical investigation.

This study underscores the complexity of balancing regulatory transparency and information access by focusing on the conflicting pressures that firms face post-STOCK Act. While the STOCK Act was designed to curb unethical behavior and address information asymmetry, it may also inadvertently increase uncertainty for firms relying on government contracts. Understanding how firms navigate this tension—whether by reducing disclosures to avoid misstatements or increasing them to satisfy investor

demands for information—is essential for evaluating the broader consequences of the STOCK Act on corporate transparency and disclosure practices.

Our analysis reveals that firms with major government customers experience a significant decline in the frequency of management forecasts following the implementation of the STOCK Act. This finding holds across different sample periods, forecast windows, and even when excluding regulated industries or firms that have never reported major government customers. These results suggest that the restricted access to government-sourced information under the STOCK Act leads firms to reduce voluntary disclosures, likely due to the increased risk of providing inaccurate or incomplete guidance. This observed reduction underscores the challenges firms face in balancing transparency with the uncertainty created by the Act's limitations.

Additional analyses show that the reduction in voluntary disclosures is most pronounced for firms with high reliance on government sales, major government customers, and those operating in less concentrated industries. These findings suggest that firms facing greater business uncertainty or political risk are more vulnerable to the STOCK Act's restrictions on information access. Specifically, firms with government ties reduce the issuance of annual and quarterly forecasts as well as non-EPS forecasts, while the frequency of EPS forecasts remains unchanged. Furthermore, these firms are less likely to issue point forecasts, opting instead for range forecasts, reflecting greater uncertainty in their ability to predict future performance. We also observe a reduction in the number of calendar days with management forecasts, consistent with the overall decrease in disclosure activity.

Importantly, the shift toward range forecasts and reduced precision in earnings guidance cannot be attributed solely to Regulation Fair Disclosure (Reg FD). While Reg FD mandates the public disclosure of any private information shared with government officials, our findings suggest that the reduced access to proprietary information from executive branch officers post-STOCK Act plays a more critical role in the observed changes in disclosure behavior. The restricted flow of information from the government appears to hinder firms' ability to accurately forecast earnings, particularly for those deeply embedded in government transactions.

Additionally, our analysis extends to the effects of the STOCK Act on firms connected to Congress members. Using data from OpenSecrets, we find that firms previously held by Congress members

also reduced the frequency of their management forecasts following the enactment of the STOCK Act. However, the regulatory impact appears less severe compared to that on firms tied to executive branch officials. This difference suggests that while the STOCK Act restricts private information exchange between Congress members and firms, the flow of sensitive information from executive branch officials plays a more pivotal role in shaping corporate disclosure practices.

Finally, our examination of the STOCK Act's impact on firms' implied cost of capital (ICC) reveals that firms with substantial government customers that reduced their voluntary disclosures experienced a significant increase in their ICC. This effect, consistent across multiple ICC estimation models, highlights the financial consequences of reduced transparency. The increased ICC underscores the importance of voluntary disclosures in maintaining investor confidence and favorable financing conditions, illustrating how regulatory interventions aimed at curbing unethical practices can have unintended financial ramifications for firms reliant on government business.

Our study contributes to three strands of the literature. First, we contribute to the ongoing debate regarding the relationship between uncertainty and firms' voluntary disclosure practices. On one hand, the absence of precise information is often associated with reduced disclosure frequency (Anantharaman and Zhang, 2011; Guay, Samuels, and Taylor, 2016); on the other hand, heightened uncertainty may increase investor demand for information, prompting management to provide more voluntary disclosures (Verrecchia, 1990; Balakrishnan, Core, and Verdi, 2014; Nagar, Schoenfeld, and Wellman, 2019). By focusing on the flow of government-sourced information through private communication with executive branch officers, our findings reveal that restricted access to this critical information disrupts managers' ability to forecast firm performance accurately. However, this disruption does not significantly elevate investor uncertainty to a level that would compel firms to increase voluntary disclosures. These results underscore the distinctive role of government-sourced information in shaping corporate disclosure decisions and highlight the nuanced impact of regulatory changes like the STOCK Act on corporate transparency.

Our paper contributes to the literature on political connections by highlighting the unique information advantages derived from direct business relationships with the government. While existing studies use political connections as proxies for the flow of information between politicians and firms (e.g., Wellman, 2017; Ovtchinnikov, Reza, and Wu, 2020), they typically demonstrate the benefits for politically connected

firms, including higher abnormal returns (Akey, 2015; Cooper, Gulen, and Ovtchinnikov, 2010) and preferential regulatory treatment (Duchin and Sosyura, 2012; Heitz, Wang, and Wang, 2023).[2] Prior work has examined the role of government customers and contracts in influencing firm decision-making (Cohen and Li, 2020; Cohen et al., 2022; Samuels, 2021), often through the lens of government monitoring and supply chain considerations (e.g., Shi et al., 2020). In contrast, our study emphasizes the informational advantages firms derive from their business ties to the government, particularly through private information exchanges with executive branch officers. Leveraging the unique context of the STOCK Act, we investigate how these officials engage in private communications related to government contracts. Our findings provide new insights into the nature and value of the information conveyed by executive branch officers to the capital market, highlighting the different roles of government participants, such as executive officers and Congress members, in shaping firms' access to government-sourced information.

Finally, our study contributes to the understanding of policies aimed at regulating the behavior of government officials, with specific attention to the implications of the STOCK Act. Although previous research has shown that the STOCK Act effectively curtails insider trading among executive branch officers (Cherry, Heitz, and Jens, 2018; Huang and Xuan, 2023), our study uncovers an unintended consequence of this regulation. Unlike prior studies that primarily focus on Congress members (Cherry, Heitz, and Jens, 2018; Lazzaretto, 2024; Wei and Zhou, 2023; Hanousek Jr et al., 2023), we explore the STOCK Act's impact on federal officers and how it influences information exchange during the bidding for and receipt of government contracts. Our findings highlight that, while the STOCK Act reduces insider trading risks, it may inadvertently limit the richness of information available in government disclosures. This aligns with the concerns raised by Nagy and Painter (2012), who noted that while the Fairer Government Disclosure proposal enhances transparency and reduces policy-based insider trading, it also potentially diminishes the informational content of government disclosures. Our results suggest that improved transparency, while beneficial in reducing unethical practices, could lead to a reduction in the quality of information shared, thereby impacting decision-making processes that rely on such disclosures.

[2]Other research shows that political connections not only benefit firms but also provide informational advantages to third parties, such as informed traders (Jagolinzer et al., 2020), analysts (Christensen et al., 2017), and hedge fund managers (Gao and Huang, 2016).

2. Background and Hypothesis Development

2.1. The STOCK Act

On April 4, 2012, President Obama signed the Stop Trading on Congressional Knowledge (STOCK) Act into law, largely in response to growing public outrage after a 2011 *60 Minutes* investigation. The episode exposed how high-ranking lawmakers, including Congressman Spencer Bachus and Senators John Boehner and Dick Durbin, attended a confidential meeting during the 2008 financial crisis with the Secretary of the Treasury and the Chair of the Federal Reserve, and then traded on the sensitive information they received. This investigation underscored the significant gaps in regulatory oversight that allowed lawmakers to engage in what many saw as insider trading, without consequence. Public demand for reform surged, leading to the passage of the STOCK Act, which sought to increase transparency and accountability for government officials.

The newly enacted law introduced mandatory, timely reporting of stock transactions for key government figures—including members of Congress, the President, judges, and executive branch officers—requiring disclosures within 30 to 45 days of the transaction. This replaced the previous annual reporting requirement established by the Ethics in Government Act of 1978 and expanded to include a broader set of assets, such as home mortgages. Although the law was designed to prevent the misuse of non-public information, its effectiveness in curbing insider trading remains debated. Cherry, Heitz, and Jens (2018) found that prior to the law, members of Congress routinely outperformed the market by timing sales based on non-public information. Their analysis showed that these abnormal returns diminished following the legislation's introduction, indicating some success in reducing insider trading. However, they also recognized limitations, particularly in the executive branch, where oversight and trading are less visible.

Although the legislation primarily aimed to curtail insider trading, it does not explicitly restrict private communications between executive branch officials and corporations (Christensen et al., 2023). This is especially relevant in government procurement, where agencies manage their own contracts, creating frequent opportunities for communication between government officials and corporate managers. These interactions allow for the potential exchange of sensitive information, as executive branch officials often

have access to proprietary data about contractors and the economic impact of government decisions. While these practices are standardized under the Federal Acquisition Regulation (FAR), the STOCK Act's rules may have indirectly influenced these communication channels. Initially, the Act's regulatory framework applied to approximately 28,000 government officers, including those in the executive branch. However, in 2013, the mandatory periodic disclosure requirements for a significant portion of executive branch officials were revoked following an amendment (S.716).[3]

A detailed history of the STOCK Act and *60 Minutes* episode titled 'Insiders", which aired on November 13, 2011, can be found in Cherry, Heitz, and Jens (2018). Before the Act passed, three previous versions of the bill had been largely ignored by Congress and died in committee. However, the fourth version, introduced in the House in March 2011, eventually gained traction. By November 4, 2011, the bill only had eight co-sponsors. Following the *60 Minutes* episode, the bill's co-sponsors more than doubled within 24 hours, and by the end of the month, it had 112 co-sponsors. When the bill was formally voted on, over 65% of House members were listed as co-sponsors.

Using the passage of this legislation as an exogenous shock, our study examines its effectiveness in monitoring and reducing information exchanges between government officials and firms, particularly in the context of major government contracts. Cherry, Heitz, and Jens (2018) demonstrated that the Act significantly curtailed the abnormal returns of U.S. Senators by limiting their ability to avoid losses through well-timed trades. Similarly, Huang and Xuan (2023) found that the law reduced abnormal returns related to mergers and acquisitions and earnings surprises among members of Congress. Given these findings, one naturally questions whether the law can further restrict political information flow and mitigate corruption from covert coordination. Executive branch officials, who face less public scrutiny than Congress members, may be more likely to engage in private profit exchanges, though these interactions are inherently more difficult to observe.

Goldman (2019) and Cohen et al. (2022) suggest that government officials continue private communications with major suppliers. The government's role as a major customer presents a unique angle for this investigation, as firms working closely with the government—representing nearly 20% of the U.S. GDP (Mills, Nutter, and Schwab, 2013)—have strong incentives to secure contracts through close coordination (Samuels, 2021). Such relationships foster trust and potential exchanges of sensitive information.

[3] See https://www.congress.gov/bill/113th-congress/senate-bill/716 for more details.

Cherry, Heitz, and Jens (2018) found that U.S. Senators were able to avoid significant losses by divesting from firms that were losing government procurement contracts, suggesting that these Senators may have had access to non-public information about government revenue flows. Their findings highlight how politically connected firms, through reciprocal exchanges of favors, benefited from insider knowledge about government contracts prior to the STOCK Act. Huang and Xuan (2023) further documented that firms owned by politicians experienced substantial losses in procurement contracts and government grants after the passage of the STOCK Act, implying that executive branch officials may have previously used their positions to facilitate these information exchanges. Before the STOCK Act, it was plausible for such exchanges to involve both government revenue information and firm M&A activity. However, Yu (2022) found that while government customers remained stable, business fundamentals for non-politician-owned firms did not change significantly post-STOCK Act, reinforcing the idea that the legislation primarily affected politically connected firms. The case of the former president of Nova Datacom LLC, who pled guilty to bribery involving Department of the Army officials, further illustrates the complex and often opaque relationships between government officials and businesses seeking contracts.[4]

Moreover, academic research has linked restrictions on insider trading to improvements in financial reporting quality (Zhang and Zhang, 2018) and the welfare of senior management (Roulstone, 2003). This suggests that limiting insider access to non-public information not only curtails potential unethical trading but has the potential to influence the quality of firms' voluntary disclosures, as executive branch officers who previously benefited from informational advantages may have altered their behavior post-STOCK Act. Thus, the Act may have implications that extend beyond political connections, affecting broader aspects of corporate governance and transparency.

In 2023, Senator Gillibrand introduced the STOCK Act 2.0, a proposed amendment aimed at enhancing transparency and accountability in government trading. This proposal was partly motivated by a *Business Insider* report revealing that 78 members of Congress had failed to comply with the original law's disclosure requirements.[5] A key factor in this widespread non-compliance is the relatively small fine of $200 for violations. Furthermore, since the original law's passage, no member of Congress has

[4]For more details, see: https://www.justice.gov/usao-dc/pr/nova-datacom-llc-and-its-former-president-plead-guilty-bribery-scheme-involving.

[5]For more details, see: https://africa.businessinsider.com/politics/78-members-of-congress-have-violated-a-law-designed-to-prevent-insider-trading-and/d3tdg4q.

been prosecuted under its provisions, raising concerns about its enforcement (Mesiya, 2021). Despite these challenges, the threat of enforcement may still influence the information environment by deterring unethical behavior and increasing scrutiny of officials' trading activities. The STOCK Act 2.0 highlights ongoing efforts to strengthen these regulations and reflects the continued relevance of insider trading as a regulatory concern.

2.2. Communication Channels and Disclosure Regulations

Previous research has discussed two main information dissemination channels: public and private communication. However, there is no consensus on their relationship. Some researchers view private communication as a substitute for public communication, suggesting that when firms can communicate privately, they have less incentive to communicate publicly. Empirical evidence supports this view, showing that small firms prefer bank loans over public debt financing to inform fewer lenders and adjust their capital structure (Fama and Jensen, 1985). Additionally, concentrated institutional ownership can hinder voluntary disclosure since institutions gain information advantages and may not pressure firms for public disclosures (Ajinkya, Bhojraj, and Sengupta, 2005). Firms involved in strategic alliances may also rely more on private communications, reducing their public disclosures (Kepler, 2021).

Conversely, the idea that private communication substitutes public communication is not always accurate. Firms can disclose more information when they absorb more private information from various coordinators and market participants. Firstly, private and public information do not always act as pure substitutes. Public management forecasts are often more credible than private communications due to potential litigation issues and reputation considerations (Skinner, 1997). Secondly, Verrecchia (1983) predicts that managers with more private information will choose to disclose more, thereby voluntarily improving their external reporting quality. Lastly, researchers have addressed how political information flow is transferred in the financial market. Christensen et al. (2023) found that politically active firms are more inclined to issue management forecasts and disseminate political information through voluntary disclosure.

Researchers remain uncertain whether public firms, when possessing more private information, will increase or decrease voluntary disclosures, such as management forecasts. The outcome of disclosure

decisions depends on both parties' incentives and the regulatory environment.

In our context, when the STOCK Act restricts private communication between executive branch officers and company personnel, the frequency of private information exchange through the government's major customer channel is reduced. Consequently, public firms may choose to decrease their voluntary disclosures and issue fewer management forecasts due to changes in demand uncertainty and the level of government compliance (Anantharaman and Zhang, 2011; Guay, Samuels, and Taylor, 2016; Hassan et al., 2019; Christensen et al., 2023). This suggests that firms with significant government customers find it harder to receive high-quality information and must exert more effort to obtain it.

Moreover, Reg FD may also influence this dynamic. Researchers have proposed the Fairer Government Disclosure (FGD) and believe combining the STOCK Act with Reg FD can effectively maintain market fairness and transparency in government information dissemination (Nagy and Painter, 2012). Considering the changes in incentives for both parties and the corresponding regulations, we propose our first hypothesis:

H1: *Public firms with major government customers will reduce their management forecasts to a greater extent when the STOCK Act hinders their private communication with executive branch officers.*

When public firms recognize that executive branch officers are pressured and reluctant to engage in private communication, they may reduce their voluntary disclosures due to the diminished likelihood of receiving high-quality information through private channels. Increased scrutiny of government firm misbehaviors can lead to stricter corporate governance and greater attention to disclosure quality (Ahmed, Li, and Xu, 2020).

Firms with major government customers inherently face less demand uncertainty due to lower default risk and less competition (Cohen and Li, 2020). Additionally, firms with government contracts benefit from internal information supervision processes, reducing disclosure uncertainty (Samuels, 2021). Therefore, private communication with the government typically leads to less uncertainty. However, when senior managers cannot obtain precise information due to blocked effective communication, they cannot alleviate demand uncertainty. They may remain silent to mitigate the risk of uncertainty (Anantharaman and Zhang, 2011; Guay, Samuels, and Taylor, 2016).

Furthermore, even if government-related firms face similar external uncertainty, their lower demand

volatility makes the marginal effects more significant. Given the nature of uncertainty for firms with major government customers, our second hypothesis is:

H2: *The reduction in the frequency of management forecasts by firms with major government customers is more pronounced when these firms face higher business uncertainty after the enactment of the STOCK Act.*

Firms with political information can benefit through various access channels. Research has demonstrated relationships between hedge funds and lobbyists (Gao and Huang, 2016), analysts and politically connected brokerage houses (Christensen et al., 2017), government officials and managers (Jagolinzer et al., 2020), and White House visitors (Brown and Huang, 2020). Christensen et al. (2023) show that political connections help firms acquire more government information and issue more management forecasts. These findings suggest that government relationships can indicate a firm's reliance on the government.

To curry favor with executive branch officers, firms may incur higher politically-oriented costs when they discuss government-related information through voluntary disclosure channels (Hassan et al., 2019; Christensen et al., 2023) and participate in political election campaigns (Correia, 2014). Additionally, firms under greater competitive pressure in highly contested industries rely more on government support to enhance their overall competitiveness (Li, 2010; He et al., 2024). Thus, we propose our third hypothesis:

H3: *The reduction in the frequency of management forecasts by firms with major government customers is more pronounced when these firms focus more on political risk and make more political contributions.*

3. Data and Variable Construction

3.1. Management Forecasts

Prior research has highlighted various types of management forecasts, including overall, earnings, sales, cash, and capital expenditure forecasts (Han and Wild, 1991; Wasley and Wu, 2006; Beyer et al., 2010; Cheng and Lo, 2006; Lu and Wu Tucker, 2012). This study examines the annual frequency of these management forecasts (Frequency), encompassing all types provided by management. The data is sourced from the I/B/E/S Guidance database.

The STOCK Act, signed into law by President Obama on April 4, 2012, received strong bipartisan

support. Our study period spans from 2008 to 2015, covering Obama's presidency, with four years before and after the Act's enactment. To measure yearly voluntary disclosures for pre- and post-regulation periods, we define the firm-year as ending on April 4th of each year. For instance, all management forecasts between April 4, 2011, and April 4, 2012, measure a firm's voluntary disclosure for 2011. The timeline of firm-year measures is illustrated in Figure 1.

We developed the sample by first retrieving firms from the COMPUSTAT database with continuous yearly performance data from 2008 to 2015. This resulted in a preliminary sample of 52,464 firm-years for 6,558 unique firms. Management forecasts for these firms were obtained from the I/B/E/S Guidance database. Firms without forecasts were assigned a frequency of zero. The key variable, Frequency, is calculated as the natural logarithm of one plus the aggregate frequency of all forecasts, including annual or quarterly earnings and non-earnings forecasts (e.g., sales forecasts and CAPEX forecasts). We winsorized Frequency at the 1% and 99% levels for all tests.

3.2. Firms with Major Government Customers

Listed firms must report sales from major customers, defined by FAS 131 as contributing more than 10% of total revenues. We obtained lists of major customers for our sample firms from the COMPUSTAT segment database. To construct the treatment sample, we identified firms that reported major government customers for at least three years from 2008 to 2011, before the STOCK Act. These firms likely communicated more with executive branch officers before 2012 and are thus more affected by the STOCK Act. The remaining firms form the control group. We excluded firms with foreign major government customers and those in industries where no firms reported the government as a major customer.

We required each sample firm to have financial data for all eight years (2008-2015). These criteria reduced the sample to 17,432 firm-years for 2,179 unique firms. We excluded observations with missing values for control variables in the main regressions. The final sample comprises 12,074 firm-years, with 15.4% classified as the treatment group.

Figure 2 shows the natural logarithm of the frequency of management forecasts for the treatment and control groups from 2008 to 2015. In the pre-STOCK Act period (2008-2011), the frequency of forecasts shows an upward trend for both groups. However, starting in 2012, the first year after the STOCK Act,

treatment firms experienced a significant decrease in the frequency of management forecasts, while the change was less pronounced for control firms. This comparison demonstrates that the STOCK Act had a more adverse impact on the issuance of management forecasts by firms with major government customers.

3.3. Control Variables and Sample Construction

Control variables are essential in our analysis to account for firm-specific characteristics that might influence voluntary disclosure behavior. We include the following control variables: *Size*, measured as the logarithm of the market value; *Leverage (LEV)*, the ratio of total debt to total assets; *Book-to-Market Ratio (BM)*, the ratio of book value to market value; *Return-on-Assets (ROA)*, income before extraordinary items divided by total assets; *Operating Loss (LOSS)*, a binary variable indicating if the firm reported an operating loss; *Earnings Volatility (EarnVol)*, the standard deviation of the annual ROA over the past ten years; *Stock Return (Return)*, annual stock return; *Stock Turnover (Turnover)*, the ratio of trading volume to the number of shares outstanding; and *Stock Return Volatility (StkVol)*, the standard deviation of daily stock returns.

To construct our sample, we began with firms listed in the COMPUSTAT database with continuous yearly performance data from 2008 to 2015. Firms meeting this criterion were further filtered to include those with major government customers and those with complete data for control variables. The final sample consists of 12,074 firm-year observations, ensuring a robust analysis of the impact of the STOCK Act on voluntary disclosures.

3.4. Descriptive Statistics

Table 1 presents our primary test sample, constructed using COMPUSTAT and CRSP data from 2008 to 2015. There are 12,074 firm-year observations for management guidance during this period. On average, 36% of firms issue some management forecasts, with the overall average logarithm of frequency at 0.87 per year. We use government customers as a proxy for private communication between firms and executive branch officers. About 15% of firms in our sample could communicate with government officials through private channels, equating to 15% having been a major government supplier for at least three of the four years before the STOCK Act (mean MajorGovCustomer = 0.15).

In terms of control variables, the average firm size (*Size*) in our sample is 6.52, with a leverage ratio (*LEV*) of 0.18. The return on assets (*ROA*) is negative at -0.05, which can be attributed to the financial crisis period within our sample from 2008 to 2015, when many firms experienced reduced profitability. Additionally, 34% of the firms reported operating losses (*LOSS*), reflecting the challenging economic conditions during the crisis. Earnings volatility (*EarnVol*) averaged 0.15, and the book-to-market ratio (*BM*) was 0.61. The average stock return (*Return*) was modest at 0.02, with a stock turnover (*Turnover*) of 0.16 and a stock return volatility (*StkVol*) of 0.03 over the sample period.

4. Research Design and Empirical Results

4.1. Research Design

To test our main hypothesis, we employ a difference-in-difference design using the following OLS model:

$$Frequency_{it} = \alpha + \beta Post_i \times MajorGovCustomer_t + \chi_{it} + \phi_i + \phi_t + \varepsilon_{it}, \quad (1)$$

where i denotes the firm, t denotes the year, and ε represents the error term. The dependent variable is the overall management forecasts, defined as the annual frequency of all types of management forecasts (*Frequency*). It is a continuous measure, calculated as the natural logarithm of one plus the annual overall management forecasts issued in a fiscal year.

The independent variables include *MajorGovCustomer* and *Post*, both dummy variables. The *MajorGovCustomer* variable equals one if the government was a major customer for the company for at least three out of four years from 2008 to 2011. This significant business relationship suggests that public companies could communicate privately with executive branch officers. The *Post* variable equals one for management forecasts issued after the passage of the STOCK Act, covering the fiscal years 2012 to 2015. The model also includes firm fixed effects (ϕ_i), year fixed effects (ϕ_t), and eight firm-year controls (χ_{it}) to account for heterogeneity across different public firms and years.

Following Kim et al. (2018) and Chen, Ng, and Yang (2021), we include the following control variables: total debt (*LEV*) and income before extraordinary items (*ROA*), both scaled by total assets.

Additional controls include the natural logarithm of the value of market equity (*Size*), the ratio of the book value of equity to the market value of equity (*BM*), the incidence of loss (*LOSS*), the standard deviation of the annual return on assets over the past ten years (*EarnVol*), the buy-and-hold size-adjusted return in one fiscal year (*Ret*), the ratio of total trading volume to the number of shares outstanding (*Turnover*), and the standard deviation of daily stock returns within one fiscal year (*StkVol*).

4.2. Baseline Results

Table 2 presents the results from Equation (1), which examines the impact of private communication between executive branch officers and public firms on the frequency of overall management forecasts. Columns (1) and (2) include industry and time fixed effects. In these columns, the coefficients on *Post* × *MajorGovCustomer* are negative and weakly significant. Notably, Column (2) also includes firm-year controls such as *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*, which strengthen the robustness of the results.

When firm fixed effects are introduced in Columns (3) and (4), along with time fixed effects, the coefficients on *Post* × *MajorGovCustomer* become more pronounced and statistically significant. Column (4), which also incorporates the firm-year controls, further solidifies the results.

The coefficient on *Post* × *MajorGovCustomer* in Column (4) is -0.075 and significant at the 0.05 level. This finding indicates that, after the STOCK Act, firms with substantial government business relationships saw a decrease in overall management forecasts by 0.075 units compared to the control group—firms without significant government ties. This reduction represents approximately a 9% decline from the average frequency of 0.87, suggesting that the STOCK Act has a tangible impact on the voluntary disclosure practices of firms with strong governmental connections, effectively reducing their market transparency.

4.3. Robustness Tests

To ensure the robustness of our findings, we conducted a series of additional tests, as outlined in Section 4.2. These tests consistently support our primary hypothesis, demonstrating that the reduced private communication between firms and executive branch officers due to the STOCK Act leads to a

significant decrease in voluntary disclosure activities.

4.3.1. Parallel Trends Test

To assess the validity of the parallel trends assumption, which is critical to our empirical approach, we examined the interaction effects over time, as shown in Figure 3. The figure displays the coefficients and their 95% confidence intervals from a regression model adapted from our baseline specification, where the interaction term $Post \times MajorGovCustomer$ is replaced with interactions between $Post$ and annual indicator variables for each year surrounding the STOCK Act's implementation. The year 2011 is excluded from the graph as it serves as the reference period in our analysis, ensuring the coefficients for other years are interpreted relative to the conditions just before the Act's introduction.

The results show that, before 2012, the coefficients on the interaction terms are generally negative but not significantly different from zero, which supports the assumption that the treated and control groups followed similar trends prior to the STOCK Act's enactment. After 2012, the coefficients consistently exhibit negative values, aligning with our hypothesis that the STOCK Act led to a decrease in voluntary disclosures among firms with significant government customers. Notably, the coefficient for 2015 is not significantly different from zero, suggesting that the Act's impact may weaken over time as firms adapt to the new regulatory landscape.

Overall, these findings confirm the parallel trends assumption, reinforcing the robustness of our empirical strategy. The consistent negative coefficients in the immediate post-treatment years highlight the significant effect of the STOCK Act on disclosure practices, with some indication of a potential tapering effect by 2015 as firms adjust to the regulatory changes.

4.3.2. Alternative Data Sample and Time Measurements

Since the STOCK Act's passage date does not align with the end of the fiscal year, we employed two alternative time measures to address this issue. We first applied the commonly adopted fiscal year method, excluding all observations from 2012, the year the STOCK Act was passed, and retaining data for four years before and after. Additionally, we used the same method described in Section 4.2, but replaced April 4, 2012, with April 30, 2012, a date commonly considered the fiscal year-end for many firms. Figure 4

and Figure 5 illustrate these two different time measurements. Table A2 columns (1) and (2) show that both approaches yield consistent results. The outcomes remain negative and significant, confirming the robustness of our initial findings. This consistency indicates that the method of date measurement does not materially affect the observed impact of the STOCK Act on the frequency of management forecasts.

Considering the uncertainty about the duration of the STOCK Act's impact on executive branch officers' activities, we also analyzed results using a three-year window before and after the act's passage. We examined the commonly used six-year period, excluding the 2008 and 2015 fiscal years, instead of the overall eight years in our primary result. Table A2 column (3) shows the outcome remains significant and consistent with our main result. This finding confirms that the STOCK Act's supervisory power covers most of the Obama administration period.

4.3.3. Robustness of Treatment and Control Group Selection

We conducted additional tests to ensure our findings' robustness and address potential biases in our treatment and control group selection. These tests help verify that specific group characteristics or external factors do not drive the observed effects.

In Table A3, column (1), we exclude firms that never issue management forecasts in our primary test sample to avoid potential non-coverage issues. The coefficient on *Post* × *MajorGovCustomer* is -0.156 with a significance level of 0.05.

Table A3 column (3) highlights the results for unregulated industries, excluding SIC codes 6000-6999, 4900-4999, and 8000-8099, which correspond to the financial, utility, and pharmaceutical industries, respectively. Public companies in these industries are always supervised by the US Securities and Exchange Commission (SEC), the US Department of Energy, and the US Food and Drug Administration (FDA). These regulated firms can be considered both potential firms communicating privately with the government and heavily regulated firms. Therefore, we separated the data to avoid potential attribution concerns. As shown in the last column of Panel B, the coefficient on *Post* × *MajorGovCustomer* is significant at the 0.1 level. This result confirms to a certain extent that unregulated industry firms are affected mainly by the STOCK Act. In contrast, regulated firms might be continuously monitored under the Obama administration, limiting the feedback mechanism of the STOCK Act.

4.3.4. The Effect of Reg FD

The effects of the STOCK Act might be attributed to the impact of Regulation Fair Disclosure (Reg FD), which has been in place since 2000. Reg FD mandates the public disclosure of any private information revealed by management to executive branch officers in private communications. This regulation implies that more frequent interactions between management and executive branch officers would increase firms' likelihood of voluntarily disclosing firm-specific information. Consequently, the reduced interactions due to the STOCK Act are expected to lead to a lower frequency of voluntary disclosures. The underlying assumption is an information flow from management to executive branch officers. Still, it does not consider whether there is a reciprocal information flow between officers and management.

To disentangle our expectations from this argument, we examined the forecast precision of management forecasts after the STOCK Act. We classified earnings forecasts into range forecasts (an interval of future EPS) and point forecasts (a single number of future EPS). We investigated whether firms became more inclined to issue range forecasts. Table A4 presents the results. After the STOCK Act was enacted, we found that firms with government customers are more likely to issue range forecasts for future EPS. The decreased precision of earnings forecasts by these firms in the post-STOCK Act period supports the notion that management previously obtained private information from executive branch officers. Hence, our findings cannot be entirely attributed to the effect of Reg FD.

4.3.5. Poission Regression

Cohn, Liu, and Wardlaw (2022) point out that there are limitations with linear estimations based on the logarithm of 1 plus an outcome. Following the researchers' suggestion to mitigate concerns about our previous findings, we employed a fixed-effects Poisson model in robustness checks. As shown in Table A5 in the Appendix, our conclusions hold with this alternative model specification, suggesting that the log1plus method does not drive our findings.

The comprehensive robustness tests, including alternative time and period measurements, different treatment and control group selections, and the Poisson regression analysis, consistently support our initial findings. These tests confirm that the STOCK Act significantly influences the voluntary disclosure behavior of firms, particularly those with substantial government business connections. By examining

forecast precision, we further demonstrate that the reduced interactions with executive branch officers, as mandated by the STOCK Act, likely diminish the flow of private information to management. This comprehensive set of robustness tests strengthens the validity and reliability of our results, underscoring the significant role of the STOCK Act in shaping firms' voluntary disclosure practices.

4.4. Additional Types of Management Forecasts

To provide a comprehensive understanding of the impact of the STOCK Act on voluntary disclosures, we need to examine various types of management forecasts. This test helps us identify whether the observed effects are consistent across different forecast categories or if the regulation influences certain types.

Table 3 presents three types of management forecasts: quarterly versus annual forecasts, earnings versus non-earnings forecasts, and frequency based on forecasting days. For the last type, we measure the yearly frequency of overall management forecasts by counting the days a public firm issues at least one management forecast and then take the logarithm of that number. For instance, if a company makes three different types of forecasts—sales forecast, CAPEX forecast, and earnings forecast—on the same day, by our new day-based definition, we count this frequency as one instead of three and calculate the logarithm of two.

The results in Table 3 columns (1) and (2) illustrate that annual forecasts drive the majority of the reduction in forecast frequency. The decrease in frequency for annual forecasts (-0.057 units) is nearly twice that of quarterly forecasts (-0.033 units). This finding is reasonable because firms tend to offer more predictions in their last quarter to summarize the entire year's performance, likely covering multiple dimensions. Additionally, compared to a single quarter, full-year forecasts are more valuable for long-term investment and attract more public attention.

In columns (3) and (4), the coefficients of $Post \times MajorGovCustomer$ on non-EPS forecasts contribute significantly to the reduction in management forecasts, with a value of -0.075 at the 0.05 significance level. This behavior can be explained in two main ways. First, EPS forecasts are considered one of the most routine types of voluntary disclosure, so public firms generally choose not to withhold this information to avoid other issues. Second, non-EPS forecasts cover various direct and indirect profitability indicators,

such as CAPEX for corporate development. These indicators are perhaps more closely monitored by the government and are relatively difficult to quantify and estimate, aligning with our two cross-sectional hypotheses.

Column (5) shows a similar result for management forecast frequency as the main result. These findings indicate that when public companies and the U.S. government cannot communicate privately due to higher potential costs, companies will reduce some annual management and indirect profitability forecasts that the government might scrutinize, making fewer predictions measured by different days annually. These empirical results confirm that the STOCK Act has a powerful supervisory impact on the U.S. government and a deterrent effect on the capital market.

4.5. Demand Uncertainty

While our previous findings indicate that the STOCK Act has influenced the voluntary disclosure decisions of public companies, attributing the observed negative correlation solely to the Act remains challenging. Public companies may also be responding to decreased access to valuable information from government communication channels, which could heighten business uncertainty related to government interactions, prompting firms to reduce their voluntary disclosures. Although we do not aim to identify the exact cause, our cross-sectional tests provide deeper insights into the possible mechanisms at play.

4.5.1. Government Sales, Customers, and Sales Volatility

To test our hypothesis related to demand uncertainty, we analyze variables such as the proportion of government sales relative to total sales (*GovSalesRatio* from 2008 to 2011, the four years before the STOCK Act's enactment), the number of major government customers (*GovCustomNum* during the same period), and the volatility of government sales (*GovSalesVol* from 2008 to 2011). These variables capture different levels of uncertainty. We hypothesize that stronger business ties with the government and increased scrutiny following the STOCK Act elevate uncertainty, leading firms to reduce their overall management forecasts. This hypothesis is tested using the following OLS model:

$$Frequency_{i,t} = \alpha + \beta_1 Post_t \times HighGovSalesRatio_i + \beta_2 Post_t \times LowGovSalesRatio_i + \chi_{it} + \phi_i + \phi_t + \varepsilon_{it} \quad (2)$$

where χ_{it}, ϕ_i, ϕ_t, and ε_{it} are defined as in Equation (1). *HighGovSalesRatio* is a dummy variable that equals one if the firm's *GovSalesRatio* from 2008 to 2011 is at or above the sample median for firms with major government customers; otherwise, it equals zero. *LowGovSalesRatio* is a dummy variable that equals one if the firm's *GovSalesRatio* during the same period is below the sample median for firms with major government customers; otherwise, it equals zero.

Table 4, column (1), presents the results from estimating Equation (2). The coefficients on *Post* × *HighGovSalesRatio* are negative and significant at the 0.01 level, while the *Post* × *LowGovSalesRatio* interactions are insignificant. In column (2), we replace *HighGovSalesRatio* (*LowGovSalesRatio*) with *HighGovCustomNum* (*LowGovCustomNum*), a dummy variable that equals one if the firm's *GovCustomNum* is at or above (below) the sample median. In column (3), we replace *HighGovSalesRatio* (*LowGovSalesRatio*) with *HighGovSalesVol* (*LowGovSalesVol*), a dummy variable that equals one if the firm's *GovSalesVol* is at or above (below) the sample median. The results remain consistent across all these tests.

These findings suggest that firms with a higher proportion of government sales (*HighGovSalesRatio*), more government partners (*HighGovCustomNum*), and greater income uncertainty (*HighGovSalesVol*) reduced their frequency of management forecasts after the STOCK Act was passed. Compared to firms in the low group, these firms exhibit a stronger reliance on government business. When this relationship is subjected to increased scrutiny, the resulting information loss becomes more substantial, leading to heightened uncertainty. The proportion of government sales (*HighGovSalesRatio*) shows the most significant impact among all three cross-sectional tests, possibly because sales directly reflect a company's profitability, which is a key focus for external investors. When information flow is restricted, public firms may reduce the release of valuable but uncertain information, as external investors, such as fund managers, may choose to limit investments in firms with low-quality disclosures (Chen et al., 2018).

4.5.2. Government Contracts and Major Customers

In Table 5, we refine our analysis by introducing the variable *OnlyGovContract*, which distinguishes firms that are government contractors but do not have the government as a major customer. The *OnlyGovContract* variable is a dummy set to one if the firm held government contracts without the government being a major customer from 2008 to 2011; otherwise, it equals zero. This distinction allows us to compare firms that rely less on government customers to those with substantial government business.

The results in Table 5 show that the coefficient on $Post \times MajorGovCustomer$ is -0.079 and significant at the 0.05 level, indicating a reduction in the frequency of management forecasts for these firms after the STOCK Act. In contrast, the interaction term for *OnlyGovContract* is not significant, suggesting that firms with government contracts but without major government customers are less impacted by the Act in terms of their voluntary disclosure frequency.

This differential effect highlights two key points: First, firms with major government customers are more vulnerable to the increased scrutiny and reduced information flow resulting from the STOCK Act. Second, firms that are government contractors but do not heavily rely on government customers for revenue are less affected, as their relationship with the government does not significantly influence their disclosure practices. The importance of disclosure at the company level versus disclosure by the government itself further underscores the distinct nature of these business relationships.

Overall, these findings support our hypothesis that the relationship between public firms with major government customers and their management forecasts becomes more pronounced when the STOCK Act hinders private communication with government officials, particularly in environments with higher business uncertainty.

4.6. Political Activity Engagement Tests

In examining private communication between firms and the government along the supply chain, we interpret political activity engagement as compliance with the government. We argue that when firms actively disclose more political events or policies and participate in political contribution activities, they express their incentives to favor their government partners through direct costs. Conversely, firms operating in highly competitive markets are more likely to seek government assistance to gain competitive

advantages, representing indirect political engagements. These arguments support our third hypothesis.

4.6.1. Direct Political Activity Engagements

To test direct political activity engagements, we use two measures to proxy for active connections to the government: (i) political-related risk disclosures in conference calls (*PRisk*) from Hassan et al. (2019), and (ii) political contributions during elections (*FedContribution*) from Correia (2014). The ex-ante median value of these measures is used to separate our data sample into high and low groups.

Table 6 presents the results of the political activity engagement tests. The high group in columns (1) and (3) contributes to the significant results. The coefficients on *Post* × *MajorGovCustomer* are -0.129 and -0.114, respectively, both significant at the 0.01 level, while the coefficients are insignificant in the low group with opposite directional values. These results suggest that solid political incentives lead to a more substantial reduction in management forecasts after the STOCK Act, indicating that public companies have limited information to share through voluntary disclosure channels when they cannot directly benefit from executive branch officers.

4.6.2. Indirect Political Activity Engagements

Unlike direct interaction with the government, a company's competitive environment is another incentive for firms to seek government business cooperation (Kepler, 2021). We calculate the sales-based Herfindahl-Hirschman Index (HHI) to capture industry concentration. A higher HHI indicates lower competition, equivalent to lower coordination benefits and proprietary costs. Table 7 presents our indirect political activity engagement test's cross-sectional results. In column (2), the coefficient on *Post* × *MajorGovCustomer* is significantly negative at the 0.1 level. These results indicate that higher competition leads to treatment firms disclosing less due to their potential higher government business compliance.

Overall, our findings support the hypothesis that political activity engagement, both direct and indirect, plays a significant role in how firms adjust their voluntary disclosure behavior following the enactment of the STOCK Act.

4.7. Additional Tests on Private Communication

A key challenge to our argument is the claim that the STOCK Act does not explicitly prohibit private communication. To address this concern, we conducted several additional tests.

First, we examined the frequency of overall management forecasts before and after the STOCK Act. Our analysis revealed that, over the eight years studied, 693 firms issued forecasts, with 386 firms increasing their forecast frequency and 300 firms decreasing it. These findings suggest that the changes in management forecasts are driven by a broad range of firms rather than a few extreme cases, indicating that outliers do not distort the overall effect. This supports the conclusion that the STOCK Act impacts most firms issuing forecasts.

Next, we explore the impact of the STOCK Act on non-financial disclosures. In 2012, it was uncommon for investors to use ESG information for trading purposes (Van Duuren, Plantinga, and Scholtens, 2016; Caplan, Griswold, and Jarvis, 2013). Therefore, we expect the STOCK Act to have minimal impact on nonfinancial disclosures, as government officials are less likely to rely on such information. For a more direct comparison with management forecasts, examining ESG forecast information would be ideal. To support this argument, we apply the methodologies of Henry, Jiang, and Rozario (2021) and Zhang (2021), analyzing private communications on environmental and social topics using conference call data.

In Table 8, columns (1) and (2) demonstrate that both environmental and social disclosures are not significantly affected under the private communication setting we examine. This finding suggests that, prior to the STOCK Act, financial information was exchanged between firms and the government, potentially for trading purposes.

These additional tests reinforce the narrative, suggesting that the STOCK Act effectively curtails the private communication of critical financial information.

4.8. The STOCK Act, Congressmen, and Corporate Communications

Huang and Xuan (2023) documented that the STOCK Act limited insider trading by congressmen. Examining whether firms previously held by these congressmen changed their voluntary disclosure behaviors is also essential. Congressmen might privately exchange firm-specific information to benefit their portfolios through capital market rewards. Suppose it becomes riskier for congressmen to meet

with firms for such information. In that case, these sources can no longer benefit firms through private channels, leading to more information being disclosed for direct market reward.

Congressmen can intervene in contract awards in rare cases Witko (2011); Fazekas, Ferrali, and Wachs (2023). Therefore, if they hold a stake in a firm negotiating a government contract, they might interact with executive branch officers and influence final decisions.

To examine how congressmen affect corporate disclosure behaviors under the STOCK Act, we obtained data on politician holdings from OpenSecrets. We created a new variable, *CongressOwn*, which equals one if any congressman had ever held the firm from 2008 to 2011 before the STOCK Act was enacted. We first applied the same difference-in-differences setting, replacing treatment with *CongressOwn*. Next, we created a triple interaction term, $Post \times MajorGovCustomer \times CongressOwn$, to examine the differences between firms held by congressmen and those that were not.

Table 9, column (1), shows that firms previously held by congressmen significantly reduced their management forecasts after the STOCK Act. The coefficient is significant at the 10% level, slightly weaker than our main results. We interpret this as congressmen being more cautious about initiating private communications due to high media exposure, while their stronger connections make them less likely to be penalized by the STOCK Act. In column (2), the triple interaction term is nearly significant at the 10% level, consistent with our prediction that congressmen rarely intervene in contract-awarding procedures to maintain power independence. Our findings show that congressmen played an important role in private communication before the STOCK Act, but their engagement was more limited than executive officers.

4.9. Impact of the STOCK Act on Implied Cost of Capital

Our analysis indicates a decline in voluntary disclosure following the enactment of the STOCK Act. According to disclosure theory by Easley and O'hara (2004), information disclosure plays a crucial role in determining a firm's cost of capital. To assess the effect of the STOCK Act on firms' internal rates of return, as influenced by changes in voluntary disclosure, we utilize the following regression framework:

$$ICC_{i,t} = \alpha + \beta_1 \text{Post}_i \times \text{MajorGovCustomer}_t \times \text{Frequency}_{it} + \beta_2 \text{Post}_i \times \text{MajorGovCustomer}_t + \beta_3 \text{Frequency}_{it} + \chi_{it} + \phi_i + \phi_t + \varepsilon_{it}, \tag{3}$$

where Post_i, $\text{MajorGovCustomer}_t$, Frequency_{it}, χ_{it}, ϕ_i, ϕ_t, and ε_{it} are as defined in Equation (1). The dependent variable $ICC_{i,t}$ represents five widely recognized measures of cost of capital: *GLS_ICC* (Gebhardt, Lee, and Swaminathan, 2001), *CAT_ICC* (Claus and Thomas, 2001), *PEG_ICC* (Easton, 2004), *OJM_ICC* (Ohlson and Juettner-Nauroth, 2005), and *AVG_ICC*, which is the equally-weighted average of *GLS_ICC*, *PEG_ICC*, *OJM_ICC*, and *CAT_ICC*.

Table 10 presents the regression results. The table outlines the OLS regression outcomes, demonstrating how the STOCK Act affects the implied cost of capital (ICC). The key independent variable, *Post* × *MajorGovCustomer* × *Frequency*, is statistically significant across four out of five ICC measures. This finding suggests that the STOCK Act has a notable impact on firms' internal rates of return, particularly for those with substantial government customers, as reflected by changes in the frequency of voluntary disclosures. Specifically, firms with major government customers that reduced their voluntary disclosures after the STOCK Act's implementation experienced a significant increase in their implied cost of capital, highlighting the critical role of transparency in sustaining favorable financing conditions.

5. Conclusion

Prior literature highlights the relationship between firms' private communication and voluntary disclosure behavior. This paper leverages the STOCK Act of 2012 as an exogenous shock to examine the effects of private communication between executive branch officers and public firms on overall management forecasts. We posit that close business ties, particularly with major government customers, facilitate private communication between public companies and executive branch officers. Our empirical results indicate that the enactment of the STOCK Act, which restricts such communications, leads public firms to reduce their overall management forecasts.

Consistent with our primary findings, we observe that when public companies can no longer obtain government information seamlessly, the relationship between private communication and voluntary

disclosure is more pronounced for firms with higher demand uncertainty from government sources and those involved in more political activities. Additionally, the precision of their EPS forecasts is affected, mitigating potential concerns related to the synergy of Regulation Fair Disclosure (Reg FD). Our findings also show that firms previously held by congressmen reduced their management forecasts following the STOCK Act. Collectively, these results provide robust evidence supporting our hypotheses and underscore the significant supervisory impact of the STOCK Act on the U.S. government and capital market.

Regarding the limitations of our study, like many investigations into private communication, we cannot capture direct evidence such as phone calls or criminal records. Nevertheless, the primary contribution of this article is its exploration of the impact of private communications between executive branch officers and firms on voluntary disclosure. We offer an in-depth interpretation of the relationship between major government customers and contractors, yielding surprising results that differ from prior literature. Furthermore, we advocate for a more comprehensive U.S. government information disclosure policy to foster a fairer investment environment for stakeholders.

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Tables and Figures

Figure 1. Timeline for Management Forecasts

Timeline of the sample period spanning eight years, with the STOCK Act's enactment date as a boundary to balance the timeline. Management forecasts within a defined year are matched to the corresponding fiscal year, as the end of April is the deadline for 10-K disclosures for many public firms.

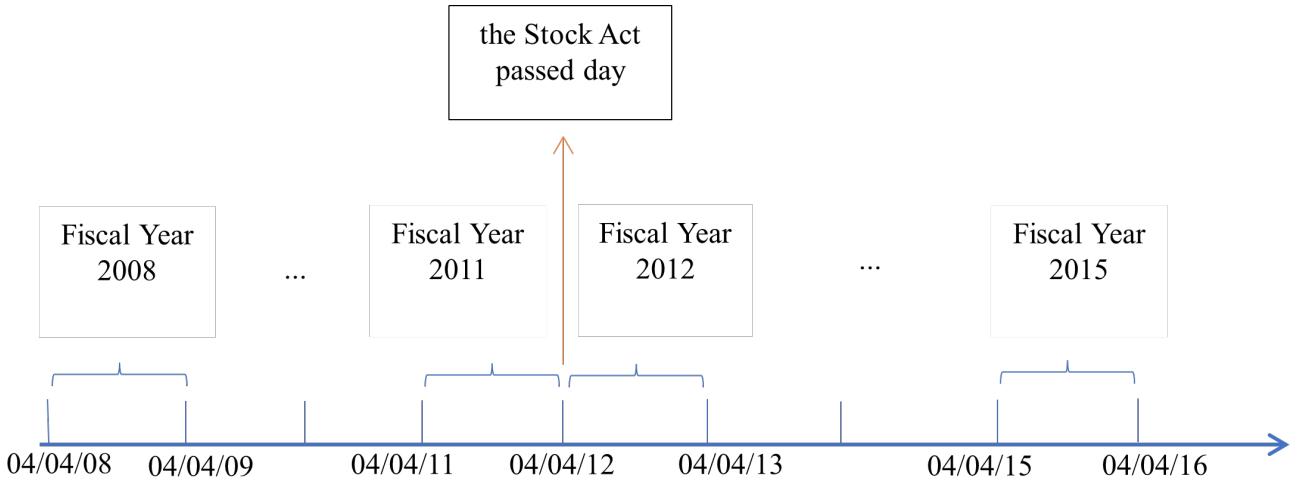

Figure 2. The Frequency of Management Forecasts

This figure plots the natural logarithm of the frequency of management forecasts for firms with and without major government customers from 2008 to 2015. The sample consists of 12,074 firm-years. The red solid line represents the treatment firms (15.4% of the sample) that reported major government customers for at least three years in the four years (2008-2011) before the STOCK Act was enacted. The blue dashed line represents the control firms.

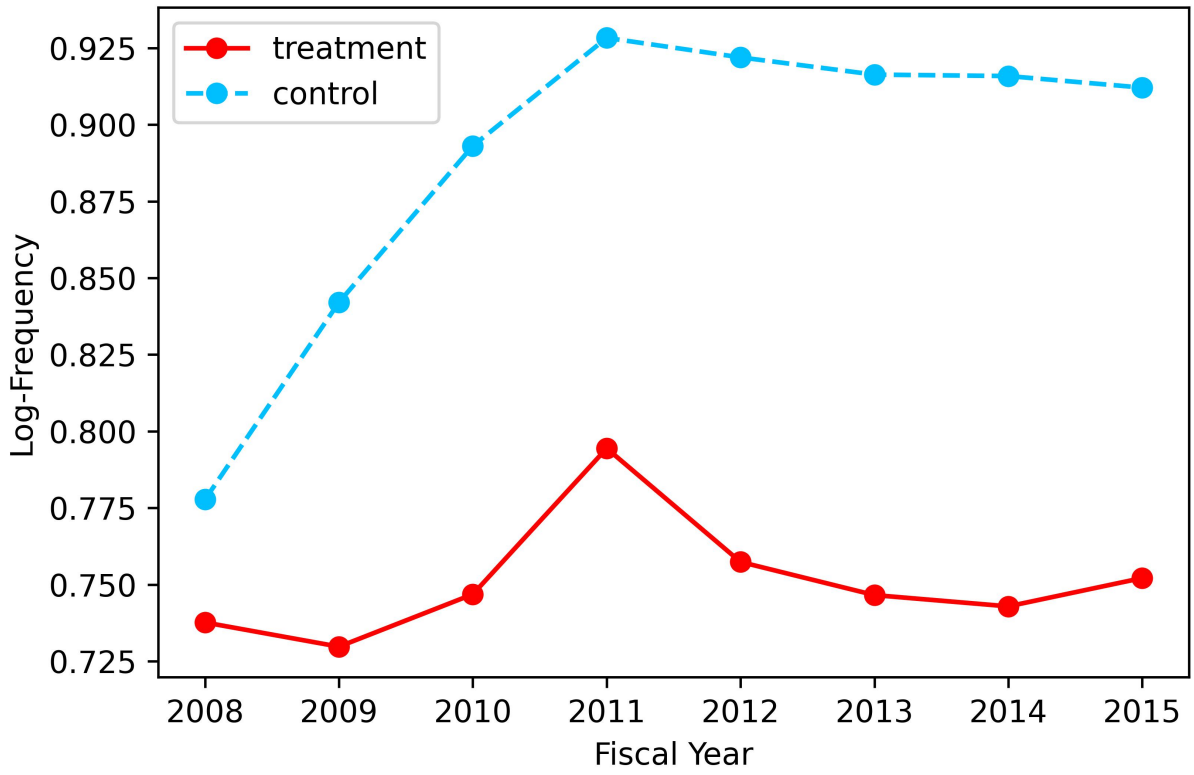

Figure 3. Trends in Management Forecasts

This figure displays the coefficients and their 95% confidence intervals from a regression analysis examining the difference in synchronicity and analyst following across years relative to the baseline year, 2012. The model is an adaptation of Equation (1), with the interaction term $Post \times MajorGovCustomer$ replaced by interactions between $Post$ and annual indicator variables.

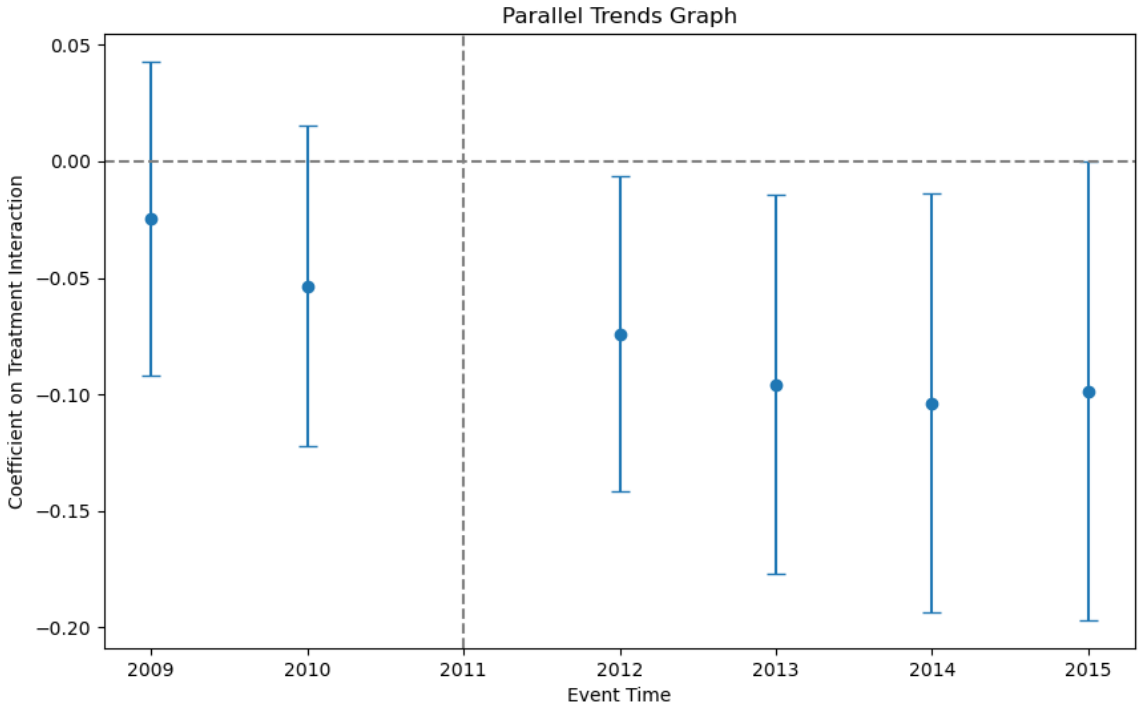

Figure 4. Timeline Cut-off Robustness for Management Forecasts

The sample period covers eight years, with April 4, 2012, as the boundary to balance the timeline. Management forecasts within each defined year are matched to the corresponding fiscal year, as the end of April is the deadline for 10-K disclosures for many public firms.

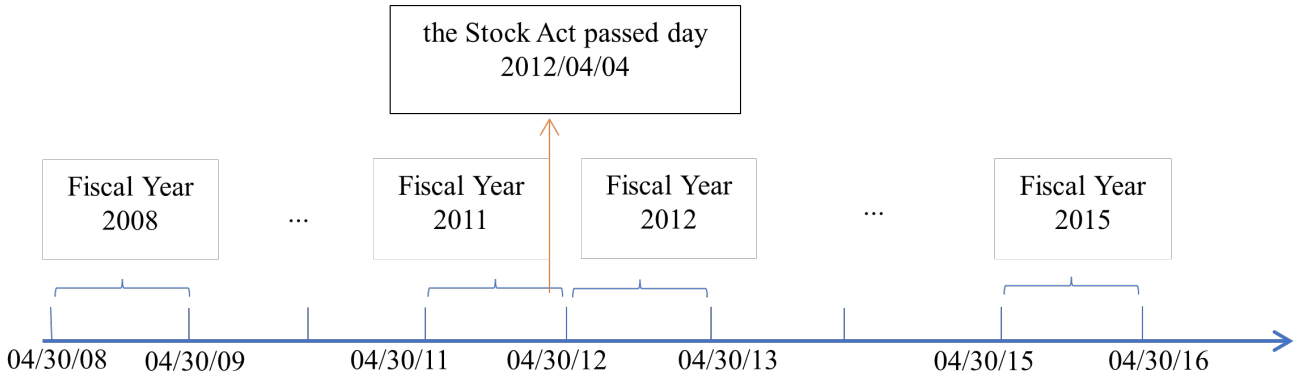

Figure 5. Timeline Period Robustness for Management Forecasts

The sample period covers eight years in total, using the firm's fiscal year at the annual level to match management forecasts and firm characteristics. All management forecasts predicted in 2012 are excluded to alleviate the potential impact on decision discussion and execution.

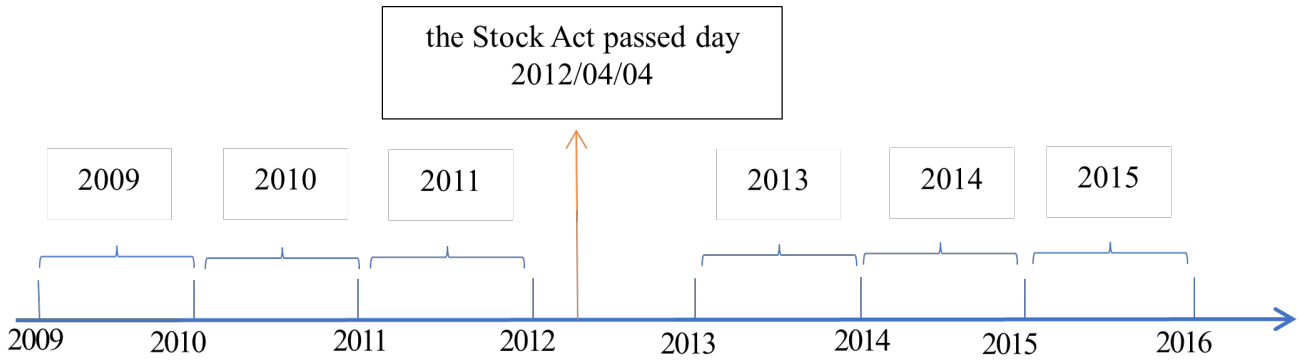

Table 1. Summary Statistics

This table contains all the variables used in my primary test, using CRSP and COMPUSTAT databases. The sample period is from 2008 to 2015, covering the whole period of President Obama's administration. All continuous variables are winsorized at 1% and 99% levels. All variables present in Table A1.

	N	Mean	Std	25th	Median	75th
Frequency	12,074	0.87	1.25	0.00	0.00	2.08
AnnualForecasts	12,074	0.68	1.07	0.00	0.00	1.39
QuarterlyForecasts	12,074	0.42	0.86	0.00	0.00	0.00
EPSForecasts	12,074	0.37	0.75	0.00	0.00	0.00
NonEPSForecasts	12,074	0.78	1.13	0.00	0.00	1.79
DayLevelFrequency	12,074	0.60	0.85	0.00	0.00	1.61
EnvInfo	12,074	2.66	8.39	0.00	0.00	0.83
SocInfo	12,074	9.35	8.33	0.00	10.62	15.32
MajorGovCustomer	12,074	0.15	0.36	0.00	0.00	0.00
Size	12,074	6.52	2.15	5.01	6.52	7.98
LEV	12,074	0.18	0.19	0.00	0.15	0.26
BM	12,074	0.61	0.59	0.27	0.48	0.79
ROA	12,074	-0.04	0.24	-0.04	0.03	0.07
LOSS	12,074	0.34	0.47	0.00	0.00	1.00
EarnVol	12,074	0.12	0.16	0.03	0.08	0.15
Return	12,074	0.01	0.12	-0.03	0.01	0.04
Turnover	12,074	0.15	0.15	0.05	0.12	0.19
StkVol	12,074	0.03	0.02	0.02	0.03	0.04

Table 2. Private Communication and Management Guidance

This table presents the OLS regression results examining the effect of private communication between politicians and public firms on the frequency of overall management forecasts. The dependent variable, *Frequency*, is defined as the natural logarithm of 1 plus the total number of management forecasts issued annually by the firm. The key independent variable is the interaction term *Post* × *MajorGovCustomer*. *Post* is a dummy variable equal to one for the period after the enactment of the STOCK Act. *MajorGovCustomer* is a dummy variable equal to one if the government was a major company customer for at least three out of four years from 2008 to 2011. Columns (2) and (4) include firm-year controls such as *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. Columns (1) and (2) include industry fixed effects and time fixed effects. Columns (3) and (4) include firm fixed effects and time fixed effects. The t-statistics, shown in parentheses, are clustered at the firm level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Table A1.

	(1)	(2)	(3)	(4)
		Frequency		
Post × *MajorGovCustomer*	-0.074**	-0.064*	-0.084***	-0.075**
	(-2.11)	(-1.81)	(-2.67)	(-2.43)
MajorGovCustomer	-0.052	-0.024		
	(-0.57)	(-0.28)		
Size		0.114***		0.071***
		(6.68)		(4.76)
LEV		0.025		0.123**
		(0.18)		(2.22)
BM		-0.035		0.044***
		(-1.01)		(2.86)
ROA		0.105		-0.075**
		(1.23)		(-2.16)
LOSS		-0.101**		-0.043***
		(-2.29)		(-2.75)
EarnVol		-0.278**		0.090
		(-2.30)		(1.11)
Return		-0.250***		-0.057
		(-3.16)		(-1.42)
Turnover		0.767***		0.131***
		(5.72)		(3.06)
StkVol		-6.616***		-1.253**
		(-5.58)		(-2.27)
Ind FE	Yes	Yes	No	No
Firm FE	No	No	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	12,074	12,074	12,074	12,074
R-squared	0.11	0.20	0.90	0.91

Table 3. Different Types of Management Forecasts

This table presents the OLS regression results examining the impact of private communication between politicians and public firms on the frequency of different types of management forecasts. The dependent variables in Columns (1) and (2), *AnnualForecasts* and *QuarterlyForecasts*, represent the natural logarithm of one plus the total number of annual and quarterly management forecasts issued by the firm each year, respectively. Columns (3) and (4) focus on *EPSForecasts* and *NonEPSForecasts*, defined as the natural logarithm of one plus the total number of annual EPS and Non-EPS management forecasts, respectively. Column (5) uses *ForecastDays*, the natural logarithm of one plus the total number of days within a year on which the firm issues at least one management forecast. The key independent variable is the interaction term *Post* × *MajorGovCustomer*. *Post* is a dummy variable set to one for the period following the enactment of the STOCK Act. *MajorGovCustomer* is set to one if the government was a major customer of the company for at least three out of the four years from 2008 to 2011. All regressions incorporate fixed effects and firm-year controls, including *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. The t-statistics, provided in parentheses, are clustered at the firm level. Significance levels are denoted by ***, **, and * for the 1%, 5%, and 10% levels, respectively. Variable definitions are detailed in Table A1.

	(1) *AnnualForecasts*	(2) *QuarterlyForecasts*	(3) *EPSForecasts*	(4) *NonEPSForecasts*	(5) *ForecastDays*
Post × *MajorGovCustomer*	-0.057**	-0.033	-0.014	-0.075**	-0.051**
	(-1.98)	(-1.54)	(-0.68)	(-2.47)	(-2.27)
Size	0.078***	0.026**	0.020**	0.069***	0.053***
	(5.42)	(2.58)	(2.30)	(4.83)	(4.95)
LEV	0.138**	0.073	0.081**	0.108**	0.075*
	(2.58)	(1.56)	(2.13)	(2.04)	(1.77)
BM	0.039***	0.031***	0.028***	0.042***	0.028**
	(2.83)	(2.59)	(3.20)	(2.86)	(2.54)
ROA	-0.073**	-0.034	-0.025	-0.069**	-0.052**
	(-2.40)	(-1.21)	(-1.31)	(-2.11)	(-2.11)
LOSS	-0.057***	-0.006	-0.022**	-0.035**	-0.027**
	(-3.69)	(-0.45)	(-2.16)	(-2.40)	(-2.50)
EarnVol	0.106	0.098	0.017	0.098	0.088
	(1.23)	(1.39)	(0.47)	(1.24)	(1.40)
Return	-0.034	-0.040	-0.019	-0.054	-0.060**
	(-0.85)	(-1.24)	(-0.84)	(-1.38)	(-2.08)
Turnover	0.138***	0.135***	0.069***	0.119***	0.096***
	(3.27)	(4.07)	(2.60)	(2.90)	(3.07)
StkVol	-1.068**	-0.717*	-0.767**	-1.018*	-0.689*
	(-2.05)	(-1.81)	(-2.38)	(-1.95)	(-1.77)
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Observations	12,074	12,074	12,074	12,074	12,074
R-squared	0.88	0.87	0.90	0.89	0.89

Table 4. The Importance of Government Sales

This table presents the OLS regression results examining the cross-sectional tests on demand uncertainty. *HighGovSalesRatio* (*HighGovCustomNum* / *HighGovSalesVol*) is a dummy variable that equals one when firms have a ratio of government sales to overall sales (the total number of major government customers / the annual volatility of government sales) at or above the sample median for firms with major government customers from 2008 to 2011; otherwise, it equals zero. *LowGovSalesRatio* (*LowGovCustomNum* / *LowGovSalesVol*) is a dummy variable that equals one when firms have a ratio of government sales to overall sales (the total number of major government customers / the annual volatility of government sales) below the sample median for firms with major government customers during the same period; otherwise, it equals zero. All regressions include fixed effects and firm-year controls, including *Size*, *LEV*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. The t-statistics, shown in parentheses, are clustered at the firm level. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Table A1.

	(1)	(2)	(3)
		Frequency	
Post × *HighGovSalesRatio*	-0.117***		
	(-2.71)		
Post × *LowGovSalesRatio*	-0.030		
	(-0.74)		
Post × *HighGovCustomNum*		-0.069**	
		(-2.17)	
Post × *LowGovCustomNum*		-0.163	
		(-1.38)	
Post × *HighGovSalesVol*			-0.077**
			(-2.12)
Post × *LowGovSalesVol*			-0.071
			(-1.36)
Controls	YES	YES	YES
Firm FE	YES	YES	YES
Year FE	YES	YES	YES
Observations	12,074	12,074	12,074
R-squared	0.91	0.91	0.91

Table 5. Government Contracts

This table presents the OLS regression results from cross-sectional tests on demand uncertainty, assessed through the characteristics of major government customers and contractors. The dependent variable, *Frequency*, is defined as the natural logarithm of one plus the total number of management forecasts issued annually by the firm. *MajorGovCustomer* is a dummy variable set to one if the firm has at least one major government customer for at least three out of the four years from 2008 to 2011. *OnlyGovContract* is a dummy variable set to one for firms holding government contracts but not having major government customers during the same period. Columns (2) and (4) include firm-year controls such as *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. Columns (1) and (2) include industry fixed effects and time fixed effects. Columns (3) and (4) include firm fixed effects and time fixed effects. The t-statistics, shown in parentheses, are clustered at the firm level. Significance levels are indicated by ***, **, and * for the 1%, 5%, and 10% levels, respectively. Variable definitions are detailed in Table A1.

	(1)	(2)	(3)	(4)
			Frequency	
Post × *MajorGovCustomer*	-0.081**	-0.068*	-0.088***	-0.079**
	(-2.24)	(-1.87)	(-2.72)	(-2.48)
MajorGovCustomer	0.093	0.050		
	(1.01)	(0.57)		
Post × *OnlyGovContractor*	-0.003	-0.004	-0.015	-0.014
	(-0.11)	(-0.12)	(-0.57)	(-0.53)
OnlyGovContractor	0.496***	0.258***		
	(5.81)	(3.14)		
Size		0.106***		0.071***
		(6.24)		(4.80)
LEV		0.012		0.123**
		(0.09)		(2.22)
BM		-0.036		0.044***
		(-1.04)		(2.85)
ROA		0.095		-0.075**
		(1.11)		(-2.16)
LOSS		-0.095**		-0.043***
		(-2.17)		(-2.75)
EarnVol		-0.229*		0.088
		(-1.91)		(1.07)
Return		-0.234***		-0.057
		(-2.97)		(-1.42)
Turnover		0.766***		0.130***
		(5.66)		(3.03)
StkVol		-6.267***		-1.244**
		(-5.30)		(-2.25)
Ind FE	YES	YES	NO	NO
Firm FE	NO	NO	YES	YES
Year FE	YES	YES	YES	YES
Observations	12,074	12,074	12,074	12,074
R-squared	0.13	0.20	0.90	0.91

Table 6. Direct Political Activity Engagements

This table presents the OLS regression results of the cross-sectional tests on the coordination incentives measured by conference call disclosed political risks and political contribution records. Column (1) shows results for firms with political risk (*PPrisk*) larger than the sample median, while Column (2) shows results for firms with *PPrisk* smaller than the sample median. Column (3) presents results for firms with federal contributions (*FedeContribution*) higher than the sample median, and Column (4) shows results for firms with *FedeContribution* lower than the sample median. The dependent variable, *Frequency*, is defined as the natural logarithm of one plus the total number of management forecasts issued annually by the firm. The key independent variable is the interaction term *Post* × *MajorGovCustomer*. *Post* is a dummy variable set to one for the period following the enactment of the STOCK Act. *MajorGovCustomer* is set to one if the government was a major customer of the company for at least three out of the four years from 2008 to 2011. All regressions include fixed effects and firm-year controls, including *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. The t-statistics, provided in parentheses, are clustered at the firm level and adjusted for heteroscedasticity. Significance levels are denoted by ***, **, and * for the 1%, 5%, and 10% levels, respectively. Variable definitions are detailed in Table A1.

	(1)	(2)	(3)	(4)
	Frequency			
	PRisk		FedContribution	
	High	Low	High	Low
Post × *MajorGovCustomer*	-0.129***	0.009	-0.114***	0.002
	(-3.77)	(0.14)	(-2.83)	(0.04)
Size	0.064***	0.079***	0.089***	0.062***
	(2.96)	(3.82)	(3.90)	(3.05)
LEV	0.121	0.121	0.107	0.149**
	(1.47)	(1.64)	(1.22)	(2.12)
BM	0.059**	0.035*	0.044	0.047**
	(2.47)	(1.71)	(1.52)	(2.54)
ROA	-0.075	-0.074	-0.103	-0.062*
	(-1.53)	(-1.53)	(-1.39)	(-1.80)
LOSS	-0.042*	-0.044**	-0.031	-0.056**
	(-1.81)	(-2.06)	(-1.44)	(-2.45)
EarnVol	0.064	0.111	0.121	0.064
	(0.88)	(0.77)	(0.77)	(0.80)
Return	-0.004	-0.093*	-0.158**	-0.016
	(-0.05)	(-1.87)	(-2.11)	(-0.34)
Turnover	0.149**	0.119**	0.182***	0.071
	(2.36)	(2.06)	(2.88)	(1.16)
StkVol	-2.660***	-0.079	-1.066	-1.356**
	(-3.12)	(-0.11)	(-0.96)	(-2.41)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	6,041	6,033	6,254	5,820
R-squared	0.91	0.91	0.92	0.86

Table 7. Indirect Political Activity Engagements

This table presents the OLS regression results from cross-sectional tests examining the coordination benefits associated with market competition, as measured by sales characteristics. The high (low) HHI subsample in Column (1) (Column (2)) includes firms in noncompetitive (competitive) industries, where the industry's HHI is below (above) the sample median. The dependent variable, *Frequency*, is defined as the natural logarithm of one plus the total number of management forecasts issued annually by the firm. The key independent variable is the interaction term *Post* × *MajorGovCustomer*. *Post* is a dummy variable that equals one for the period after the enactment of the STOCK Act. *MajorGovCustomer* equals one if the government was a major customer of the company for at least three out of the four years from 2008 to 2011. All regressions include fixed effects and firm-year controls, including *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. The t-statistics, provided in parentheses, are clustered at the firm level and adjusted for heteroscedasticity. Significance levels are indicated by ***, **, and * for the 1%, 5%, and 10% levels, respectively. Variable definitions are detailed in Table A1.

	(1)	(2)
	Frequency	
	High HHI	Low HHI
Post × *MajorGovCustomer*	-0.060	-0.090*
	(-1.43)	(-1.93)
Size	0.086***	0.059***
	(4.18)	(2.76)
LEV	0.157**	0.083
	(2.15)	(0.99)
BM	0.045**	0.043**
	(2.01)	(2.00)
ROA	-0.045	-0.099**
	(-0.85)	(-2.25)
LOSS	-0.035	-0.049**
	(-1.55)	(-2.29)
EarnVol	0.079	0.094
	(0.63)	(0.95)
Return	-0.096*	-0.023
	(-1.71)	(-0.39)
Turnover	0.123*	0.137**
	(1.95)	(2.37)
StkVol	-1.963**	-0.386
	(-2.58)	(-0.48)
Firm FE	YES	YES
Year FE	YES	YES
Observations	6,048	6,026
R-squared	0.90	0.91

Table 8. Non-Financial Voluntary Disclosure

This table presents the OLS regression results analyzing the impact of private communication between politicians and public firms on the frequency of non-financial disclosures. *EnvInfo* refers to voluntary disclosures concerning environmental issues, and *SocInfo* pertains to voluntary disclosures on social issues. The primary independent variable of interest is the interaction term *Post* × *MajorGovCustomer*. *Post* is a dummy variable set to one for the period following the enactment of the STOCK Act. *MajorGovCustomer* is a dummy variable that equals one if the government was a major customer of the firm for at least three out of four years from 2008 to 2011. All regressions control for firm fixed effects, year fixed effects, and firm-year characteristics, including *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. The t-statistics, provided in parentheses, are clustered at the firm level and adjusted for heteroscedasticity. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are detailed in Table A1.

	(1) *EnvInfo*	(2) *SocInfo*
Post × *MajorGovCustomer*	-0.502	-0.230
	(-1.60)	(-0.97)
Size	0.032	0.388***
	(0.30)	(3.79)
LEV	0.594	0.710
	(1.41)	(1.49)
BM	-0.081	0.366***
	(-0.65)	(2.98)
ROA	0.094	-0.373
	(0.39)	(-0.97)
LOSS	0.015	0.139
	(0.12)	(1.19)
EarnVol	0.189	-0.649
	(0.80)	(-0.92)
Return	-0.062	-0.248
	(-0.18)	(-0.66)
Turnover	0.239	-0.447
	(0.74)	(-1.27)
StkVol	0.450	3.997
	(0.11)	(0.82)
Firm FE	YES	YES
Year FE	YES	YES
Observations	12,074	12,074
R-squared	0.85	0.87

Table 9. The STOCK Act, Congressmen, and Corporate Communications

This table presents the OLS regression results of the cross-sectional tests on the coordination benefits measured by market competition on sales characteristics. The dependent variable, *Frequency*, is defined as the natural logarithm of 1 plus the total number of management forecasts issued annually by the firm. *CongressOwn* is a binary variable set to one if congressmen disclosed the firm's name for equity transactions at least once during the four years from 2008 to 2011. All regressions include fixed effects and firm-year controls, including *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. The t-statistics, shown in parentheses, are clustered at the firm level and adjusted for heteroscedasticity. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Table A1.

	(1)	(2)
	Frequency	
Post × *CongressOwn*	-0.037*	-0.035
	(-1.74)	(-1.53)
Post × *MajorGovCustomer* × *CongressOwn*		-0.021
		(-0.34)
Post × *MajorGovCustomer*		-0.071*
		(-1.93)
Size	0.073***	0.072***
	(4.85)	(4.81)
LEV	0.130**	0.126**
	(2.34)	(2.27)
BM	0.045***	0.045***
	(2.94)	(2.93)
ROA	-0.076**	-0.075**
	(-2.20)	(-2.18)
LOSS	-0.044***	-0.043***
	(-2.85)	(-2.79)
EarnVol	0.089	0.088
	(1.08)	(1.07)
Return	-0.061	-0.057
	(-1.50)	(-1.42)
Turnover	0.127***	0.125***
	(2.97)	(2.94)
StkVol	-1.211**	-1.205**
	(-2.19)	(-2.18)
Firm FE	YES	YES
Year FE	YES	YES
Observations	12,074	12,074
R-squared	0.91	0.91

Table 10. Impact of the STOCK Act on Implied Cost of Capital

This table presents the OLS regression results examining the effect of the STOCK Act on firms' internal rates of return as reflected in voluntary disclosure changes. The dependent variables are five implied cost of capital (ICC) measures: *GLS_ICC* (Column 1) following Gebhardt, Lee, and Swaminathan (2001), *OJM_ICC* (Column 2) following Ohlson and Juettner-Nauroth (2005), *CAT_ICC* (Column 3) following Claus and Thomas (2001), and *PEG_ICC* (Column 4) following Easton (2004). Column (5) uses *AVG_ICC*, an equally-weighted average of these four measures. The main independent variable is *Post* × *MajorGovCustomer* × *Frequency*, where *Post* indicates the period after the STOCK Act, *MajorGovCustomer* is set to one if the government was a major customer from 2008 to 2011, and *Frequency* is the log of management forecasts issued. Regressions include controls for *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*, with fixed effects and firm-clustered t-statistics in parentheses. Significance levels are indicated by ***, **, and * for 1%, 5%, and 10% levels, respectively. . Variable definitions are provided in Table A1.

	(1) *GLS_ICC*	(2) *OJM_ICC*	(3) *CAT_ICC*	(4) *PEG_ICC*	(5) *AVG_ICC*
Post × *MajorGovCustomer* × *Frequency*	-0.665***	-0.283	-0.902*	-1.325***	-0.919***
	(-2.99)	(-0.80)	(-1.87)	(-3.74)	(-3.66)
Post × *MajorGovCustomer*	0.803	1.000	1.018	1.628*	1.208*
	(1.38)	(1.17)	(0.89)	(1.93)	(1.90)
Frequency	-0.153	-0.032	-0.093	-0.492**	-0.325
	(-1.12)	(-0.11)	(-0.26)	(-1.98)	(-1.61)
Size	-1.889***	-2.142***	-6.152***	-5.303***	-4.050***
	(-11.09)	(-5.91)	(-12.61)	(-14.95)	(-15.38)
LEV	-1.103*	-0.419	-2.706	-3.335***	-2.419**
	(-1.77)	(-0.31)	(-1.54)	(-2.91)	(-2.55)
BM	0.662***	0.128	6.283***	0.845	2.495***
	(3.09)	(0.26)	(9.52)	(1.58)	(6.45)
ROA	0.489	0.970	-3.445**	-4.051***	-3.412***
	(0.91)	(0.92)	(-2.34)	(-4.39)	(-4.50)
LOSS	0.063	0.645	0.677	1.915***	0.296
	(0.32)	(1.38)	(1.29)	(5.27)	(1.02)
EarnVol	0.113	1.131	-1.249	-2.391	-1.303
	(0.14)	(0.57)	(-0.54)	(-1.50)	(-0.89)
Return	0.067	0.342	-0.844	9.608***	2.208**
	(0.10)	(0.21)	(-0.46)	(6.10)	(2.04)
Turnover	2.343***	-2.283	4.017**	-2.422**	0.269
	(3.63)	(-1.63)	(2.45)	(-2.35)	(0.31)
StkVol	3.283	33.783*	16.392	77.709***	41.076***
	(0.32)	(1.96)	(0.76)	(4.53)	(3.15)
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Observations	9,887	9,887	9,887	9,887	9,887
R-squared	0.64	0.47	0.72	0.75	0.73

Appendix

Table A1. Variable Definition

Variable	Definition	Source
Frequency	Natural logarithm of one plus the total number of all types of management forecasts issued annually by the firm.	*IBES Guidance*
AnnualForecasts	Natural logarithm of one plus the total number of annual management forecasts issued annually by the firm.	*IBES Guidance*
QuarterlyForecasts	Natural logarithm of one plus the total number of quarterly management forecasts issued annually by the firm.	*IBES Guidance*
EPSForecasts	Natural logarithm of one plus the total number of EPS management forecasts issued annually by the firm.	*IBES Guidance*
NonEPSForecasts	Natural logarithm of one plus the total number of Non-EPS management forecasts issued annually by the firm.	*IBES Guidance*
ForecastDays	Natural logarithm of one plus the total number of days within a year on which the firm issues at least one management forecast.	*IBES Guidance*
RangeForecast	A dummy variable that equals one if the firm uses earnings per share (EPS) forecast ranges instead of point forecasts, indicating the precision of earnings forecasts; otherwise, it equals zero.	*Thomson Reuters*
Post	A dummy variable that equals one for observations from 2012 onward, representing the period after the enactment of the STOCK Act; otherwise, it equals zero.	*The STOCK Act*
MajorGovCustomer	A dummy variable that equals one for firms reporting major government customers for at least three out of the four years from 2008 to 2011, prior to the enactment of the STOCK Act; otherwise, it equals zero.	*COMPUSTAT Segment*
Size	Natural logarithm of the equity market value.	*COMPUSTAT*
LEV	Ratio of total debt to total assets.	*COMPUSTAT*
BM	Ratio of the book value of equity to the market value of equity.	*COMPUSTAT*
ROA	Ratio of income before extraordinary items to total assets.	*COMPUSTAT*

Continued on next page

Table A1. Variable Definition - Continued

LOSS	A dummy variable that equals one if income before extraordinary items is zero or less; otherwise, it equals zero.	*COMPUSTAT*
EarnVol	Standard deviation of the annual return on assets over the past ten years.	*CRSP*
Return	Buy-and-hold size-adjusted return in one fiscal year.	*CRSP*
Turnover	Average monthly share turnover over a fiscal year, calculated as the ratio of total trading volume to total shares outstanding.	*COMPUSTAT*
StkVol	Standard deviation of daily stock returns within one fiscal year.	*CRSP*
EnvInfo	Number of environmental keywords in management presentations, scaled by total words (in hundreds). Environmental keywords from Henry, Jiang, and Rozario (2021).	*Thomson Reuters*
SocInfo	Number of human capital disclosure keywords in management presentations, scaled by total words (in hundreds). Human capital keywords from Zhang (2021).	*Thomson Reuters*
GovSalesRatio	The ratio of government sales to overall sales from 2008 to 2011, four years before the enactment of the STOCK Act.	*COMPUSTAT Segment*
HighGovSalesRatio	A dummy variable that equals one if the firm's *GovSalesRatio* is at or above the sample median for firms with major government customers; otherwise, it equals zero.	*COMPUSTAT Segment*
LowGovSalesRatio	A dummy variable that equals one if the firm's *GovSalesRatio* is below the sample median for firms with major government customers; otherwise, it equals zero.	*COMPUSTAT Segment*
GovCustomNum	The total number of major government customers from 2008 to 2011, four years before the enactment of the STOCK Act.	*COMPUSTAT Segment*
HighGovCustomNum	A dummy variable that equals one if the firm's *GovCustomNum* is at or above the sample median for firms with major government customers; otherwise, it equals zero.	*COMPUSTAT Segment*
LowGovCustomNum	A dummy variable that equals one if the firm's *GovCustomNum* is below the sample median for firms with major government customers; otherwise, it equals zero.	*COMPUSTAT Segment*
GovSalesVol	The annual volatility of government sales from 2008 to 2011, four years before the enactment of the STOCK Act.	*COMPUSTAT Segment*
HighGovSalesVol	A dummy variable that equals one if the firm's *GovSalesVol* is at or above the sample median for firms with major government customers; otherwise, it equals zero.	*COMPUSTAT Segment*

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Table A1. Variable Definition - Continued

LowGovSalesVol	A dummy variable that equals one if the firm's *GovSalesVol* is below the sample median for firms with major government customers; otherwise, it equals zero.	*COMPUSTAT Segment*
OnlyGovContract	A dummy variable that equals one if the firm is a government contractor but has no major customer that is the government from 2008 to 2011; otherwise, it equals zero.	*COMPUSTAT Segment*
PRisk	Training library of political text related to discussions of politics.	*Firmlevelrisk*
FedContribution	Political contribution amount for firms in federal congressional elections.	*OpenSecrets*
HHI	Sales-based Herfindahl-Hirschman Index of the firm's industry.	*COMPUSTAT*
OJM_ICC	Internal rate of return equating a firm's forecasted cash flows to its current market price, following Ohlson and Juettner-Nauroth (2005).	*Lee, So, and Wang (2021)*
CAT_ICC	Internal rate of return equating a firm's forecasted cash flows to its current market price, following Claus and Thomas (2001).	*Lee, So, and Wang (2021)*
GLS_ICC	Internal rate of return equating a firm's forecasted cash flows to its current market price, following Gebhardt, Lee, and Swaminathan (2001).	*Lee, So, and Wang (2021)*
PEG_ICC	Internal rate of return equating a firm's forecasted cash flows to its current market price, following Easton (2004).	*Lee, So, and Wang (2021)*
AVG_ICC	Equally-weighted average of the AGR_ICC, CAT_ICC, GLS_ICC, and PEG_ICC measures of the cost of capital.	*Lee, So, and Wang (2021)*

Table A2. Time Robustness Tests

This table presents the results of OLS regressions using three different potential time measures for the STOCK Act: excluding the action year (Column (1)), using an alternative annual window (Column (2)), and using a six-year sample period (Column (3)). The dependent variable, *Frequency*, is defined as the natural logarithm of 1 plus the total number of management forecasts issued annually by the firm. The independent variable of interest is the interaction term *Post* × *MajorGovCustomer*. *Post* is a dummy variable that equals one for the period after the enactment of the STOCK Act. *MajorGovCustomer* equals one if the government was a major customer of the company for at least three out of four years from 2008 to 2011. All regressions include fixed effects and firm-year controls, including *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. The t-statistics, shown in parentheses, are clustered at the firm level and adjusted for heteroscedasticity. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Table A1.

	(1)	(2)	(3)
		Frequency	
	Exclude Year 2012	Alternative Fiscal Year	Six-year Period
Post × *MajorGovCustomer*	-0.096**	-0.075**	-0.054*
	(-2.57)	(-2.42)	(-1.95)
Size	0.059***	0.063***	0.083***
	(3.71)	(4.39)	(5.20)
LEV	0.076	0.105*	0.072
	(1.29)	(1.89)	(1.31)
BM	0.206	0.201	0.057***
	(1.25)	(1.19)	(3.21)
ROA	-0.075**	-0.061*	-0.029
	(-1.96)	(-1.82)	(-0.88)
LOSS	-0.023	-0.039**	-0.043***
	(-1.28)	(-2.48)	(-2.60)
EarnVol	0.084	0.082	0.069
	(0.93)	(1.00)	(0.79)
Return	-0.076	-0.077*	-0.084**
	(-1.62)	(-1.92)	(-2.16)
Turnover	0.126***	0.135***	0.115**
	(2.64)	(3.15)	(2.42)
StkVol	-1.121*	-1.240**	-0.058
	(-1.74)	(-2.25)	(-0.11)
Firm FE	YES	YES	YES
Year FE	YES	YES	YES
Observations	10,932	12,074	9,103
R-squared	0.89	0.91	0.93

Table A3. Alternative Sample Tests

This table presents the OLS regression results using alternative samples of firms: those making at least one management forecast (Column (1)), control firms without government business for the entire sample period (Column (2)), and firms in unregulated industries (Column (3)). The dependent variable, *Frequency*, is defined as the natural logarithm of 1 plus the total number of management forecasts issued annually by the firm. The independent variable of interest is the interaction term *Post* × *MajorGovCustomer*. *Post* is a dummy variable that equals one for the period after the enactment of the STOCK Act. *MajorGovCustomer* equals one if the government was a major customer of the company for at least three out of four years from 2008 to 2011. All regressions include fixed effects and firm-year controls, including *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. The t-statistics, shown in parentheses, are clustered at the firm level and adjusted for heteroscedasticity. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Table A1.

	(1)	(2)	(3)
	Frequency		
	Using Firms Covered in I/B/E/S	Using Clean Control Firms	Excluding Firms in Regulated Industries
Post × *MajorGovCustomer*	-0.156**	-0.068**	-0.062*
	(-2.34)	(-2.21)	(-1.89)
Size	0.155***	0.075***	0.074***
	(4.78)	(4.83)	(4.85)
LEV	0.296***	0.134**	0.123**
	(2.66)	(2.35)	(2.20)
BM	0.133***	0.048***	0.043***
	(3.27)	(3.03)	(2.69)
ROA	-0.163*	-0.085**	-0.077**
	(-1.81)	(-2.37)	(-2.21)
LOSS	-0.087***	-0.045***	-0.044***
	(-2.70)	(-2.78)	(-2.69)
EarnVol	0.248	0.079	0.088
	(1.31)	(0.95)	(1.08)
Return	-0.072	-0.049	-0.060
	(-0.79)	(-1.20)	(-1.46)
Turnover	0.320***	0.128***	0.110**
	(3.54)	(2.88)	(2.42)
StkVol	-4.327***	-1.258**	-1.213**
	(-3.36)	(-2.18)	(-2.14)
Firm FE	YES	YES	YES
Year FE	YES	YES	YES
Observations	6,101	11,682	11,313
R-squared	0.82	0.91	0.91

Table A4. Forecast Precision of the EPS Forecasts

This table presents the OLS regression results analyzing the precision of the EPS forecasts (point or range forecast). The dependent variable, *RangeForecast*, is defined as equals one if the firm uses EPS forecast ranges instead of point forecasts. The independent variable of interest is the interaction term *Post* × *MajorGovCustomer*. *Post* is a dummy variable that equals one for the period after the enactment of the STOCK Act. *MajorGovCustomer* equals one if the government was a major customer of the company for at least three out of four years from 2008 to 2011. Columns (2) and (4) include firm-year controls such as *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. Columns (1) and (2) include industry fixed effects and time fixed effects. Columns (3) and (4) include firm fixed effects and time fixed effects. The t-statistics, shown in parentheses, are clustered at the firm level and adjusted for heteroscedasticity. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Table A1.

	(1)	(2)	(3)	(4)
		RangeForecast		
Post × *MajorGovCustomer*	0.070**	0.073**	0.061*	0.061*
	(1.97)	(2.07)	(1.77)	(1.79)
MajorGovCustomer	-0.057	-0.060		
	(-1.13)	(-1.20)		
Size		-0.006		-0.029
		(-0.60)		(-1.36)
LEV		-0.067		0.009
		(-0.92)		(0.13)
BM		-0.061*		-0.014
		(-1.87)		(-0.54)
ROA		0.036		-0.033
		(0.48)		(-0.42)
LOSS		0.018		0.006
		(0.73)		(0.28)
EarnVol		-0.083		-0.132*
		(-0.87)		(-1.69)
Return		-0.139*		-0.008
		(-1.71)		(-0.12)
Turnover		-0.054		-0.071
		(-0.81)		(-1.27)
StkVol		0.271		-0.333
		(0.25)		(-0.35)
Ind FE	YES	YES	NO	NO
Firm FE	NO	NO	YES	YES
Year FE	YES	YES	YES	YES
Observations	2,535	2,535	2,535	2,535
R-squared	0.19	0.20	0.75	0.75

Table A5. Private Communication and Management Guidance: Poisson Regression

This table shows the Poisson regression results examining the effect of private communication between politicians and public firms on the frequency of overall management forecasts. The dependent variable, *FrequencyNum*, is defined as the total number of management forecasts issued annually by the firm. The independent variable of interest is the interaction term *Post* × *MajorGovCustomer*. *Post* is a dummy variable that equals one for the period after the enactment of the STOCK Act. *MajorGovCustomer* equals one if the government was a major customer of the company for at least three out of four years from 2008 to 2011. Columns (2) and (4) include firm-year controls such as *Size*, *LEV*, *BM*, *ROA*, *LOSS*, *EarnVol*, *Return*, *Turnover*, and *StkVol*. Columns (1) and (2) include industry fixed effects and time fixed effects. Columns (3) and (4) include firm fixed effects and time fixed effects. The t-statistics, shown in parentheses, are clustered at the firm level and adjusted for heteroscedasticity. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Table A1.

	(1)	(2)	(3)	(4)
		FrequencyNum		
Post × *MajorGovCustomer*	-0.110*	-0.100	-0.122**	-0.112**
	(-1.80)	(-1.63)	(-2.21)	(-2.08)
MajorGovCustomer	-0.083	-0.003		
	(-0.60)	(-0.02)		
Size		0.142***		0.147***
		(6.26)		(5.07)
LEV		0.211		0.295***
		(0.94)		(2.79)
BM		-0.019		0.168***
		(-0.23)		(3.64)
ROA		0.448*		-0.148
		(1.92)		(-1.21)
LOSS		-0.083		-0.078***
		(-1.06)		(-2.63)
EarnVol		-0.418		0.218
		(-1.41)		(1.22)
Return		-0.013		0.0003
		(-0.08)		(0.00)
Turnover		1.091***		0.345***
		(6.63)		(3.91)
StkVol		-15.884***		-5.671***
		(-5.71)		(-3.81)
Ind FE	YES	YES	NO	NO
Firm FE	NO	NO	YES	YES
Year FE	YES	YES	YES	YES
Observations	11,809	11,809	5,383	5,383