

Why Do Politicians Intervene in Accounting Regulation? The Role of Ideology and Special Interests

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ABSTRACT

Politicians frequently intervene in the regulation of financial accounting. Evidence from the accounting literature shows that regulatory capture by special interests helps explain these interventions. However, many accounting rules have broad economic or social consequences, such as their effects on

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income distribution or private sector subsidies. The perception of these consequences varies with a politician's ideology. Therefore, if accounting rules produce those consequences, ideology plausibly spills over and explains a politician's stance on the technical accounting issue, beyond special interest pressure. We use two prominent U.S. political debates about fair value accounting and the expensing of employee stock options to disentangle the role of ideology from special interest pressure. In both debates, ideology explains politicians' involvement at exactly those points when the debate focuses on the economic consequences of accounting regulation (i.e., bank bailouts and top management compensation). Once the debates focus on more technical issues, connections to special interests remain the dominant force.

JEL codes: G01; G28; K22; L51; M40; M41; M48; P16

Keywords: accounting regulation; fair value; financial crisis; ideology; political economy; accounting standard setting; stock option expensing

"This is a public policy issue. This is not an accounting issue."

Rep. David Dreier (R-Calif.), co-sponsor of a House bill on the accounting for stock options (Spinner [2003]).

"From the outset of the hearing, it seemed clear to me this was not going to be a neutral discussion of the issues."

Robert H. Herz, former FASB Chairman, about the congressional hearing on mark-to-market accounting in March 2009 (Herz [2013]).

1. Introduction

Although political forces arguably shape accounting standards (Zeff [2005]), we know little about the motives behind politicians' involvement in the agenda setting or due process of standard setters (Gipper, Lombardi, and Skinner [2013]). The accounting literature has predominantly focused on the theory of regulatory capture, which explains politicians' behavior as a response to special interest pressure from constituents and donors (Stigler [1971], Peltzman [1976]). Evidence from accounting regulation is largely consistent with this view (Farber, Johnson, and Petroni [2007], Ramanna [2008]). Political economy offers an additional explanation, providing evidence that politicians' ideologies can also influence the political process (Kau and Rubin [1979], Kalt and Zupan [1984], Poole and Rosenthal [1985, 1996], Levitt [1996], Mian, Sufi, and Trebbi [2010]). So far, little evidence indicates what, if any, role political ideology plays in the politics of accounting standard setting. The technical nature of many financial accounting issues tends to mute ideological motivations: "Legislators and their staff typically know nothing, and could not care less, about accounting standards" (Zeff [2010]). Put differently,

accounting rule-making is a “thin political market,” and the rules are generally determined by specialists (Ramanna [2015]), leaving little room for ideology.¹

However, many accounting rules have real economic or social consequences. For example, bank accounting rules determine regulatory capital and thus affect the likelihood of regulatory interventions, such as the use of taxpayers’ money for bank bailouts. Similarly, accounting rules for stock option plans make different compensation schemes more or less attractive and thus affect managerial compensation. Many of these economic consequences are associated with ideological views (e.g., liberals prefer the restriction of excessive top management compensation, while conservatives oppose the spending of public resources on private sector bailouts). Ideological views on these economic consequences plausibly spill over to political debates about accounting regulation, even if the accounting question itself is not an obviously ideological one.

In this study, we investigate the public statements and sponsorship of bills by U.S. legislators as a proxy for their involvement in two prominent accounting debates. The first debate, concerning fair value accounting during the 2008–2009 financial crisis, led to the relaxation of the FASB’s fair value accounting rules in April 2009 (Herz [2013]). The change had direct consequences for the regulatory capital adequacy of financial institutions and thus affected the likelihood of bank bailouts and the transfer of taxpayer resources to the financial industry. The second debate addresses the expensing of stock options that firms grant to their employees and happened in 2003–2004, around the FASB’s adoption of SFAS 123. The expensing of employee stock options leads to the recognition of personnel costs, potentially making stock option plans for top managers less attractive for firms.

In both debates, the potential influence of special interest pressure through political connections is evident. The relaxation of fair value write-downs helps banks safeguard reported asset values against decreasing market indicators and shield regulatory capital from corresponding declines in equity. Other things being equal, violations of minimum capital requirements become less likely, as do costly interventions by prudential supervisors, resulting in net benefits for bank shareholders (e.g., Bhat, Frankel, and Martin [2011]). Similarly, any restriction on the expensing of employee stock options helps avoid substantial reductions in the accounting earnings of firms with extensive stock option plans, especially in the high-tech

¹ In this paper and in line with political science (e.g., Poole and Rosenthal [2011] and McCarty, Poole and Rosenthal [2013]), we use the term ideology to refer to a politician’s preference regarding the role of government in the market. Even though this preference is located on a continuum, we distinguish between a conservative (anti-government intervention) and a liberal (pro-government intervention) ideology.

industry (Farber, Johnson, and Petroni [2007]). During these debates, the affected firms had strong incentives to exploit their connections with politicians. Industry contributions (which establish political connections) tend to be aligned with politicians' past votes (which best represent a politician's ideology) because firms are more willing to donate to politicians who have some record of supporting an agenda consistent with firm interests (Mian, Sufi, and Trebbi [2010]).

The simultaneous influence of ideology and special interest creates tension as well as empirical challenges. To overcome the challenge of disentangling the influences of ideology and special interests, our empirical strategy exploits the observation that political participation in these two debates changed over time. In both settings, politician involvement peaked at two distinct points, with the potential role of ideology in the debate plausibly varying between these two points. The fair value debate first peaked in early October 2008 as part of the general debate about the Emergency Economic Stabilization Act (EESA) and the attendant bank bailouts, which were opposed by many politicians with a conservative ideology. The debate peaked again in March and April 2009 as part of the more specific discussion about the issuance of FASB Staff Positions (FSP) 157-4 and 115-2, providing firms with the opportunity to more easily forgo restrictive fair value writedowns, that is, after Congress had passed the EESA bill and the political debate about bailouts was largely settled.

The stock option debate first peaked in March 2003 with the introduction of H.R. 1372 (the Broad-Based Stock Option Plan Transparency Act), which proposed a prohibition of any new accounting rules requiring stock option expensing. Although the bill never made it to a formal vote, the debate increasingly addressed the allegedly excessive levels of top management compensation. During the second quarter of 2003, shareholder activists and financial media pointed to the continuing high level of compensation despite substantial declines in corporate profits. Accounting requirements to fully expense stock options would make this type of compensation less attractive for firms and therefore would be compatible with a liberal agenda that seeks to limit executive compensation. The turning point in the debate eventually led to the introduction of a second bill, H.R. 3574 (the Stock Option Accounting Reform Act), in November 2003, which required stock option expensing *only* for a firm's five highest-paid executives while prohibiting the expensing of all other stock option compensation plans.

For our analyses, we exploit the high level of political interest in these two accounting topics. Political attention manifests in a total of 139 members of the 110th U.S. House of Representatives (97 members of the 108th House of Representatives) publicly commenting on the issue of fair value accounting in 2008 or 2009 (stock option expensing in 2003 or 2004). In addition, there are 154 members of the 108th House of Representatives who co-sponsor at least one of the two bills on the expensing of stock

option plans.² We collect data on the content and timing of the statements through web-crawling, text mining, and searching through press releases, press articles, representatives' websites, speeches, interviews, public hearings, congressional records, and other publicly available material. Next, we use data on campaign contributions as a proxy for connections between members of Congress and donating firms. Finally, we borrow from the political science literature (Poole and Rosenthal [1985]) and use data on congressional representatives' votes to measure their ideology.

In the first step, we explore the content of politicians' statements by means of textual analysis and link the political arguments embedded in these statements to the politicians' ideology and special interest connections. We find that public statements on accounting issues frequently include references to the potential economic consequences of the regulation (e.g., the bailout, excessive management compensation, or talent recruitment). Interestingly, the lines of argument vary systematically on the basis of the politician's ideology and special interest connections. Politicians who emphasize economic consequences tend to have stronger ideological views about regulation. In contrast, politicians who focus more on technical outcomes and the concerns of affected parties tend to be more strongly connected to firms with a special interest in accounting regulation.

In the second step, we use (1) the variation in the timing of the political statements and thus the varying role of ideological views on potential economic consequences (bank bailouts and top management compensation) at the time of these statements and (2) the cross-sectional variation in politicians' ideological preferences regarding these economic consequences to disentangle the roles of ideology and special interests in a regression framework.

We find that political connections to the financial services industry explain political activity to a much lesser extent in fall 2008, when the fair value debate was part of the EESA controversy, than in spring 2009. Although a small group of ideologically diverse politicians with strong connections to the financial services industry initially advanced the idea of relaxing the fair value rules, the proposal had the strongest support from politicians with the most conservative House records. The content and context of the statements from this early period suggest that these politicians viewed the relaxation of fair value accounting as a means of bolstering banks' regulatory capital and stabilizing the financial system without resorting to bailouts. These politicians no longer participated in the debate in spring 2009.

The behavior of politicians is very similar during the stock option debate. Initially, conservatives with strong connections to affected firms (and some

² This participation is also high relative to that in other prominent accounting controversies. For example, Ramanna [2008] identifies 43 members of Congress who actively took "pro-pooling" positions during the discussion about the FASB's business combination project and the events leading up to the introduction of SFAS 142.

liberals with special interest pressure from their home districts in California and Massachusetts) rigorously opposed any expensing of employee stock options and dominated the debate. We observe that after H.R. 1372 failed to make it to a vote in the House and the public debate turned to the issue of top management compensation, the new co-sponsors of H.R. 3574, who did not support the bill before, tended to have strong ideological views in favor of government interventions to restrict excessive management compensation. At the same time, these representatives have approximately the same level of connections with interested parties from the private sector as those who joined the debate earlier. The dynamics of the debate are thus again consistent with ideology explaining political involvement in accounting regulation beyond special interests.

Our paper primarily contributes to the literature on the political economy of accounting regulation (Watts and Zimmerman [1986], Skinner [2008], Gipper, Lombardi, and Skinner [2013]). Prior accounting literature has shown that campaign contributions from firms are associated with Congress members' positions on accounting-related questions (Ramanna [2008]) and that campaign contributions increase relative to how much is at stake for a firm when accounting rules are to be revised (Dechow, Hutton, and Sloan [1996], Farber, Johnson, and Petroni [2007]). We document that, in addition to special interest pressure, ideology provides distinct incentives for politicians to become involved in a debate about accounting issues. In our two complementary settings, we explain the role of ideology with the link between accounting regulation and its economic consequences. Politicians who oppose (favor) a particular government intervention (e.g., a bailout or compensation restrictions) for ideological reasons tend to favor a change in accounting rules that makes such a government intervention less (more) likely. The potential impact of ideology comes from both ends of the political spectrum and is predictable when the public debate focuses on the economic consequences of the regulation. Thus, we find that economic theory (Stigler [1971], Kau and Rubin [1979], Peltzman [1985]) also holds in an accounting context by explaining legislators' votes based on both regulatory capture and ideology.

We also contribute to the understanding of the political and economic forces at play during the stock option and fair value debates (Farber, Johnson, and Petroni [2007], SEC [2008], Laux and Leuz [2009, 2010], Acharya and Ryan [2016]). Our results are especially helpful for explaining why the seemingly obscure issue of fair value accounting received so much political attention despite the shortage of reliable evidence on its impact. Although standard setters were initially reluctant to redesign the rules, politicians pushed the issue onto their agenda. In this context, our paper also adds to the limited evidence on agenda setting (Gipper, Lombardi, and Skinner [2013], Allen [2018], Jiang, Wang, and Wangerin [2018]).

2. *Political Interventions in Accounting Regulation and the Role of Ideology and Special Interests*

2.1 CONCEPTUAL BACKGROUND

Political economy, in general, offers three explanations for politicians' actions (see also Kothari, Ramanna, and Skinner [2010]): the principal-agent theory of regulation, public interest theory, and the theory of political ideology. The literature on accounting regulation and standard setting has largely focused on the principal-agent theory of regulation (also known as the theory of regulatory capture). This theory suggests that politicians generally act out of self-interest and that, because their self-interest is re-election, their actions pertain to the likelihood of re-election. This likelihood potentially increases with greater campaign funding and with greater economic satisfaction among a politician's constituents (Stigler [1971], Posner [1974], Peltzman [1976, 1984]). Politicians (i.e., agents) therefore tend to cater to the special economic interests of donors and constituents (i.e., their principals), which are not necessarily aligned with the interests of the general public. Under this theory, a politician's involvement in accounting standard setting can be explained by the specific economic benefits that accounting regulation can have for the politician's donors or voters.

In contrast, public interest theory argues that politicians act in the best interest of the public and attempt to pass socially optimal legislation that corrects market imperfections (Posner [1974]). However, evidence from political economy is generally inconsistent with this view. In addition, the accounting literature provides evidence largely consistent with the principal-agent theory of regulation, supporting the view that political interventions in accounting standard setting are mainly because of regulatory capture and special interest considerations (e.g., Zeff [2005], Farber, Johnson, and Petroni [2007], Ramanna [2008]).

Ideology is a third explanation of politicians' behavior (Kau and Rubin [1979], Poole and Rosenthal [1985], Levitt [1996]). Ideology, under this view, is a firm set of principles or core beliefs about political issues, particularly the role of government and markets (e.g., Kalt and Zupan [1984]). Ideology is typically depicted on a left-right or liberal-conservative continuum (e.g., Poole and Rosenthal [1996]). Where ideologies originate is still an unresolved question; ideology could, for example, either arise from a politician's personal beliefs (i.e., be determined by genetics and socialization; e.g., Smith et al. [2012]) or be used rationally as a signaling device to appeal to a specific electorate (Kalt and Zupan [1984], Poole and Rosenthal [1996]). Considering the technical nature of many financial accounting issues, it seems unlikely that ideology, independent of its source, plays any distinct role in the politics of accounting standard setting. However, accounting regulation has real economic consequences. Politicians and voters have ideological views about these consequences, and views about public policy issues can spill over and explain politicians' public involvement

in accounting debates if they perceive accounting regulation as a means to realize their ideological agenda. We use two different settings to test this conjecture.

2.2 IDEOLOGY AND SPECIAL INTERESTS IN THE FAIR VALUE DEBATE

With the financial crisis intensifying in 2008, many industry representatives, regulators, and some academics argued that fair value accounting (often referred to as “mark-to-market” accounting) would, by requiring financial institutions to write down their assets to abnormally low market prices observed on distressed financial markets, create a downward spiral through fire sales, reducing regulatory capital and restricting lending ability (e.g., ABA [2008], MBA [2008]; see Allen and Carletti [2008], Plantin, Sapra, and Shin [2008], Laux and Leuz [2009, 2010], for an academic perspective on this argument). Political proposals included the relaxation of these writedown requirements, with fair value decreases no longer triggering regulatory capital reductions and, ultimately, costly regulatory interventions. After a public hearing of a House Financial Services subcommittee in March 2009 where members of Congress exerted pressure on the accounting standard setter, the FASB responded and relaxed fair value accounting rules in April 2009.

Consistent with evidence from prior regulatory interventions in accounting standard setting, a very plausible explanation for politicians’ involvement in the fair value debate is regulatory capture. Any relaxation of the link between fair value accounting and regulatory capital provides bank managers with opportunities to, *ceteris paribus*, report higher capital during a crisis.³ Thus, the rule change manifests in a potential wealth transfer to the financial industry, with some institutions benefiting more from the transfer than others. The magnitude of the benefit varies with banks’ ability to exploit the new accounting options. Specifically, the benefit depends on prior usage of the accounting categories addressed by the new rules and the magnitude of the unrealized losses, the recognition of which a bank can potentially forgo. As the literature shows that connections between U.S. representatives and private sector firms vary within a particular Congress (Kroszner and Stratmann [1998], Ramanna [2008], Tahoun [2014], Tahoun and van Lent [2019]), the magnitude by which a connected bank potentially benefits from fair value relaxation also varies across different members of Congress.

However, a politician’s commitment to a conservative ideology can also explain involvement in the fair value debate. Conservatives, who tend to

³ Anecdotal evidence suggests that managers were fully aware of these potential benefits. For example, AIG’s managers “feel they are being forced to take big financial hits on holdings that they have no intention of actually selling at current prices” (Reilly [2008]), and Citigroup’s management argued that “the bank had securities with little or no credit deterioration, and we’re being forced to mark these down to values that we think are unrealistically low” (Sorkin [2008]).

oppose government interventions, are more likely to view the relaxation of fair value rules as one means of bolstering banks' regulatory capital and thus, among other measures, stabilizing the financial system. This stabilization could help avoid government interventions, such as bailouts. The bailout controversy was particularly eminent in fall 2008 before Congress had its final vote on the EESA on October 3, 2008. The EESA came in response to the market turmoil after the Lehman Brothers bankruptcy and the collapse of other major financial institutions, such as AIG, Fannie Mae, and Freddie Mac, and enabled the U.S. Treasury Department to recapitalize financial institutions. Congress members with a conservative reputation opposed the EESA most strongly (Mian, Sufi, and Trebbi [2010]) and were actively searching for alternatives to these bailouts, including the relaxation of fair value rules. A contemporaneous debate in the public media made these arguments easily accessible.

The prediction also comports with contemporaneous statements by members of Congress. A number of them explicitly portrayed the change in accounting rules as an alternative to using taxpayers' money for costly bailouts (e.g., Hunter [2008], Orol [2008]). Witness, for example, the statement of former member Michele Bachmann, a Republican from Minnesota: "I support a plan that would have Wall Street bail itself out, not hardworking taxpayers, by requiring institutions to insure troublesome assets that are causing today's credit crunch. It would suspend mark-to-market accounting." The final version of the EESA acknowledged these views and included a clause that granted the SEC an option to suspend fair value accounting in firms' SEC filings (section 132). After the vote on October 3, 2008, the EESA came into force and the role of fair value accounting as one means of avoiding bailouts significantly declined in importance.

2.3 IDEOLOGY AND SPECIAL INTERESTS IN THE STOCK OPTION DEBATE

In light of the corporate scandals of 2001 and 2002, several prominent figures in politics and the investment industry publicly blamed excessive stock-based compensation for corporate wrongdoing. These critics called for mandatory expensing of employee stock options to create proper incentives for executives (Buffett [2002], Krim [2002]). Accounting rules at the time effectively allowed firms to choose whether to recognize such an expense (SFAS No. 123 and APB No. 25). This accounting choice resulted from intense political pressure during the initial development of these standards in the mid-1990s (Dechow, Hutton, and Sloan [1996], Farber, Johnson, and Petroni [2007]).

When the FASB published an invitation to comment on the accounting for stock-based compensation in fall 2002, public deliberations indicated that future rules would likely require the immediate expensing of stock options at fair value. Representatives introduced the first bill on stock option expensing (H.R. 1372) as a direct response to the FASB formally adding the project to its agenda in March 2003. The bipartisan bill, sponsored by Representatives Anna Eshoo, a California Democrat, and David Dreier, a

California Republican, essentially prohibited the expensing of stock options by imposing a three-year moratorium on any new FASB rule on this matter and required the SEC to conduct an economic impact study.

Similar to the fair value debate, special interest pressure is a first plausible explanation for politicians' public support of the efforts to avoid the full stock option expensing. Managers, especially those from the high-tech industry with many stock option plans in place, publicly voiced concerns about changes in the accounting for options. They argued that expensing increases personnel costs and thus provides incentives to curb the use of options, which in turn increases the costs of recruiting qualified employees. Connections to these firms should make a politician more likely to be involved in the debate and to support corresponding bills (e.g., Farber, Johnson, and Petroni [2007]).

Again, ideology is another predicted explanation for political involvement in this debate. Liberal politicians argued that the use of stock options distorted executive incentives and led to excessive levels of pay for only a few top level managers. These politicians viewed the use of stock options in executive compensation as contributing to corporate scandals as well as growing pay disparities between executives and rank-and-file employees, thereby justifying government interventions, such as accounting regulation, that made stock option plans potentially less attractive for top level managers (Murray [2002], Schlesinger [2003]). As Pete Stark, a California Democrat said, "The current [accounting] practice increases the deficit, falsifies corporate earnings, and it serves the millionaires in this country well."

These voices became more prominent after companies reported declining profits during the 2003 interim reporting season but did not simultaneously reduce executive pay. At this turning point of the debate in April and May 2003, after the H.R. 1372 bill had already been introduced but never called for a vote in the House, shareholder activists entered the debate and made 72 requests for votes on the full expensing of stock option compensation at the general meetings of U.S. companies in 2003 alone (Ferri and Sandino [2009]). Correspondingly, the media started to devote attention to top management compensation (e.g., Langley [2003], Schlesinger [2003], *Wall Street Journal* [2003]), giving liberal observers and their requests for government interventions into management compensation more visibility. The change in the public debate eventually manifested in the content of the new H.R. 3574 bill. Richard Baker, the Republican chairman of the House Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises, introduced the bill in November 2003. It explicitly distinguished between compensation for top management and that for other employees. Specifically, the bill no longer restricted the expensing of stock options for the five highest-paid executives, which makes stock option plans for these top executives more costly, relative to rank-and-file employees.

2.4 EXTERNAL VALIDITY

These two accounting debates represent political environments where political ideology plausibly explains the relatively high level of public involvement by politicians. The two settings also offer desirable features that help identify the motivations of the politicians. However, while political interference in accounting standard setting has a long history, both in the United States and internationally (e.g., Zeff [2005, 2010]), the two cases we examine by no means represent the average involvement of executive or legislative branches of government. Most accounting debates never leave the sphere of technical expert groups and standard setters. A discussion of both the external validity of the insights of our study as well as whether political interference really matters for standard setting in general is thus warranted.

First, even though our settings do not represent the average standard-setting process, high-level political involvement is by no means exceptional. Zeff [2010] presents a list of 11 debates about accounting standards in which Congress interfered through various channels (e.g., submitting “Dear colleague” letters to FASB and SEC, holding subcommittee hearings, proposing alternative legislation, or voting on the bills). In an electronic search of the congressional archive, we can identify 49 bills over the period from 1993 to 2018 that introduce some alternative accounting treatment. These bills were co-sponsored by 1,099 members of Congress. These activities represent the lower bound of political involvement, as most interactions likely happen informally (behind closed doors) and are not observable. Standard setters, such as the FASB, are also likely to routinely assess the likelihood of its being overruled by Congress or SEC. In these cases, the FASB may adjust its standard-setting decisions *ex ante* to avoid the costs of political interventions. Against this background, the impact of political forces on standard setting is substantially greater and not limited to the prominent controversies that we can observe from the congressional archives.

Second, once accounting controversies escalate into the political domain, they are no longer framed around technical arguments but around economic and social consequences (Zeff [1978, 2010]). The strong link between public policy and the accounting issue becomes particularly apparent from the content analysis of the 49 bills that propose alternative accounting treatments. Twenty-two of these contain a bundle of measures in which accounting regulation is part of a broader package meant to tackle the policy issue (just as fair value regulation was only one part of the much more comprehensive EESA).

Third, while we predict the link between accounting regulation and its economic consequences explicitly for our two settings, it seems likely that such links equally exist in other standard-setting debates and therefore lead to a predictable role of politicians’ ideology in standard setting. Specifically, the economic consequences of accounting regulation and the importance

of these consequences in the current political environment will determine the relevance of ideology.

3. *Political Involvement in the Fair Value Debate*

3.1 DATA AND VARIABLES

3.1.1. Political Involvement. Our unit of analysis is the individual politician. We obtain data on all members of the 110th Congress from Charles Stewart III and Jonathan Woon's Congressional Data Page (http://web.mit.edu/17.251/www/data_page.html). The initial data collection includes all politicians who were members of the U.S. House of Representatives in the second half of 2008. In our analysis, we focus solely on House members because the ultimate political pressure toward the FASB (especially the mark-to-market hearing in March 2009) originated from House members. Our final sample comprises 434 distinct representatives.⁴

To measure politician behavior, most political economy studies use congressional voting (e.g., Levitt [1996], Farber, Johnson, and Petroni [2007], Mian, Sufi, and Trebbi [2010]). However, although members of Congress discussed fair value accounting and held a hearing, they never voted on the issue during the financial crisis. In fact, resolving issues in the pre-floor arena is common in political debates about accounting regulation. To measure politicians' individual involvement in the fair value debate without evidence from their votes, we rely on web-crawling and text-mining techniques to identify their positioning based on a comprehensive set of publicly available documents and web resources (similar to Rammanna [2008]). We also collect data on implicit expressions of political will through the support of relevant legislative proposals.⁵ Sources include official websites (i.e., congressional records, individual members of Congress, congressional committees); press citations in U.S. newspapers and magazines (obtained from Factiva and LexisNexis); relevant legislative proposals in congressional archives; and the nonprofit, nonpartisan research organization *Vote Smart*, which collects and distributes information on U.S.

⁴Note that the House of Representatives typically has 435 members. However, one representative (Stephanie Tubbs Jones) died in August 2008. Her replacement (Marcia Fudge) did not join Congress before November 19, 2008. For consistency, we excluded both politicians from our analysis.

⁵These proposals include H.R. 7190 (Fair Value Accounting Standards Reform Act of 2008), H.R. 7223 (Free Market Protection Act of 2008), and H.R. 7240 (No BAILOUTS Act of 2008) for the fall 2008 period. H.R. 607 (To direct the Securities and Exchange Commission to issue guidance on the interpretation of fair value accounting), H.R. 1406 (Stock Market Recovery Act of 2009), and H.R. 1909 (To direct the Securities and Exchange Commission to suspend the application of mark-to-market accounting) relate to the spring 2009 period. All proposals are available at www.congress.gov.

politicians.⁶ We focus our analysis on the period from September 1, 2008 to April 30, 2009.

To identify relevant documents, we use the internal search features provided by the website or database and search for the terms “fair value/fair-value” or “mark to market/mark-to-market.” We consider a statement relevant if the politician comments on the topic of fair value accounting or if the media mentions a statement. We exclude all statements that refer to fair value accounting in a context other than accounting for financial instruments (e.g., agriculture). Two persons independently read each statement and identified the direction of the statement (positive, negative, or neutral toward fair value accounting) as well as its content.

3.1.2. Ideology and Special Interests. To measure ideology, we follow the political science literature and use the first dimension of the DW-NOMINATE score (*Ideology*) provided by Lewis et al. ([2019], <https://voteview.com>). They derive the scores from politicians’ past roll call voting records in Congress. We use the scores with voting records through December 31, 2008. The average score for each Congress member ranges from -1 to $+1$ and increases with the strength of the person’s opposition to government intervention in the economy, that is, in the level of conservative ideology (Poole and Rosenthal [2011]). A score close to 0 characterizes an ideologically moderate politician.⁷

To measure a politician’s tendency to cater to special interests, we focus on hard money campaign contributions received from political action committees (PACs) that are sponsored by private sector entities that benefit from accounting regulation. PACs are organizations that collect and pool campaign contributions and use these funds to support specific candidates or regulations. Although federal law limits the activities of PACs, their contributions are a widely used proxy for the political connections of U.S. firms.⁸ Note that although campaign contributions reflect direct monetary flows from firms to politicians, we cannot interpret them as bribery for buying a specific political action (Stratmann [2002]). Rather, the proxy indicates active relationships between politicians and corporations and reflects the relative presence of a firm in the political process.

⁶ *Vote Smart* data are available online at <http://votesmart.org>. Although *Vote Smart* data overlap with information available via official websites and press citations, the data are especially useful to identify (1) historical statements of politicians who are no longer member of Congress and (2) statements that have been issued in media other than newspapers, such as radio or TV interviews.

⁷ Note that although the *average* DW-NOMINATE score is constrained to lie within the unit hypersphere, the estimation is based on normally distributed errors instead of logit errors. If members of Congress have large linear terms, the resulting DW-NOMINATE score can be greater (smaller) than $+1$ (-1) in few cases. See <https://voteview.com> for further information and references.

⁸ Recent studies include the work of Akey [2015], Cooper, Gulen, and Ovtchinnikov [2010], Correia [2014], Farber, Johnson, and Petroni [2007], Mian, Sufi, and Trebbi [2010], and Ramanna [2008].

For our estimation of campaign contributions, we use the filings of corporations that sponsored PACs in the 110th Congress, with data provided by the Center for Responsive Politics (CRP, <http://www.opensecrets.org>). Specifically, we use the amount of campaign contributions that a politician received from the financial services industry (excluding real estate firms) during the 110th Congress as a proxy for political connections to firms with special interests in the fair value debate, all based on the CRP's industry classification. The measure is relative to the sum of PAC contributions received from other interest groups.

3.2 PATTERNS OF POLITICAL INVOLVEMENT IN THE FAIR VALUE DEBATE

Table 1 summarizes the source, frequency, and type of all identified statements between September 2008 and April 2009. We present the statistics separately for fall 2008 and spring 2009 because the debate peaked at these two distinct points. (The online appendix includes an illustration of the precise timing and geographic distribution of statements; see figures OB.1 and OC.1.) As table 1, panel A, documents, we observe a total of 503 public statements, with most coming from speeches (118), press releases (111), and public support for legislative initiatives, such as bills or petitions (99). For 455 statements, we can unanimously classify the direction (positive, negative, or neutral), with 308 from fall 2008 and 147 from spring 2009. One hundred and thirty-nine distinct representatives issued at least one statement (table 1, panel B), the vast majority of them (134 representatives or 96.4%) expressing a negative opinion on fair value accounting. One hundred and seventeen representatives did so in fall 2008, and 45 were in spring 2009. Of the 134 politicians who issued negative statements, 109 were Republicans (table 1, panel C).

The large number of statements in fall 2008 coincides with voting on the EESA and thus supports our notion that representatives discussed fair value relaxation as a potential alternative to bailouts. Table 1, panel D, illustrates representatives' choices in the two EESA votes. Among the 117 representatives who publicly opposed fair value accounting during this period, 95 voted "nay" in the first vote on September 29 (81.2%). Consistent with conservative ideology being associated with opposition to fair value accounting, the proportion is substantially greater than that for other representatives (133 of 316 or 42.1%). Notably, 23 politicians with negative fair value statements switched their position when voting on the revised bailout bill on October 3, 2008; they supported the measure only after it underwent several changes. For example, the new version of the EESA included a clause that granted the SEC an option to suspend the use of fair value accounting (section 132).⁹

⁹ Most politicians involved in the fair value debate around the EESA were members of the Republican party. To ensure that partisan considerations that overlap with ideology are not driving our findings, we also examine the timing of statements and their relation to ideology

TABLE 1
Statements on Fair Value Accounting (FVA) by Members of the U.S. House of Representatives

	Fall 2008		Spring 2009		Combined	
	N	%	N	%	N	%
	<i>Speech/Hearing</i>	48	14.4	70	41.4	118
<i>Press release/Commentary</i>	78	23.4	33	19.5	111	22.1
<i>Bill/Petition/Proposal/Request</i>	93	27.8	6	3.6	99	19.7
<i>Official letter</i>	66	19.8	18	10.7	84	16.7
<i>Press article</i>	42	12.6	37	21.9	79	15.7
<i>Interview</i>	4	1.2	4	2.4	8	1.6
<i>Other</i>	3	0.9	1	0.6	4	0.8
Total	334		169		503	
of: Statements with stated opinion	308		147		455	

	Fall 2008		Spring 2009		Combined	
	N	%	N	%	N	%
	#Representatives (110th Congress)	434		380		434
of: <i>Statements on FVA</i>	121	27.9	47	12.6	139	32.0
<i>Negative statements only</i>	117	96.7	45	96.0	134	96.4
<i>Positive statements only</i>	3	2.5	1	2.0	4	2.9
<i>Neutral statements only</i>	0	0.0	0	0.0	0	0.0
<i>Mixed statements</i>	1	0.8	1	2.0	1	0.7
Total	121		47		139	

(Continued)

TABLE 1—Continued

	Fall 2008		Spring 2009		Combined	
	N	%	N	%	N	%
Democratic representatives	13	11.1	14	31.1	25	18.7
Republican representatives	104	88.9	31	68.9	109	81.3
	117		45		134	

	EESA Vote (September 29, 2008)		EESA Vote (October 3, 2008)	
	"Yea"	"Nay"	Total	"Yea"
<i>Negative Statement on FVA (Fall 2008)</i>				
Yes	22	95	117	45
No	183	133	316	218
Total	205	228	433	263
				"Nay"
				171
				Total
				434

Panel D: Representatives' statements on FVA and their voting on the EESA

This table presents descriptive statistics for statements on fair value accounting issued by politicians who were member of the U.S. House of Representatives during the 110th Congress. Panel A reports the source and frequency of identified statements. The column *Fall 2008 (Spring 2009)* includes all statements that have been issued in the last (first) four months of the year 2008 (2009). The column *Combined* includes the frequency of all relevant statements over the full time period. Panel B reports the frequency of stated opinions aggregated for individual representatives in the 110th Congress. Note that the 110th Congress comprises only $N = 434$ distinct representatives because one representative died in August 2008 (Stephanie Tubbs Jones). Her replacement (Marcia Fudge) did not join Congress before November 19, 2008. *Negative (Positive, Neutral) statements only* report the frequency of representatives that issued only negative (positive, neutral) statements in the corresponding time period. *Mixed statements* reports the frequency of politicians that issued multiple statements with different opinion. Panel C reports the frequency of negative statements on fair value accounting by representatives' party membership. Panel D presents descriptive statistics for representatives' positioning on fair value accounting during fall 2008 and their voting records on the Emergency Economic Stabilization Act (EESA). Voting records are collected from <http://voteview.com>. Note that the vote on September 29, 2008, comprises only $N = 433$ distinct representatives, because Rep. Jerry Weller did not cast a vote.

The second peak of the debate in spring 2009 coincides with the public hearing on mark-to-market accounting held by the Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises on March 12, 2009. Earlier in 2009, financial services organizations intensified their lobbying campaign against fair value accounting (e.g., Pulliam and McGinty [2009]). During the March hearing, several subcommittee members pressured SEC Chief Accountant James L. Kroeker and FASB Chairman Robert H. Herz to act quickly on the matter of fair value accounting (see online appendix OD.1 for an illustration). Only three weeks later and within the time frame that Rep. Gary L. Ackerman had proposed during the hearing, the FASB issued three staff positions (FSP FAS 157-4, FSP FAS 115-2, and FSP FAS 124-2) offering less restrictive requirements for the recognition of other-than-temporary impairment charges and providing more flexibility to transfer assets into Level 3 of the fair value hierarchy, where firms can use unobservable estimates. Anecdotal evidence suggests that special interest groups influenced the political pressure on the FASB at that time. For example, Edward Yingling, then president of the American Bankers Association (ABA), later expressed the following about the congressional hearing on March 12, 2009: “We worked that hearing. We told people that the hearings should be used to talk about the big problems with ‘mark-to-market,’ and you had 20 straight members of Congress, one after another, turn to FASB and say, ‘Fix it’” (Pulliam and McGinty [2009]).

Overall, the different patterns of timing for ideologically conservative representatives and for those most closely connected to the financial services industry are consistent with ideology and special interests being two distinct explanations of politicians’ involvement in the fair value debate.

3.3 CONTEXT AND CONTENT OF FAIR VALUE-RELATED STATEMENTS

To help disentangle ideology from special interest pressure, we analyze the context and content of fair value statements in fall 2008 for consistency with these explanations. In particular, we test whether, even when the debate focused on the EESA, representatives have used different rationales that vary with their underlying motivation for the political involvement in the accounting debate. Manual coding and classification of all statements in our sample reveal that four types of context and content prevail. These types are nonmutually exclusive: (1) the suspension of fair value accounting is proposed in the context of a statement that is directed against government intervention and favors market-based solutions to the financial crisis (calls for “market-based solutions”); (2) the suspension of fair value accounting is proposed as a specific alternative to a government bailout (calls for “bailout alternatives”); (3) the suspension of fair value accounting

and special interests within the group of Republican representatives (see online appendix OB.2). Republican representatives who issued their first statement on fair value accounting before the first bailout vote were, on average, more conservative than representatives who joined the fair value debate only after that vote.

is part of a longer list of alternative policy proposals that are all supposed to address the financial crisis (calls for other alternatives); and (4) the statement directly addresses some specific weakness of fair value accounting, for example, the alleged earnings volatility or procyclicality (focus on specific weakness of fair value accounting).¹⁰ Although we can plausibly link the first three categories to an ideological motivation, we fail to detect statements that openly refer to the special interests of the financial industry, most likely because the industry was especially unpopular at the time of the crisis.

The politicians involved in the fair value debate tend to be more conservative and receive greater campaign contributions from the financial services industry than their peers (table 2, panel A). We find distinct differences within the group of involved politicians when we compare ideology (table 2, panel B) and special interest pressure (table 2, panel C) for each type of statement.¹¹ The findings show that statements of type (1), (2), or (3), on average, come from more conservative representatives (the difference is significant at the 1% level, with the exception of statements of type (2), which are significant at the 5% level), whereas representatives who issue statements of type (4) do not significantly differ in their ideology from their peers. This latter group of representatives, however, receives a significantly greater portion of campaign contributions from the financial services industry (34.9% vs. 17.6%, *p*-value < 5%). Campaign contributions do not significantly differ for representatives who issue any other type of statement.

Overall, the content analysis shows a pattern of representatives' statements that is consistent with our predictions. There are mainly two distinct groups of representatives who publicly oppose fair value accounting. The first comprises the most conservative politicians, who strongly oppose the bailouts included in the EESA from October 2008. Their arguments against fair value accounting do not emphasize any particular accounting consequence but describe the change in accounting rules as an alternative means to direct government intervention; that is, they frame fair value accounting around a broader public policy issue. Their arguments are nontechnical. The second group comprises politicians who have the strongest incentives to cater to the interests of the financial services industry. These politicians focus their statements precisely on the issue of fair value accounting and do not frame the accounting issue in a broader context. They argue in more

¹⁰ Online appendix OE.1 provides the exact definitions for each classification and presents representative examples of statements.

¹¹ To avoid the overlap with party membership (which is plausibly associated with both ideology and special interest pressure) explaining the association between ideology and the observed rationales included in politicians' statements, we also analyze statements within the group of Republican representatives only (i.e., excluding 13 observations related to Democratic representatives). The results are even more pronounced, with the difference in ideology for ideology-related rationale being significant at the 1% and 5% levels.

TABLE 2
*Ideology, Special Interests, and the Content of Representatives' Statements
 in the Fair Value Debate (Fall 2008)*

Panel A: Ideology and special interests of participating and non-participating representatives					
	Negative Statement = Yes		Negative Statement = No		<i>t</i> -Test [<i>p</i> -Value]
	<i>N</i>	Mean	<i>N</i>	Mean	
<i>Ideology</i>	117	0.564	317	-0.057	[<0.001]***
<i>Special Interests</i>	117	20.876	317	13.352	[0.004]***
Panel B: Content of fair value statements and participants' ideology					
Content of Rationale	Statement Includes Rationale = Yes		Statement Includes Rationale = No		<i>t</i> -Test [<i>p</i> -Value]
	<i>N</i>	Mean	<i>N</i>	Mean	
Ideology-related rationale					
<i>Calls for "market-based solutions"</i>	19	0.800	98	0.518	[0.002]***
<i>Calls for "bailout alternative"</i>	44	0.654	73	0.505	[0.043]**
<i>Calls for other alternative proposals</i>	62	0.671	55	0.443	[<0.001]***
Technical focus on specific weakness of fair value accounting	22	0.500	95	0.579	[n.s.]
Panel C: Content of fair value statements and participants' special interest connections					
Content of Rationale	Statement Includes Rationale = Yes		Statement Includes Rationale = No		<i>t</i> -Test [<i>p</i> -Value]
	<i>N</i>	Mean	<i>N</i>	Mean	
Ideology-related rationale					
<i>Calls for "market-based solutions"</i>	19	24.202	98	20.231	[n.s.]
<i>Calls for "bailout alternative"</i>	44	21.739	73	20.256	[n.s.]
<i>Calls for other alternative proposals</i>	62	21.062	55	20.666	[n.s.]
Technical focus on specific weakness of fair value accounting	22	34.924	95	17.623	[0.031]**

This table presents univariate statistics for statements on fair value accounting issued by members of the U.S. House of Representatives in fall 2008, that is, around the discussion of the Emergency Economic Stabilization Act of 2008. Panel A shows the mean values of the *DW-NOMINATE Ideology Score* and the percentage of financial sector PAC contributions (see the appendix for the definition of the variables) as well as the number of observations for representatives who issued (did not issue) a statement on fair value accounting. Panels B and C present univariate statistics on the relationship between different rationales included in these statements and representatives' ideology (panel B) and special interests (panel C). We identify the content of politicians' statements by classifying all individual statements and creating indicator variables that equal 1 if at least one statement made by the politician includes a corresponding rationale. Online appendix OE.1 provides the definition of the four types of rationales and presents representative examples for each type. The reported *p*-values are based on a two-sided two-sample *t*-test. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

technical terms, and their statements refer to the potentially detrimental effects of fair value accounting. These patterns are consistent with the notion that political ideology is distinct from special interest considerations in explaining political interventions in accounting regulation.

4. *Political Involvement in the Stock Option Debate*

4.1 DATA AND VARIABLES

4.1.1. Political Involvement. In contrast to the fair value debate, we can measure political involvement in the stock option debate more directly because representatives sponsored two different bills during the 108th Congress that directly concerned accounting for employee stock options: H.R. 1372 (Broad-based Stock Option Plan Transparency Act) and H.R. 3574 (Stock Option Accounting Reform Act). Although the first bill was never called for a vote, the second bill did pass the House in July 2004 by a vote of 312 to 111 (with 10 representatives not voting). Co-sponsorship of these bills is a publicly observable commitment by a representative that signals strong support. The measure is a well-established empirical proxy for the involvement of politicians in congressional debates and is widely used in the political sciences (e.g., Krutz [2005], Sulkin and Swigger [2008], Finocchiaro and MacKenzie [2017]). This proxy is most useful if a political debate occurs in the pre-floor arena and is resolved before it comes to a formal vote. Therefore, we use co-sponsorship as our proxy for a representative's involvement in the stock option debate.¹² In general, the measure is more precise than the issuance of a public statement that we rely on in the fair value setting, where the content can take different forms with differing levels of commitment.

To identify the bills' co-sponsors, we obtain data on co-sponsoring from the website of Fowler, Waugh, and Sohn on congressional co-sponsorship networks (<http://fowler.ucsd.edu/cosponsorship.htm>; see Fowler [2006a,b], for a description of the data). For consistency, we exclude the five congressional districts where the elected representatives changed during the 108th Congress (because they assumed a different office or left Congress for other reasons).

4.1.2. Ideology and Special Interests. Our measures for ideology and special interests are parallel to those in the fair value debate setting. To measure ideology, we use the first dimension of the DW-NOMINATE score (*Ideology*). We include voting records through December 31, 2004, to capture the ideology at the time of the stock option debate. To measure special interests, we use hard money campaign contributions that representatives received from interested parties during the 107th Congress. Our analysis of comment letters and membership in lobbying organizations (especially the International Employee Stock Option Coalition [IESOC]) suggests that

¹² Additional benefits of using co-sponsorship data rather than roll-call votes include (1) its independence from the established measure of ideology (note that the DW-NOMINATE score is derived from roll-call votes), (2) the greater independence of co-sponsoring decisions from partisan pressure (Hayes, Hibbing, and Sulkin [2010]), and (3) mitigation of the selection bias inherent in the speaker's (or committee chairman's) decision on which bills will be called for a roll-call vote (e.g., Desposato, Kearney, and Crisp [2011]).

technology companies relied most on stock option compensation plans and thus had the greatest interest in avoiding full and immediate expensing of these stock options (see also Farber, Johnson, and Petroni [2007]). Therefore, the measure relies on contributions from the PACs of technology companies. As the CRP does not use a clear-cut definition of the technology industry, we include campaign contributions from the following industries: telecom services (B09), electronics manufacturing and equipment (B12), Internet (B13), and pharmaceuticals/health products (H04). The measure is again relative to the sum of PAC contributions received from other interest groups.

4.2 PATTERNS OF POLITICAL INVOLVEMENT IN THE STOCK OPTIONS DEBATE

Similar to the fair value debate setting, in the stock options debate, the public involvement of politicians occurs during two distinct periods, with each period marked by the issuance of one of the two bills (H.R. 1372 in March 2003 and H.R. 3574 in November 2003). To provide systematic evidence of the change in the public context of the stock options debate, we analyze its media coverage over time.¹³ Figure 1 illustrates the change in the content of articles between the four months before and the four months after the introduction of H.R. 1372. The relative frequency of articles referring to liberal public policy issues (such as excessive compensation or wealth participation) increases by 11.6 percentage points (from 26.1% to 37.7%). At the same time, the relative frequency of articles referring to special interest–related issues decreases by 5.8 percentage points (from 72.5% to 66.7%). The inspection of media articles on stock-based compensation thus provides supporting evidence that public scrutiny of executive compensation intensified after H.R. 1372 and that topics appealing to a more liberal political agenda increased in importance after the initial introduction of H.R. 1372.¹⁴

Table 3 presents statistics for representatives' (co-)sponsoring of H.R. 1372 and H.R. 3574. Overall, 25.8% (30.5%) of the 430 members of the U.S. House of Representatives in our sample sponsored H.R. 1372 (H.R. 3574). Although the two bills garnered more support from Republican representatives than from Democratic representatives, both received significant bipartisan support. The greater focus on policy issues linked to a

¹³We follow Baker, Bloom, and Davis [2016] and include articles published by 10 key U.S. media sources (*The Boston Globe*, *Chicago Tribune*, *Dallas Morning News*, *The Los Angeles Times*, *Miami Herald*, *The New York Times*, *The San Francisco Chronicle*, *The Wall Street Journal*, *The Washington Post*, and *USA Today*). In addition, we include the *Workspan* magazine because of its relevance for human resources-related topics. We focus on these key sources for business and political news to reduce potential noise. However, the same picture emerges if we do not limit the sample to these specific sources.

¹⁴The results are robust to the selection of the relevant time period. In particular, we replicate the analysis by including media articles within the span of two, three, five, or six months around the introduction of H.R. 1372, and our findings remain similar.

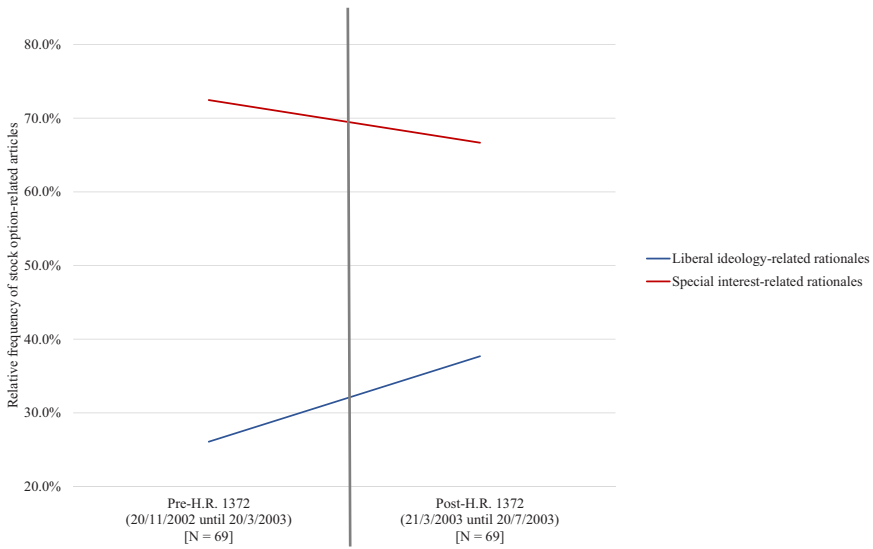


FIG. 1.—References in stock option–related media articles. This figure presents variation in references to ideology–related versus special interest–related public policy rationales in the stock option debate four months before and after the introduction of H.R. 1372. We use Factiva and identify relevant articles on stock options by searching for all articles that include terms related to stock options (e.g., stock option, stock–option, share–based compensation, share based compensation, broad–based stock, or broad based stock) and compensation. We follow Baker, Bloom, and Davis [2016] and focus on articles published by 10 key U.S. media sources (*The Boston Globe*, *Chicago Tribune*, *Dallas Morning News*, *The Los Angeles Times*, *Miami Herald*, *The New York Times*, *The San Francisco Chronicle*, *The Wall Street Journal*, *The Washington Post*, and *USA Today*). In addition, we include the *Workspan* magazine because of its relevance for human resources–related topics. We classify articles that refer to *Excessive executive compensation* and *Wealth participation* as related to policies consistent with a liberal ideology, and articles that refer to *High-tech industry* and *Economic impact* as related to policies consistent with special interests. We identify references to these public policy issues based on a standard bag-of-words approach. To reduce the dimensionality of the bag-of-words text representation, we pre-process the corpora of all articles following Gentzkow, Kelly, and Taddy [2019a,b]) by removing hyphens and apostrophes, replacing all other punctuation with spaces, and reducing words to their stems according to the Porter2 stemming algorithm. We then identify all articles with references to specific keyword stems related to each of the four rationales: *Excessive executive compensation* [excess, fatcat, golden parachut, highly compens, selfserv, stealth compens], *Wealth participation* [averag employe, averag person, averag worker, employe ownership, labor movement, little guy, lowpay, middl class, middleclass, rank file, rankandfil, work class], *High-tech industry* [biotech, hightech, tech], and *Economic impact* [competit, econom effect, econom growth, econom impact, global marketplac, jobless recoveri, oversea, unintend consequ]. We compute the relative frequency of articles that include specific references to the two liberal ideology–related rationales and the two special interest–related rationales, scaled by the total number of articles that include stock option–related terms during the corresponding period.

TABLE 3
*Support of Proposed Legislations on Stock Option Accounting by
 Members of the U.S. House of Representatives*

Panel A: (Co-)sponsorship of H.R. 1372 (Broad-Based Stock Option Plan Transparency Act)						
	Democratic Representatives		Republican Representatives		Total	
	<i>N</i>	%	<i>N</i>	%	<i>N</i>	%
Yes	43	21.1	68	30.1	111	25.8
No	161	78.9	158	69.9	319	74.2
	204	100.0	226	100.0	430	100.0

Panel B: (Co-)sponsorship of H.R. 3574 (Stock Option Accounting Reform Act)						
	Democratic Representatives		Republican Representatives		Total	
	<i>N</i>	%	<i>N</i>	%	<i>N</i>	%
Yes	58	28.4	73	32.3	131	30.5
No	146	71.6	153	67.7	299	69.5
	204	100.0	226	100.0	430	100.0

This table presents descriptive statistics for the (co-)sponsorship of H.R. 1372 (Broad-Based Stock Option Plan Transparency Act) (panel A) and H.R. 3574 (Stock Option Accounting Reform Act) (panel B) of members of the U.S. House of Representatives during the 108th Congress. The sample excludes all members who either joined or left the U.S. House during the congressional cycle (e.g., replacements of members who resigned or died) resulting in a sample of 430 representatives.

liberal agenda during the second phase of the debate is illustrated in the relative change in co-sponsorship. Republican co-sponsorship of H.R. 3574 increased by only 2.2 percentage points (or five additional sponsors) compared to that for the initial H.R. 1372 bill, whereas Democratic support increased by 7.3 percentage points (or 15 additional sponsors). The final vote on the amended bill H.R. 3574 was not along party lines either. In particular, Democrats were split between a position catering to the special interests of donors and constituents who benefited from stock option plans and a position that reflected the liberal stance on government intervention into corporate compensation policies.¹⁵ Generally, this observation is consistent with our prediction that liberal ideology helps explain political involvement in the accounting debate during this particular period.

4.3 CONTEXT AND CONTENT OF STOCK OPTION-RELATED STATEMENTS

To further corroborate this observation, we analyze the content of representatives' statements on stock option accounting in the same spirit as done for the fair value debate setting. We collect data on the content of these statements by consulting press articles and congressional discussions and by crawling representatives' website history through the Internet Archive

¹⁵ In July 2003, *The Wall Street Journal* reports about an "emerging split" among Democrats on the issue of stock option expensing (Schlesinger [2003]).

(<https://archive.org>) between the year of the FASB's announcement in 2002 and the year of the final congressional vote in 2004. We identify 97 unique representatives of the 108th Congress who issued a statement on accounting for stock options via one of these channels. Forty-nine (48) of these representatives were members of the Republican (Democratic) party.

Manual coding and classification of the statements reveal three major lines of argument: (1) ideology-related rationales (limitation of executive compensation; wealth redistribution to rank-and-file employees; corporate scandals); (2) special interest-related rationales (support of high-tech industry; facilitation of talent recruitment; protection against foreign competition); and (3) other technical rationales (such as a reference to earnings per share). We focus our analysis on statements from the first two categories, which we can link to the representatives' original motivation.¹⁶

In general, politicians who publish statements on accounting for stock options appear to have more special interest links but do not differ significantly in their ideology; see table 4, panel A. For each category of rationales, we compare the ideology (table 4, panel B) and the level of special interest connections (table 4, panel C) of the representatives who use this line of argument. Similar to the fair value debate setting, the statement content varies systematically on the basis of both the ideology and special interest connections of representatives. Although politicians who refer to the limitation of executive compensation, wealth redistribution, or corporate scandals (i.e., plausibly liberal policy issues) are significantly more liberal (measured by their DW-NOMINATE score) than their peers who are also publicly involved in the debate, these politicians are not statistically different in terms of their special interest connections; see table 4, panel B. In contrast, politicians who refer to support for high-tech industry, facilitation of recruitment, or protection against foreign competition (i.e., issues that corporate donors and constituents are plausibly most concerned about) have significantly greater connections to special interests; however, there is no observable difference in these politicians' ideology (table 4, panel C). These findings again suggest that ideology and special interests are distinct explanations for politicians' public involvement in an accounting debate.

5. *Disentangling the Ideology and Special Interest Explanation*

5.1 APPROACH TO IDENTIFICATION

The major concern with the previous analyses remains the potential overlap among a politician's ideology, contributions from industry, and personal business or even accounting expertise. This overlap is the key obstacle to disentangling the effect of special interest considerations from a politician's personal conviction driven by ideology, expertise, or both. In

¹⁶ Online appendix OE.2 provides representative examples of statements for each type of rationale related to ideology or special interests.

TABLE 4

Ideology, Special Interests, and the Content of Representatives' Statements in the Stock Option Debate

Panel A: Ideology and special interests of participating and non-participating representatives

	Stock Option-Related Statement = Yes		Stock Option-Related Statement = No		t-Test [p-Value]
	N	Mean	N	Mean	
	<i>Ideology</i>	97	0.130	333	
<i>Special Interests</i>	97	6.263	333	4.293	[0.002]***

Panel B: Content of statements on stock option expensing and representatives' ideology

Content of Rationale	Statement Includes Rationale = Yes		Statement Includes Rationale = No		t-Test [p-Value]
	N	Mean	N	Mean	
Ideology-related rationale					
<i>Limitation of executive compensation</i>	24	-0.171	73	0.229	[<0.001]***
<i>Wealth re-distribution</i>	20	-0.045	77	0.175	[0.078]*
<i>Corporate scandals</i>	31	-0.134	66	0.254	[<0.001]***
Special interests-related rationale					
<i>Support of high-tech industry</i>	24	0.101	73	0.139	[n.s.]
<i>Facilitation of talent recruitment</i>	31	0.166	66	0.113	[n.s.]
<i>Protection against foreign competition</i>	13	0.169	84	0.124	[n.s.]

Panel C: Content of statements on stock option expensing and representatives' special interest connections

Content of Rationale	Statement Includes Rationale = Yes		Statement Includes Rationale = No		t-Test [p-Value]
	N	Mean	N	Mean	
Ideology-related rationale					
<i>Limitation of executive compensation</i>	24	6.304	73	6.249	[n.s.]
<i>Wealth re-distribution</i>	20	7.353	77	5.980	[n.s.]
<i>Corporate scandals</i>	31	6.325	66	6.233	[n.s.]
Special interests-related rationale					
<i>Support of high-tech industry</i>	24	9.168	73	5.308	[0.027]**
<i>Facilitation of talent recruitment</i>	31	8.182	66	5.361	[0.081]*
<i>Protection against foreign competition</i>	13	11.804	84	5.405	[0.003]***

This table presents univariate statistics for statements on accounting for stock options issued by members of the U.S. House of Representatives during the 108th Congress. Panel A shows the mean values of the *DW-NOMINATE Ideology Score* and the percentage of technology sector PAC contributions (see the appendix for the definition of the variables) as well as the number of observations for representatives who issued (did not issue) a statement on accounting for stock options between January 1, 2002 and December 31, 2004. Panels B and C present univariate statistics on the relationship between different rationales included in these statements and representatives' ideology (panel B) and special interests (panel C). We identify the content of politicians' statements by classifying all individual statements and creating indicator variables that equal 1 if at least one statement made by the politician included a corresponding rationale. Online appendix OE.2 provides the definition of the six types of rationales and presents representative examples for each type. The reported p-values are based on a two-sided two-sample t-test. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

particular, it is highly plausible that private sector firms direct their contributions to politicians who have expertise in this area of regulation (e.g., through congressional assignments or work experience) and that those expert politicians share a specific ideology. For example, representatives serving on the U.S. House Committee on Financial Services receive, on average, more campaign contributions from the financial services industry than other members of Congress (e.g., Kroszner and Stratmann [1998]). That is, a positive association between campaign contributions from the financial services industry and the political actions of committee members does not necessarily indicate that representatives react primarily to special interest considerations. Committee members might simply issue more statements as part of their congressional assignment, for example, because of their greater familiarity with industry issues or greater expertise. Although we can generally control for the effect of committee membership, expertise, and seniority, we cannot rule out the possibility that part of the effect is unobservable and thus still captured by the error term, systematically biasing our coefficient estimates.

To address this identification problem, we exploit variation in the timing of politicians' participation in the two accounting debates over time. Although the potential benefits for connected firms and thus special interests remain relatively constant during the course of the debates, the role of ideology varies because the political environment changes. The institutional link to the EESA suggests that concerns about bank bailouts are most prominent during the early phase of the fair value debate in fall 2008; such concerns particularly encourage the involvement of conservative politicians, who oppose these government interventions. Similarly, the political objective to restrict the allegedly excessive level of top management compensation is more important during the later phase of the stock option debate in 2003; this objective particularly encourages the involvement of liberal politicians, who support these government interventions. Therefore, we use (1) the variation in the timing of politicians' statements and thus the role of ideology at the time of their statement and (2) the cross-sectional variation in politicians' ideological stance toward government interventions in a regression framework to identify the distinct role of ideology in the accounting debate.

As discussed before, political participation in the fair value debate peaked at two distinct points: in fall 2008, as part of the general debate about the EESA, and in spring 2009, as part of the more specific debate about the relaxation of fair value accounting rules. If politicians' actions can be explained simply by their expertise or special interest connections, there is no plausible reason for any time pattern in their involvement. However, if their participation in the fair value debate stems from ideological opposition to government interventions, we should observe that conservative politicians were more likely to participate in the fall debate than in the spring debate. Only in the fall of 2008, we can directly link fair value accounting to a conservative agenda, when politicians viewed the relaxation

of fair value rules as an alternative to government intervention through bank bailouts. In addition, politicians' incentives to signal their ideological preferences to voters were potentially larger in fall 2008, right before the November congressional elections. As special interests (i.e., connections to financial institutions) are held relatively constant over our time window, a change in the role of ideology cannot stem from an overlap with political connections.

Similarly, the introductions of H.R. 1372 and H.R. 3574 represent two peaks of political participation at different points during the debate about the expensing of employee stock options. The context of the debate changed before the introduction of the second bill (H.R. 3574), when shareholder activists and the financial press increasingly focused on the increasing top management compensation despite the declining profits at that time. As our content analysis of politicians' statements shows, more liberal representatives view stock option expensing as a way to restrict excessive compensation. H.R. 3574 (but not H.R. 1372) reflects this view and explicitly allows the expensing of stock options for the five highest-paid executives. If politicians' participation in the debate stems from ideology rather than from political connections to private sector firms that would incur costs from expensing, we would only see these liberal politicians joining the debate and later sponsoring H.R. 3574. In contrast, the interests of private sector firms would fail to explain differences in liberal politicians' level of participation in the debate.

5.2 DATA AND RESEARCH DESIGN

To test these predictions, we create panel data sets for both settings, with two observations for each representative; that is, we allow for variation in political involvement over time. For members of the 110th Congress who debated about fair value accounting, the first observation is from fall 2008, and the second observation is from spring 2009. The resulting panel data are unbalanced, as they exclude politicians who left or joined Congress between the 110th and the 111th cycle. For members of the 108th Congress who debated about stock option expensing, the panel is balanced, with the first observation relating to the sponsorship of H.R. 1372 and the second observation to H.R. 3574. We use the panel data to estimate the following model and include interaction terms between the timing of *Public Involvement* and our measures for *Ideology* and *Special Interests*. To better interpret the interaction terms, we rely on a conventional OLS design in which we cluster standard errors by representative:¹⁷

¹⁷We also re-estimate the specification based on a logit model and compare the average marginal effects/odd ratios for *Ideology* and *Special Interests* for both timing indicators. The results are virtually unchanged, with similar levels of significance and magnitude of effects.

$$\begin{aligned}
Public\ Involvement_{it} = & \beta_0 + \beta_1 Ideology_i + \beta_2 Ideology_i \times Timing\ Indicator_t \\
& + \beta_3 Special\ Interests_i + \beta_4 Special\ Interests_i \\
& \times Timing\ Indicator_t + \sum \beta_j Controls_j + \varepsilon. \quad (1)
\end{aligned}$$

Public Involvement is an indicator variable equal to 1 if politician i issued a negative statement on fair value accounting (in the fair value debate setting) or co-sponsored a bill on stock option expensing (in the stock option debate setting) in period t . *Timing Indicator* is equal to 1 for the spring 2009 period (in the fair value debate setting) and H.R. 3574 co-sponsorship (in the stock option debate setting). If ideology contributes to politicians' public involvement in the accounting debates, we should expect its importance to vary over time, that is, a statistically significant negative coefficient estimate for β_2 in both settings.¹⁸ We continue to measure *Ideology* by using the DW-NOMINATE score.

To capture special interest connections in the fair value debate setting, we continue to rely on campaign contributions received from the financial services industry and construct three additional proxies based on the potential reporting benefits from the April 2009 fair value relaxation for the banks that a politician received campaign contributions from. To link our data on campaign contributions with firm-specific proxies, we start with a sample of 307 U.S. bank holding companies (BHCs) that filed an FR Y-9C report for financial years 2008 and 2009 with the Federal Reserve Bank of Chicago (<https://www.chicagofed.org/banking/financial-institution-reports/bhc-data>).¹⁹ We match the names of the BHCs with our CRP file, thereby tracking individual corporations in the CRP file to the ultimate parent BHC in the Chicago Fed file. We exclude donations from BHC subsidiaries that have only real estate activities because different accounting rules apply for that subsector. Overall, we identify 52 distinct BHCs that sponsored at least one PAC during the 110th Congress²⁰ and 330 distinct representatives who received campaign contributions from at least one of these institutions.

First, we calculate the average difference between the amortized cost and the fair value of non-guaranteed mortgage-backed securities (MBSs) classified as available for sale, scaled by the amount of total assets across all four reporting quarters during the calendar year 2008 (*Measurement Difference*

¹⁸ Although we predict a negative coefficient estimate for β_2 in both settings, the expected sign more generally depends on the direction of the change in ideology over time.

¹⁹ Specifically, we include all BHCs that (1) are registered with the SEC or (2) are subject to section 13(a) or 15(d) of the Securities Exchange Act of 1934. By focusing on listed BHCs, we have a sample characterized by larger banks, which are more likely to be politically active. In addition, these banks typically have a greater percentage of assets measured at fair value and have higher levels of securitization (especially in mortgage-backed securities).

²⁰ The remaining committees primarily relate to industry associations and investment banks that did not report to the Federal Reserve System before 2008.

Non-guaranteed MBS AfS, source: Chicago Fed, Form FR Y-9C, $(BHCK1711 + BHCK1735 - (BHCK1712 + BHCK1736)) / BHCK2170$). Second, we calculate the change in the ratio of level 2 assets to level 3 assets between the end of the fourth quarter 2008 and the end of the first quarter 2009 (*Decrease in Ratio of L2/L3-FV-Assets Q408-Q109*, source: Compustat Bank Fundamentals Quarterly, AOL2Q/AUL3Q). The change in this ratio proxies for the firm's ability to take advantage of greater accounting discretion in level 3 valuations after the adoption of FSP FAS 157-4. Third, as an alternative to the two accounting-based proxies, we follow Bhat, Frankel, and Martin [2011] and use the stock market reaction to the announcement of the upcoming regulation at the congressional hearing on March 12, 2009, as a proxy for investor perceptions of the benefits of relaxed fair value rules (*CAR (March 12, 2009)*). For each firm, we compute the three-day cumulative abnormal return centered on the event date. To measure expected returns, we use a market model based on the S&P 500 index that estimates beta over the entire calendar year 2008 on a daily basis (source: CRSP). For all three proxies, a politician may receive PAC contributions from more than one bank. In this case, we use the maximum value from the subsample of all contributing banks because it is most plausible that the bank that expects the greatest potential benefit from the regulation is most active in lobbying.

We also construct three additional proxies to capture politicians' special interest connections during the stock option debate. First, we identify all firms that issued a comment letter to the FASB expressing their opposition to the expensing of employee stock options, and we use the relative amount of campaign contributions received from these firms as a proxy for a representative's special interest connections (*Comment Letter Opposition PAC Contributions*). Second, we identify all firms and associations that were members of the IESOC and, according to the coalition's website, "represent a diverse range of industries, including high-tech, manufacturing and service companies, in the United States and abroad." This coalition heavily lobbied against the expensing of stock options in 2003 and 2004 (Leonhardt [2002]). We use the Internet Archive (<https://archive.org>) to identify members based on historical snapshots of the coalition's website. We manually match all IESOC members with registered PACs. *IESOC PAC Contributions* captures the amount of campaign contributions from IESOC members. Third, we use the implied stock option expense (net of tax) that connected firms would have to recognize under the FASB's 2003 proposal. This variable is based on data from Farber, Johnson, and Petroni [2007], who provide estimates for a sample of 400 firms with active PACs from the footnote disclosures in 2003 10-K filings.²¹ Although a politician may receive PAC contributions from more than one company, we again use the

²¹ We are grateful to David B. Farber, Marilyn F. Johnson, and Kathy R. Petroni for providing us with the raw data.

maximum implied stock option expense of all firms that contributed to a politician's PAC.

Control variables include measures for the personal background of the representatives (congressional assignments, electoral margin, seniority, retirement, business background, previous accounting interest, or voting on the EESA) and the potential special interests of the constituents in their congressional district (workforce in specific industries, GDP growth, bailout opposition, loan denial rates, or employee stock option interest). The appendix includes a full description of all variables.

5.3 CHANGES IN POLITICAL INVOLVEMENT DURING THE FAIR VALUE DEBATE

The sample includes observations from all 434 members of the House in fall 2008 and from 380 members who were re-elected in November 2008 and continued to be members in spring 2009 (table 5, panel A). Table 5, panel B, presents the descriptive statistics for all test and control variables. Table 6 shows the results of univariate tests to illustrate the different incentives over time.²² Although representatives who participated in the debate are more conservative than their peers (panel A), politicians who joined the debate in spring, that is, who did not participate in the fall debate, are significantly less conservative, with a DW-NOMINATE score of -0.001 , compared to a score of 0.535 for politicians who participated only in fall (p -value $< 0.1\%$, see panel B). In contrast, representatives' reliance on PAC contributions from the financial sector is significantly greater for those who joined the fair value debate in spring 2009 (42.6% vs. 16.0% in fall 2008, p -value $< 0.1\%$, see panel B). Ideologically more conservative representatives dominate the early debate around Congress's EESA votes, consistent with these politicians viewing the relaxation of fair value accounting as an alternative to government bailouts. In contrast, politicians more closely connected to the financial services industry tended to dominate the later debate about the technical design of the new fair value rules; that is, special interests continued to play a role but ideological motives significantly less so.

Table 7 shows the estimation results of the four different specifications of our panel regression model (equation (1)) in the fair value setting where we use the DW-NOMINATE *Ideology Score* as our proxy for ideology and vary the proxy for special interest pressure.²³ In column 1, we use the proportion of PAC contributions from the financial sector (*Financial Sector PAC*

²²For the coding of our dependent variable, we treat the politicians with neutral or positive statements ($n = 5$, see table 1) as if they had not been involved in the debate. The results are insensitive to excluding those five politicians from our sample.

²³Although the DW-NOMINATE score is the most common measure of political ideology (e.g., Mian, Sufi, and Trebbi [2010]), we use four alternative proxies for representatives' ideology in sensitivity tests. The results are virtually identical to those presented in table 7 of the paper (see table OF.1 in the online appendix).

TABLE 5
Analysis of the Fair Value Debate: Sample and Descriptive Statistics

	Fall 2008		Spring 2009		Total	
	N	#Involved	N	#Involved	N	#Involved
#Representatives (110th Congress)	434	117	380	45	814	162
Less: Missing data for control variables on congressional district level	-2	117	-2	45	810	162
Less: Representatives connected to commercial banks without accounting data of BHC matches	-64	102	-56	39	690	141
Less: Missing accounting data of BHC matches for <i>Decease in Ratio of L2/L3 FV:Assets Q408-Q109</i>	-14	96	-13	38	663	134

	N	Mean	SD	Min	Median	Max
Panel B: Descriptive statistics						
Ideology variable						
<i>DW-NOMINATE Ideology Score</i>	810	0.089	0.523	-0.704	-0.178	1.292
Special interest variables						
<i>Financial sector PAC contributions (%PAC)</i>	810	15.563	24.709	-8.121	7.988	230.728
<i>Measurement Difference Non-guaranteed MBS Afs</i>	690	0.424	0.420	0.000	0.393	1.522
<i>Decrease in Ratio of L2/L3 FV:Assets Q408-Q109</i>	663	0.133	0.226	-0.145	0.091	1.413
<i>CAR (March 12, 2009)</i>	690	0.148	0.081	-0.042	0.135	0.510
Control variables for representatives' background						
<i>Subcommittee member</i>	810	0.101	0.302	0.000	0.000	1.000
<i>Electoral margin</i>	810	0.377	0.267	0.000	0.319	1.000
<i>Seniority</i>	810	1.886	0.578	0.693	1.946	3.367

(Continued)

TABLE 5—Continued

	<i>N</i>	Mean	SD	Min	Median	Max
<i>Retired</i>	810	0.031	0.173	0.000	0.000	1.000
<i>Business background</i>	810	0.164	0.371	0.000	0.000	1.000
<i>Accounting interest</i>	810	0.123	0.329	0.000	0.000	1.000
<i>EESA vote-switch ("Nay" to "Yea")</i>	810	0.140	0.347	0.000	0.000	1.000
Control variables for constituent interests						
<i>Workforce in finance</i>	810	0.050	0.020	0.020	0.044	0.153
<i>Change in GDP</i>	810	-0.000	0.246	-0.954	0.014	0.705
<i>Constituents' bailout opposition</i>	810	0.723	0.099	0.279	0.740	0.966
<i>Loan denial rate</i>	810	-0.032	0.039	-0.118	-0.017	0.046

Panel A (panel B) presents details of the sample selection (descriptive statistics) for OLS panel regressions for the analysis of the timing of politicians' statements on fair value accounting in 2008–2009. The sample includes all observations for representatives who served during the 110th Congress. Please refer to the appendix for a full description of all variables.

TABLE 6
Ideology, Political Connections, and the Timing of Representatives' Involvement in the Fair Value Debate: Univariate Tests

	Negative Statement = Yes						Negative Statement = No						t-Test [p-Value]
	Mean		SD		Median		Mean		SD		Median		
	N		N		N		N		N		N		
Panel A: All representatives													
Ideology	134	0.492	0.434	0.648	300	-0.060	0.457	-0.273	[<0.001]***				
DW/NOMINATE Ideology Score	134	86.969	110.276	39.250	300	55.782	76.470	26,750	[0.001]***				
Special interest connections	134	23.630	34.569	10.691	300	11.695	16.392	6.384	[<0.001]***				
Financial sector PAC contributions (\$)	117	0.519	0.473	0.393	253	0.374	0.386	0.393	[0.002]***				
Financial sector PAC contributions (%PAC)	111	0.191	0.273	0.091	245	0.105	0.194	0.039	[0.001]***				
Measurement Difference Non-guaranteed MBS A/S	117	0.168	0.089	0.136	253	0.138	0.077	0.135	[0.001]***				
Decrease in Ratio of L2/L3 FV-Assets Q408-Q109													
CAR (March 12, 2009)													
Panel B: Switchers only													
Ideology	Negative Statement = Yes						Negative Statement = No						t-Test [p-Value]
	Mean		SD		Median		Mean		SD		Median		
	N		N		N		N		N		N		
DW/NOMINATE Ideology Score	89	0.535	0.387	0.663	17	-0.001	0.502	-0.263	[<0.001]***				
Special interest connections	89	58.413	68.155	29,500	17	179,302	170,714	124,000	[<0.001]***				
Financial sector PAC contributions (\$)	89	16.028	25.602	8.977	17	42.588	33.710	32.206	[<0.001]***				
Financial sector PAC contributions (%PAC)	78	0.404	0.350	0.393	15	0.836	0.581	0.393	[<0.001]***				
Measurement Difference Non-guaranteed MBS A/S	73	0.127	0.235	0.091	15	0.350	0.295	0.091	[0.002]***				
Decrease in Ratio of L2/L3 FV-Assets Q408-Q109	78	0.150	0.080	0.135	15	0.224	0.090	0.233	[0.002]***				
CAR (March 12, 2009)													

This table presents univariate statistics on the relationship between representatives' participation in the fair value debate and their ideology and special interest connections in fall 2008 and in spring 2009. Panel A includes the full sample of 434 representatives. Panel B focuses on the 106 representatives who switched their position and issued a statement on fair value accounting only in fall 2008 or only in spring 2009. Please refer to the appendix for a full description of all variables. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

TABLE 7
Ideology, Political Connections, and the Timing of Representatives' Involvement in the Fair Value Debate: OLS Panel Regressions

	All Representatives			Switchers Only			
	Financial Sector Contributions (%PAC) (1)	Measurement Difference Non-guaranteed MBS AIS (2)	Decrease in Ratio of L2/L3 FV-Assets Q408-Q109 (3)	Financial Sector Contributions (%PAC) (5)	Measurement Difference Non-guaranteed MBS AIS (6)	Decrease in Ratio of L2/L3 FV-Assets Q408-Q109 (7)	CAR (March 12, 2009) (8)
Test variables							
[1] <i>Ideology</i>	0.508*** (0.042)	0.548*** (0.045)	0.531*** (0.047)	0.329*** (0.095)	0.370*** (0.106)	0.375*** (0.112)	0.376*** (0.108)
[2] <i>Ideology</i> × <i>Spring 2009</i>	-0.362*** (0.048)	-0.410*** (0.052)	-0.399*** (0.053)	-0.657*** (0.188)	-0.778*** (0.207)	-0.783*** (0.215)	-0.780*** (0.208)
<i>F-Test: [1] + [2] = 0</i>	[<0.001]***	[<0.001]***	[0.001]***	[<0.001]***	[<0.001]***	[<0.001]***	[<0.001]***
[3] <i>Special interests</i>	0.000 (0.001)	-0.049 (0.048)	-0.067 (0.099)	-0.004* (0.002)	-0.253** (0.100)	-0.353* (0.186)	-1.015** (0.398)
[4] <i>Special interests</i> × <i>Spring 2009</i>	0.003** (0.001)	0.198*** (0.065)	0.353** (0.143)	0.007* (0.004)	0.553** (0.214)	0.729* (0.410)	1.980** (0.842)
<i>F-Test: [3] + [4] = 0</i>	[0.015]**	[0.004]***	[0.005]***	[0.111]	[0.012]**	[0.101]	[0.037]**
<i>Spring 2009</i>	-0.261*** (0.069)	-0.317*** (0.070)	-0.275*** (0.071)	-0.461** (0.214)	-0.566*** (0.205)	-0.400** (0.196)	-0.566** (0.229)
Control variables for representatives' background							
<i>Subcommittee member</i>	0.194*** (0.054)	0.227*** (0.054)	0.229*** (0.054)	-0.008 (0.012)	-0.045 (0.029)	-0.032 (0.027)	-0.030 (0.024)
<i>Electoral margin</i>	0.134** (0.053)	0.133** (0.054)	0.127** (0.055)	0.013 (0.019)	0.014 (0.031)	0.019 (0.030)	0.019 (0.028)
<i>Seniority</i>	-0.044* (0.024)	-0.028 (0.025)	-0.024 (0.025)	-0.004 (0.007)	-0.001 (0.012)	-0.003 (0.012)	-0.007 (0.012)
<i>Retired</i>	-0.336*** (0.070)	-0.388*** (0.073)	-0.371*** (0.073)	0.046 (0.050)	0.008 (0.045)	0.081** (0.034)	-0.026 (0.062)
<i>Business background</i>	0.026 (0.039)	0.015 (0.042)	0.016 (0.042)	0.006 (0.008)	0.008 (0.012)	0.007 (0.013)	0.014 (0.014)

(Continued)

TABLE 7—Continued

	All Representatives				Switchers Only			
	Financial Sector PAC Contributions (%PAC) (1)	Measurement Difference Non-guaranteed MBS AFS (2)	Decrease in Ratio of L2/L3 FV-Assets Q408-Q109 (3)	CAR (March 12, 2009) (4)	Financial Sector PAC Contributions (%PAC) (5)	Measurement Difference Non-guaranteed MBS AFS (6)	Decrease in Ratio of L2/L3 FV-Assets Q408-Q109 (7)	CAR (March 12, 2009) (8)
[Special Interests =]								
<i>Accounting interest</i>	0.005 (0.039)	0.005 (0.040)	0.003 (0.042)	0.011 (0.041)	-0.008 (0.013)	-0.030 (0.023)	-0.029 (0.025)	-0.020 (0.021)
<i>EESA vote switch ("Nay" to "Yea")</i>	0.068** (0.033)	0.071* (0.036)	0.079** (0.040)	0.072** (0.036)	-0.005 (0.007)	-0.012 (0.012)	-0.008 (0.013)	-0.010 (0.013)
Control variables for constituent interests								
<i>Workforce in finance</i>	0.025 (0.545)	0.377 (0.555)	0.407 (0.562)	0.456 (0.577)	0.168 (0.319)	0.453 (0.379)	0.449 (0.393)	0.331 (0.380)
<i>Change in GDP</i>	-0.016 (0.048)	-0.047 (0.057)	-0.055 (0.059)	-0.047 (0.057)	-0.182 (0.164)	-0.407* (0.212)	-0.411* (0.219)	-0.401* (0.214)
<i>Constituents' bailout opposition</i>	0.009 (0.134)	0.033 (0.152)	0.031 (0.155)	0.036 (0.153)	0.062 (0.049)	0.070 (0.071)	0.094 (0.076)	0.102 (0.081)
<i>Loan denial rate</i>	-1.155 (0.856)	-1.155 (0.901)	-1.165 (0.922)	-0.988 (0.928)	1.451 (1.829)	1.452 (1.795)	1.579 (1.939)	2.187 (2.115)
Constant	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	810	690	663	690	199	175	166	175
Adjusted R ²	0.320	0.342	0.328	0.337	0.564	0.646	0.606	0.618

This table presents results from OLS panel regressions for the analysis of the timing of politicians' statements. The dependent variable is a binary indicator taking a value of one if the representative was issuing a negative statement in the accounting debate at the respective date. The columns differ in the measurement of special interests. The column heading describes the special interest variable. The base measure for *Ideology* in both panels is the DW/OMINATE *Ideology Score*. We run separate analyses for the aggregate sample of all representatives with special interest connections (*All Representatives*) and for the subsample of representatives who participated at only one point in time (*Switchers Only*, see table 6). We also report *t*-tests (*p*-value) for *Ideology + Ideology * Spring 2009* and *Special Interests + Special Interests * Spring 2009*. Please refer to the appendix for a full description of all variables. The table reports coefficient estimates and standard errors clustered by individual politician in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

Contributions (%PAC) as our proxy for special interest pressure. In columns 2–4, we use the measures intended to capture the specific benefits from the April 2009 regulation for a politician’s connected firms; therefore, we need to further restrict the sample to those representatives connected to BHCs for which sufficient accounting data are available from our data sources (see table 5, panel A, for the sample selection). Overall, the results support our predictions. The results for *Ideology* and its interaction with the *Spring* 2009 dummy are largely unaffected by the variation in the *Special Interest* definition. The DW-NOMINATE score is positively associated with political involvement in the fair value debate throughout all specifications (with coefficient estimates between 0.508 and 0.550, all significant at the 1% level). The association is significantly weaker in spring (with coefficient estimates for the interaction term between -0.362 and -0.410 , all significant at the 1% level). The role of special interests changes in the opposite direction. We find a significantly greater association between special interests and public involvement in the debate in spring 2009 (with coefficient estimates for the interaction term between 0.003 and 0.825, all significant at the 5% or 1% level).²⁴

The control variables show the expected signs. In particular, membership in the House Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises, the latest electoral margin in the congressional district, and a switch in the vote on the EESA bill are positively associated while closeness to retirement is negatively associated with active involvement in the fair value debate. Special interests of a politician’s constituents in the home district do not help explain political participation in the fair value debate. (Marginal effects are nonsignificant for all of our measures of constituent interests.) The economic consequences of the fair value debate involve potential net transfers to firms, while transfers to households, if any, are indirect. Therefore, compared to firms with special interests, constituents have relatively few incentives to exert pressure on their representatives.

We repeat the analyses for the subsample of 106 politicians who participated during only one period (either fall 2008 or spring 2009). We show the results in columns 5–8. The results are similar and emphasize the difference in the role of ideology over time. The base coefficient for *Special Interests* has a negative sign in these specifications. The base coefficient relates to the fall 2008 period, when an overlap between ideological motives and special interests is more plausible. In addition, with the exception of *Change in GDP* and *Retired*, all control variables are nonsignificant, suggesting that changes in representatives’ backgrounds or constituent interests

²⁴ Our measures for representatives’ special interest connections potentially give too much weight to connections with major financial institutions. To alleviate these concerns, we re-estimate the model and introduce separate covariates for campaign contributions received from major and minor financial institutions, and our inferences remain the same (see table OF.2 in the online appendix).

are unlikely to be plausible explanations for participation in the accounting debate.

5.4 CHANGES IN POLITICAL INVOLVEMENT DURING THE STOCK OPTION DEBATE

Our sample selection starts with observations from all 435 members of the House during the 108th Congress. We exclude five congressional districts for which the elected representatives changed during the 108th Congress and another two districts for which relevant control variables are not available (table 8, panel A). Table 8, panel B, provides the descriptive statistics for all test and control variables.

The results of univariate tests in table 9 illustrate the differences between the politicians who involve themselves in the accounting regulation and sponsor H.R. 1372 or H.R. 3574 and their peers who do not. Representatives who sponsor legislation against the expensing of stock options appear to be more conservative, with a difference in the score of 0.174 (significant at the 0.1% level, see panel A). On average, these members are also more closely connected to the tech sector, with a significant difference in PAC contributions (at the 1% and 5% levels for relative and absolute contributions) and connections to firms with interests against the expensing of stock options (p -value $< 0.1\%$). Panel B shows that new co-sponsors of H.R. 3574, who did not support H.R. 1372 before, are significantly more liberal (DW-NOMINATE score of 0.187, compared to 0.413, p -value $< 10\%$, see panel B). At the same time, representatives supporting *either* H.R. 1372 *or* H.R. 3574 have approximately the same level of connections with interested parties from the private sector (nonsignificant differences for all five special interest variables, see panel B). Overall, the univariate tests suggest that special interests alone are unlikely to explain representatives' increased support for legislation against the expensing of stock options. At the same time, the statistics are consistent with the notion of ideology explaining political involvement in accounting standard setting (i.e., liberal support for a government intervention to limit excessive executive compensation).

Table 10 presents the estimation results of the panel regression (equation (1)) for the four different specifications of our regression model in the stock option setting. Columns 1–4 report the results for the full sample of representatives, while columns 5–8 present the results for the subsample of politicians who sponsored only one bill (either H.R. 1372 or H.R. 3574). We again use the *DW-NOMINATE Ideology Score* as our proxy for ideology and vary the proxy for special interest connections. In the first column, we use the proportion of PAC contributions received from technology companies as our proxy for special interest connections. In columns 2–4, we use the three alternatives: *Comment Letter Opposition PAC Contributions (%PAC)*, *IESOC PAC Contributions (%PAC)*, and *Implied Total Stock Option Expense per FASB Proposal*.

The results provide support for our predictions. Consistent with our expectations, all four proxies for *Special Interests* are significantly positively

TABLE 8
Analysis of the Stock Option Debate: Sample and Descriptive Statistics

	H.R. 1372		H.R. 3574		Total	
	N	#Involved	N	#Involved	N	#Involved
#Representatives (108th Congress)	435		435		870	
Less: Congressional districts whose representatives left or joined the 108th Congress during the cycle	-5	111	430	131	860	242
Less: Missing data for control variables on congressional district level	-2	111	428	131	856	242

	N	Mean	SD	Min	Median	Max
Panel B: Descriptive statistics						
Ideology variables						
<i>DW-NOMINATE Ideology Score</i>	856	0.138	0.495	-0.669	0.342	1.085
Special interest variables						
<i>Tech. sector PAC Contributions (%PAC)</i>	856	4.754	5.506	0.000	2.746	39.614
<i>Comment Letter Opposition PAC Contributions (%PAC)</i>	856	3.230	2.792	0.000	2.739	17.458
<i>IESOC PAC Contributions (%PAC)</i>	856	0.901	1.277	0.000	0.535	10.665
<i>Implied Total Stock Option Expense per FASB Proposal</i>	856	3.866	4.166	0.000	3.094	15.754
Control variables for representatives' background						
<i>Subcommittee member</i>	856	0.107	0.310	0.000	0.000	1.000
<i>Electoral margin</i>	856	0.424	0.259	0.001	0.378	1.000
<i>Seniority</i>	856	1.733	0.592	0.693	1.792	3.258

(Continued)

TABLE 8—Continued

Panel B: Descriptive statistics		N	Mean	SD	Min	Median	Max
<i>Retired</i>		856	0.035	0.184	0.000	0.000	1.000
<i>Business background</i>		856	0.145	0.352	0.000	0.000	1.000
<i>Accounting interest</i>		856	0.140	0.347	0.000	0.000	1.000
Control variables for constituent interests							
<i>Workforce in high-tech</i>		856	0.095	0.047	0.025	0.091	0.332
<i>Change in GDP</i>		856	0.153	0.219	-0.421	0.065	2.122
<i>Employee stock option interest</i>		856	0.072	0.374	0.000	0.000	4.808

Panel A (panel B) presents details of the sample selection (descriptive statistics) for OLS panel regressions for the analysis of the (co-)sponsoring of bills related to the regulation of accounting for stock options during 2003. The sample includes all observations for representatives that served 108th Congress. Please refer to the appendix for a full description of all variables.

TABLE 9
Ideology, Political Connections, and the Timing of Representatives' Involvement in the Stock Option Debate: Univariate Tests

	Co-Sponsorship of H.R. 1372 or H.R. 3574 = Yes						Co-Sponsorship of H.R. 1372 or H.R. 3574 = No						t-Test [p-Value]
	N		Mean	SD	Median		N		Mean	SD	Median		
Panel A: All representatives													
Ideology	152	0.252	0.489	0.498	0.498	278	0.078	0.488	0.488	0.488	0.488	0.488	[<0.001]***
<i>DW-NOMINATE Ideology Score</i>	152	24.970	29.474	12.875	12.875	278	17.944	30.040	30.040	30.040	30.040	30.040	[0.020]**
Special interest connections	152	6.172	6.836	3.795	3.795	278	3.953	4.435	4.435	4.435	4.435	4.435	[<0.001]***
<i>Tech sector PAC Contributions (%PAC)</i>	152	4.181	3.236	3.581	3.581	278	2.693	2.362	2.362	2.362	2.362	2.362	[<0.001]***
<i>Comment Letter Opposition PAC Contributions (%PAC)</i>	152	1.414	1.696	0.840	0.840	278	0.617	0.852	0.852	0.852	0.852	0.852	[<0.001]***
<i>IESOC PAC Contributions (%PAC)</i>	152	4.904	4.558	3.094	3.094	278	3.282	3.818	3.818	3.818	3.818	3.818	[0.001]***
<i>Implied Total Stock Option Expense per FASB Proposal</i>													
Panel B: Switchers only													
Ideology	21	0.413	0.402	0.547	0.547	41	0.187	0.507	0.507	0.507	0.507	0.507	[0.081]*
<i>DW-NOMINATE Ideology Score</i>	21	20.848	30.280	8.000	8.000	41	19.607	28.636	28.636	28.636	28.636	28.636	[n.s.]
Special interest connections	21	5.042	6.014	3.391	3.391	41	4.609	6.407	6.407	6.407	6.407	6.407	[n.s.]
<i>Tech sector PAC Contributions (%PAC)</i>	21	3.285	2.852	2.995	2.995	41	3.298	2.408	2.408	2.408	2.408	2.408	[n.s.]
<i>Comment Letter Opposition PAC Contributions (%PAC)</i>	21	0.733	0.861	0.457	0.457	41	1.021	0.934	0.934	0.934	0.934	0.934	[n.s.]
<i>IESOC PAC Contributions (%PAC)</i>	21	3.971	4.174	3.094	3.094	41	3.438	3.301	3.301	3.301	3.301	3.301	[n.s.]
<i>Implied Total Stock Option Expense per FASB Proposal</i>													

This table presents univariate statistics on the relationship between representatives' co-sponsorship of H.R. 1372 and H.R. 3574 and their ideology and special interest connections. Panel A includes the full sample of 430 representatives who were member of the 108th Congress during the entire congressional cycle. Panel B focuses on the 62 representatives who switched their position and co-sponsored only H.R. 1372 or only H.R. 3574. Please refer to the appendix for a full description of all variables. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

TABLE 10
Ideology, Political Connections, and the Timing of Representatives' Involvement in the Stock Option Debate: OLS Panel Regressions

	All Representatives				Switchers Only			
	Tech Sector PAC Contributions (%PAC) (1)	Comment Letter Opposition PAC Contributions (%PAC) (2)	IESOC PAC Contributions (%PAC) (3)	Implied Total Stock Option Expense per FASB Proposal (4)	Tech Sector PAC Contributions (%PAC) (5)	Comment Letter Opposition PAC Contributions (%PAC) (6)	IESOC PAC Contributions (%PAC) (7)	Implied Total Stock Option Expense per FASB Proposal (8)
[Special Interests =]								
Test variables								
[1] <i>Ideology</i>	0.104** (0.046)	0.069 (0.050)	0.107** (0.046)	0.109** (0.045)	0.222* (0.128)	0.247* (0.134)	0.221* (0.124)	0.214* (0.127)
[2] <i>Ideology</i> × <i>H.R. 3574 Support</i>	-0.035 (0.038)	-0.043 (0.040)	-0.041 (0.038)	-0.031 (0.040)	-0.451* (0.252)	-0.496* (0.264)	-0.444* (0.246)	-0.436* (0.250)
<i>F-Test: [1] + [2] = 0</i>	[0.152]	[0.601]	[0.156]	[0.098]*	[0.071]*	[0.062]*	[0.072]*	[0.078]*
[3] <i>Special interests</i>	0.012*** (0.004)	0.033*** (0.010)	0.075*** (0.022)	0.016*** (0.006)	-0.000 (0.010)	-0.016 (0.029)	-0.082 (0.065)	0.005 (0.020)
[4] <i>Special interests</i> × <i>H.R. 3574 Support</i>	0.000 (0.004)	0.004 (0.007)	0.016 (0.011)	-0.001 (0.004)	0.002 (0.021)	0.031 (0.057)	0.154 (0.127)	-0.007 (0.040)
<i>F-Test: [3] + [4] = 0</i>	[0.005]***	[<0.001]***	[<0.001]***	[0.013]**	[0.863]	[0.609]	[0.251]	[0.935]
<i>H.R. 3574 Support</i>	0.046* (0.025)	0.036 (0.027)	0.035* (0.020)	0.053** (0.024)	0.428*** (0.153)	0.349* (0.204)	0.294 (0.180)	0.458** (0.183)
Control variables for representatives' background	0.190*** (0.060)	0.158*** (0.060)	0.151** (0.062)	0.053** (0.024)	0.077 (0.058)	0.079 (0.059)	0.069 (0.059)	0.438** (0.183)
<i>Subcommittee member</i>	-0.045 (0.073)	-0.035 (0.072)	-0.031 (0.071)	0.187*** (0.060)	0.002 (0.016)	-0.000 (0.015)	0.002 (0.013)	0.075 (0.059)
<i>Seniority</i>	-0.119*** (0.033)	-0.135*** (0.034)	-0.110*** (0.033)	-0.007 (0.072)	-0.001 (0.008)	0.004 (0.009)	0.003 (0.007)	0.001 (0.015)
<i>Retired</i>	0.093 (0.110)	0.083 (0.102)	0.042 (0.100)	-0.089*** (0.033)	-0.002 (0.007)	0.002 (0.008)	0.003 (0.007)	0.000 (0.007)
<i>Business background</i>	0.054 (0.054)	0.049 (0.052)	0.051 (0.052)	0.051 (0.053)	-0.010 (0.014)	-0.011 (0.014)	-0.010 (0.013)	-0.014 (0.016)

(Continued)

TABLE 10—Continued

	All Representatives				Switchers Only			
	Tech Sector PAC Contributions (%PAC) (1)	Comment Letter Opposition PAC Contributions (%PAC) (2)	IESOC PAC Contributions (%PAC) (3)	Implied Total Stock Option Expense per FASB Proposal (4)	Tech Sector PAC Contributions (%PAC) (5)	Comment Letter Opposition PAC Contributions (%PAC) (6)	IESOC PAC Contributions (%PAC) (7)	Implied Total Stock Option Expense per FASB Proposal (8)
[Special Interests =]								
<i>Accounting interest</i>	0.130** (0.058)	0.129** (0.058)	0.116* (0.059)	0.132** (0.061)	-0.000 (0.013)	-0.000 (0.014)	0.001 (0.013)	-0.004 (0.012)
Control variables for constituent interests								
<i>Workforce in high-tech</i>	1.019** (0.456)	1.001** (0.442)	0.902** (0.442)	1.163** (0.434)	0.102 (0.108)	0.090 (0.105)	0.094 (0.111)	0.100 (0.108)
<i>Change in GDP</i>	-0.122 (0.074)	-0.125* (0.075)	-0.097 (0.073)	-0.108 (0.073)	-0.032 (0.036)	-0.031 (0.036)	-0.028 (0.034)	-0.035 (0.038)
<i>Employee stock option interest</i>	0.110* (0.060)	0.085 (0.057)	0.055 (0.063)	0.157** (0.050)	-0.004 (0.015)	0.011 (0.018)	0.010 (0.018)	-0.012 (0.022)
Constant	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	856	856	856	856	124	124	124	124
Adjusted R ²	0.135	0.151	0.158	0.136	0.043	0.049	0.065	0.043

This table presents results from OLS panel regressions for the analysis of the timing of politicians' statements. The dependent variable is a binary indicator taking a value of one if the representative was co-sponsoring a bill at the respective date. The columns differ in the measurement of special interests. The column heading describes the special interest variable. The base measure for *Ideology* in both panels is the *DW-NOMINATE Ideology Score*. We run separate analyses for the aggregate sample of all representatives with special interest connections (*All Representatives*) and for the subsample of representatives who participated at only one point in time (*Switchers Only*, see table 9). We also report *F*-tests (*F*-value) for *Ideology + Ideology* H.R. 3574 Support* and *Special Interests + Special Interests* H.R. 3574 Support*. Please refer to the appendix for a full description of all variables. The table reports coefficient estimates and standard errors clustered by individual politician in parentheses. ***, **, * and * indicate statistical significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

associated with representatives' public opposition to the expensing of stock options (columns 1–4), as is the DW-NOMINATE score (*Ideology*) in three specifications (not in column 2). Although we fail to find statistically significant coefficient estimates for *Ideology* and its interaction with support for H.R. 3574 in the full sample, the interaction term is significantly negative when we focus on new co-sponsors of H.R. 3574, who did not support H.R. 1372 before (columns 5–8), that is, in the subsample where the plausible role of ideology is strongest. At the same time, we do not find any significant association for the interaction between the level of connections with interested parties and support for H.R. 3574, either in the full sample or in the subsample of representatives who supported only one bill. Consistent with the univariate tests, the role of special interest connections in explaining political involvement remains constant over time, whereas ideologically more liberal politicians joined the debate right at the time when the issue of stock option expensing became more widely viewed as a means of government intervention into top management compensation.

The control variables show the expected signs. In particular, membership in the House Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises and a representative's accounting interest are positively associated while closeness to retirement is negatively associated with active involvement in the stock option debate. Although constituent interest seems to partially explain the variation in representatives' support for either H.R. 1372 or H.R. 3574, all control variables are nonsignificant when the analysis includes politicians who sponsored only one of the proposed laws.

6. Conclusion

This paper examines the motivations for politicians' involvement in two critical accounting debates and addresses the distinct roles of ideology and special interest pressure. Accounting regulation has economic and social consequences that introduce costs and benefits for firms and individuals, and politicians tend to have ideological views on many of these consequences. Moreover, affected parties have incentives to exploit their political connections to maximize their benefit from the regulation. To overcome the endogeneity concerns that arise from the overlap between a politician's ideology and political connections to special interests, we study two settings where the political environment and thus the role of ideology change over the course of the debate. During the fair value debate, ideologically conservative views on bank bailouts dominated during the early period but were less relevant later. During the stock option debate, ideologically liberal views on government interventions to restrict excessive management compensation were more prominent during the later period but were less pertinent earlier.

In both settings, we find evidence indicating that ideology explains politicians' stance on an accounting issue and their public involvement in

accounting regulation, beyond special interest pressure. Put differently, ideology explains these politicians' involvement at exactly those points when the public debate focuses on the economic consequences of accounting regulation (i.e., bank bailouts and top management compensation in our settings). When the focus of the debates moves to more technical issues, political connections to special interests remain the strongest force. These results emphasize that the economic consequences of accounting regulation matter and affect political involvement in the public debate. Therefore, ideology can play a distinct role in the politics of accounting standard setting, and when it does, we should view accounting rule-making not necessarily as a thin political market but rather as one where the political forces at play are the same as those in other fields of economic policy-making.

More broadly, we view our results as a step to better comprehend the political process of accounting regulation. Although we have exploited specific settings in the U.S. context to isolate political forces, a next step would involve a systematic inquiry into the role of ideology and special interest pressure in accounting regulation over time and internationally (building on, e.g., Hail, Tahoun, and Wang [2018]). For instance, when do political interventions target accounting rules rather than other regulations, such as minimum capital requirements in the banking industry? What are the relative costs and benefits, and what is the role of the media in framing these debates? Such an analysis would also further enhance the understanding of agenda setting in accounting regulation and provide insight on how evidence from accounting research finds its way into policy-making and is used to support an agenda that conforms to a political ideology.

APPENDIX
Definition of Independent Variables Used in the Analyses

Variable	Description	Source
Anti-government-intervention ideology <i>DW-NOMINATE Ideology Score</i>	First dimension of the DW-NOMINATE score provided by Poole and Rosenthal [2011]. The score measures a legislator's ideology based on historical voting records and is increasing in conservatism. We use the score based on all roll call votes until the 108th (110th) Congress for the Stock Option (Fair Value) setting.	Keith Poole's Voteview data website (http://voteview.com)
Special interest connections (fair value accounting setting) <i>Financial sector PAC contributions (\$)</i>	Dollar amount of campaign contributions received from political action committees (PAC) of the financial service industry excluding real estate during the 110th Congress from January 1, 2007, until September 30, 2008. If the aggregate amount of campaign contributions is negative (e.g., because of refunds of previously received contributions), we treat the case as if the representative received no campaign contributions.	Center for Responsive Politics (http://www.opensecrets.org)
<i>Financial sector PAC contributions (%PAC)</i>	<i>Financial sector PAC contributions (\$)</i> relative to the sum of PAC contributions received from industry sectors other than "Finance, Insurance & Real Estate." If the aggregate amount of campaign contributions is negative (e.g., because of refunds of previously received contributions), we treat the case as if the representative received no campaign contributions.	Center for Responsive Politics (http://www.opensecrets.org)
Benefits of connected companies of the April 2009 relaxations to fair value accounting <i>Measurement Difference</i> <i>Non-guaranteed MBS AJS</i>	Politician-specific maximum of connected banks' average difference between the amortized cost (BHCK1711 + BHCK1735) and the fair value (BHCK1713 + BHCK 1736) of non-guaranteed mortgage-backed securities classified as available for sale, scaled by total assets (BHCK2170) computed as the average over the year 2008 (in percentage points).	Form FR Y-9C (https://www.chicagofed.org)

(Continued)

APPENDIX—Continued

Variable	Description	Source
<i>Decrease in Ratio of L2/L3-FV-Assets Q408-Q109</i>	Politician-specific maximum of connected banks' decrease in the ratio of level 2 assets (Item AOL2Q) to level 3 assets (Item AUL3Q) between Q4 2008 and Q1 2009.	Compustat Bank Fundamentals Quarterly
<i>CAR (March 12, 2009)</i>	Three-day cumulative abnormal return centered on March 12, 2009 (the event date). Expected returns are calculated based on a market model that estimates beta over the entire year 2008 using daily returns and the return on the S&P 500 index as a proxy for the daily market return.	Center for Research in Security Prices
<i>Special interest connections (stock options setting)</i>	Dollar amount of campaign contributions received during the 107th Congress from PACs of companies in the technology sector. As the Center for Responsive Politics does not provide an explicit definition of the technology sector, the variable definition is based on political action committees allocated to one of the following industries according to the definitions provided by the Center for Responsive Politics: "Telecom Services" (B09), "Electronics Mfg & Equip" (B12), "Internet" (B13), and "Pharmaceuticals/Health Products" (H04). If the aggregate amount of campaign contributions is negative (e.g., because of refunds of previously received contributions), we treat the case as if the representative received no campaign contributions.	Center for Responsive Politics (http://www.opensecrets.org)
<i>Tech sector PAC Contributions (\$)</i>		
<i>Tech sector PAC Contributions (%PAC)</i>	<i>Tech sector PAC Contributions (\$)</i> relative to the sum of other PAC contributions received during that cycle. If the aggregate amount of campaign contributions is negative (e.g., because of refunds of previously received contributions), we treat the case as if the representative received no campaign contributions.	Center for Responsive Politics (http://www.opensecrets.org)

(Continued)

APPENDIX—Continued

Variable	Description	Source
<i>Comment Letter Opposition PAC Contributions</i> (\$)	Dollar amount of campaign contributions received during the 107th Congress from political action committees (PAC) of companies and associations that issued a comment letter to the FASB opposing the expensing of stock options in response to FASB issues No. 1101-001, No. 1102-011, and No. 1102-100. If the aggregate amount of campaign contributions is negative (e.g., because of refunds of previously received contributions) we treat the case as if the representative received no campaign contributions.	Center for Responsive Politics (http://www.opensecrets.org) FASB's Online Comment Letters (http://fasb.org)
<i>Comment Letter Opposition PAC Contributions</i> (%PAC)	<i>Comment Letter Opposition PAC Contributions</i> (\$) relative to the sum of other PAC contributions received during that cycle. If the aggregate amount of campaign contributions is negative (e.g., because of refunds of previously received contributions) we treat the case as if the representative received no campaign contributions.	Center for Responsive Politics (http://www.opensecrets.org) FASB's Online Comment Letters (http://fasb.org)
<i>IESOC PAC Contributions</i> (\$)	Dollar amount of campaign contributions received during the 107th Congress from PACs of companies and associations that were a member of the <i>International Employee Stock Option Coalition</i> (IESOC) during 2003/2004. Members of the IESOC were identified from the Internet Archive (https://archive.org) of the IESOC website (http://www.savestockoptions.org) and hand-matched with active PACs. The resulting variable includes contributions from AOL/Time Warner, American Electronics Association, Gisco Systems, Coors Brewing, Dell Computer, EDS, Genentech, General Mills, Information Technology Industry Council, Intel Corporation, NASDAQ, National Association of Manufacturers, National Venture Capital Association (NVCA), Qualcomm, Semiconductor Equipment and Materials International (SEMI), Semiconductor Industry Association (SIA), Software & Information Industry Association, Sun Microsystems, The Business	Center for Responsive Politics (http://www.opensecrets.org)

(Continued)

APPENDIX—Continued

Variable	Description	Source
<i>IESOC PAC Contributions (%PAC)</i>	Software Alliance (BSA), The Medical Device Manufacturers Association (MDMA), and Valero Energy. <i>IASOC PAC Contributions (\$)</i> relative to the sum of other PAC contributions received during that cycle. If the aggregate amount of campaign contributions is negative (e.g., because of refunds of previously received contributions) we treat the case as if the representative received no campaign contributions.	Center for Responsive Politics (http://www.opensecrets.org)
<i>Benefits of connected companies from avoiding the expensing of stock options</i>	Politician-specific maximum of connected firms' implied total stock option expense (net of tax) per FASB proposal in 2003 scaled by total assets. We are grateful to David B. Farber, Marilyn F. Johnson, and Kathy R. Petroni for providing us with the data they hand-collected from each firm's pro forma footnote disclosure of stock option expense in its 2003 Form 10-K (see Farber, Johnson, and Petroni [2007]).	Farber, Johnson, and Petroni [2007]
<i>FASB proposal</i>		
<i>Representatives' background</i>	Indicator variable equal to 1 if a representative is a member of the Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises of the U.S. House of Representatives Financial Services Committee during relevant hearings of the subcommittee, and 0 otherwise. These hearings include the hearing on "Mark-to-Market Accounting: Practices and Implications" (March 12, 2009) for the fair value debate in 2008–2009 and the hearings on "Corporate Accounting Practices: Is there a Credibility GAAP" (May 1, 14, 2002), "The Accounting Treatment of Employee Stock Options" (June 3, 2003), and "The FASB Stock Options Proposal: Its Effect on the U.S. Economy and Jobs" (April 21 and May 4, 2004) for the debate on the accounting for stock options in 2003–2004.	Charles Steward III and Jonathan Woon's congressional database (http://web.mit.edu/17.251/www/data_page.html) Manual collection from congressional hearing documents (https://www.govinfo.gov/)
<i>Subcommittee member</i>		

(Continued)

APPENDIX—Continued

Variable	Description	Source
<i>Electoral margin</i>	Percentage point difference in the vote percentages between the winner and the runner-up during the last congressional elections in the Representative's district.	Federal Election Commission and Keith Poole's Voteview data website (http://voteview.com)
<i>Seniority</i>	The natural logarithm of the number of terms a representative has spent in Congress including the current congressional cycle.	Charles Steward III and Jonathan Woon's congressional database (http://web.mit.edu/17.251/www/data-page.html)
<i>Retired</i>	Indicator variable equal to 1 if the representative retired after the 108th (110th) Congress in the stock option setting (fair value setting), and 0 otherwise.	Charles Steward III and Jonathan Woon's congressional database (http://web.mit.edu/17.251/www/data-page.html)
<i>Business background</i>	Indicator variable equal to 1 if a representative had a business-related occupation prior to joining Congress. The variable is constructed based on biographical data from the Center for Responsive Politics.	Manual collection based on data from the Center for Responsive Politics (http://www.opensecrets.org)
<i>Accounting interest</i>	Indicator variable equal to 1 if a representative signed a letter submitted to the FASB or the SEC Division of Corporation Finance between 2002 (when unsolicited FASB comment letters start to become available online) and summer 2008.	FASB's Online Comment Letters (http://fasb.org) Available comments to SEC Regulatory Actions (https://www.sec.gov/rules.shtml)
EESA voting		
<i>EESA vote "Yea" (September 29, 2008)</i>	Indicator variable equal to 1 if a representative voted "Yea" in the House vote on the EESA on September 29, 2008 (H.R. 3997), and 0 otherwise. Note that Representative Jerry Weller did not cast a vote and is coded as missing.	Keith Poole's Voteview data website (http://voteview.com)
<i>EESA vote "Yea" (October 3, 2008)</i>	Indicator variable equal to 1 if a representative voted "Yea" in the House vote on the EESA on October 3, 2008 (H.R. 1424), and 0 otherwise.	Keith Poole's Voteview data website (http://voteview.com)
<i>EESA vote-switch ("Nay" to "Yea")</i>	Indicator variable equal to 1 if a representative switched his vote from "Nay" in the House vote on the EESA on September 29, 2008 (H.R. 3997) to	Keith Poole's Voteview data website (http://voteview.com)

(Continued)

APPENDIX—Continued

Variable	Description	Source
Constituent interests <i>Workforce in finance</i>	<p>“Xea” in the House vote on the EESA on October 3, 2008 (H.R. 1424), and 0 otherwise.</p> <p>Percentage of district nonagricultural employees employed in private sector financial activities. The variable is based on county-level data from 2008, which has been transformed to congressional district level by weighting employment data with the county’s weight in the congressional district using MABLE-Geocorr information from the Missouri Census Data Center.</p>	U.S. Bureau of Labor Statistics and Missouri Census Data Center’s MABLE-Geocorr-2k (http://mcdc2.missouri.edu/websas/geocorr2k.html)
<i>Workforce in high-tech</i>	Percentage of district nonagricultural employees employed in the following seven private sector industries: NAICS 325 (chemical manufacturing), 334 (computer and electronics manufacturing), 511 (publishing industries), 517 (telecommunications), 518 (data processing, hosting, and related services), 519 (other information services), and 541 (professional, scientific, and technical services). The variable is based on county-level data from 2003, which has been transformed to congressional district level by weighting employment data with the county’s weight in the congressional district using MABLE-Geocorr information from the Missouri Census Data Center.	U.S. Bureau of Labor Statistics and Missouri Census Data Center’s MABLE-Geocorr-2k (http://mcdc2.missouri.edu/websas/geocorr2k.html)
<i>Change in GDP</i>	Percentage change in the annual gross domestic product (GDP). The variable is based on regional data on metropolitan statistical areas (MSAs), which has been transformed to congressional district level by weighting GDP data with the MSA’s weight in the congressional district using MABLE-Geocorr information from the Missouri Census Data Center. As the definition of MSAs changed over time, we use historical data releases from the U.S. Bureau of Economic Analysis to ensure	U.S. Bureau of Economic Analysis and Missouri Census Data Center’s MABLE-Geocorr-2k (http://mcdc2.missouri.edu/websas/geocorr2k.html)

(Continued)

APPENDIX—Continued

Variable	Description	Source
<i>Constituents' bailout opposition</i>	<p>correct matching to congressional districts. Specifically, we use the data release from September 26, 2007 (September 13, 2011) to compute the percentage change in GDP for 2003 (2008) that we use in the analysis of the stock option debate in 2003–2004 (fair value debate in 2008–2009). Percentage of respondents in the 2008 Cooperative Congressional Election Survey (Ansolabehere [2010]) that opposed the bailout bill (excluding respondents without a clear opinion).</p>	<p>Cooperative Congressional Election Study (http://projects.iq.harvard.edu/cces/home)</p>
<i>Loan denial rate</i>	<p>Change in the annual home mortgage loan denial rate between 2007 (2008) and 2008 (2009) for observations corresponding to fall 2008 (spring 2009). The variable is based on the total number of mortgage loan applications denied by financial institutions in a given year as disclosed under the Home Mortgage Disclosure Act. We used data on county-year level as prepared by the Consumer Financial Protection Bureau and use MABLE-Geocorr information from the Missouri Census Data Center to transform the data to congressional district level.</p>	<p>Federal Financial Institutions Examination Council (FFIEC) Consumer Financial Protection Bureau (CFPB); http://www.consumerfinance.gov and Missouri Census Data Center's MABLE-Geocorr2k</p>
<i>Employee stock option interest</i>	<p>Campaign contributions received during the 107th Congress from employees of companies that had at least one employee who submitted an individual comment letter to the FASB opposing the expensing of stock options as proposed by FASB issues No. 1101-001, No. 1102-011, and No. 1102-100; relative to the sum of individual contributions received during that cycle. Employers with employees writing comment letters and contributing to election campaigns include Altera, Applied Materials, Biosite Diagnostics, Cisco Systems, EFI, EXAR, ILOG, Intel, JDS Uniphase, KLA-Tencor, Lantronix, Power Integrations, RF Micro Devices, Sierra, Silicon Laboratories, Silicon Optix, Sun Microsystems, and Synopsys.</p>	<p>Center for Responsive Politics (http://www.opensecrets.org) FASB's Online Comment Letters (http://fasb.org)</p>

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