

SEC Comment Letters and Financial Statement Restatements

Abstract

We use United States Securities and Exchange Commission (SEC) comment letters and accounting restatements to investigate the SEC's Division of Corporation Finance (DCF) financial reporting oversight procedures. We investigate how DCF compares with "other monitors" in identifying disclosures requiring restatement and how these restatements differ. Our tests focus on DCF as a whole and on the individual industry offices that compose DCF. We conclude that, while there are significant variations across DCF offices in the prompting of restatements, company variables used by the SEC to select firms for review appear consistent with SOX section 408 criteria. The oversight process also focuses on companies with weaker "other monitors," i.e. audit firms. Our results provide evidence for the debate on whether or not an SEC type review and comment letter monitoring process could serve as the model for achieving the appropriate oversight for IFRS enforcement that is critical to international capital markets.