

Follow the Pipeline: Anticipatory Effects of Proposed Regulations

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Discussion by:

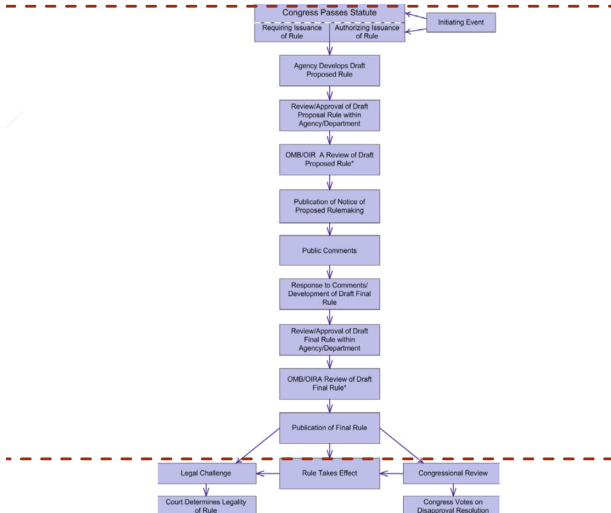
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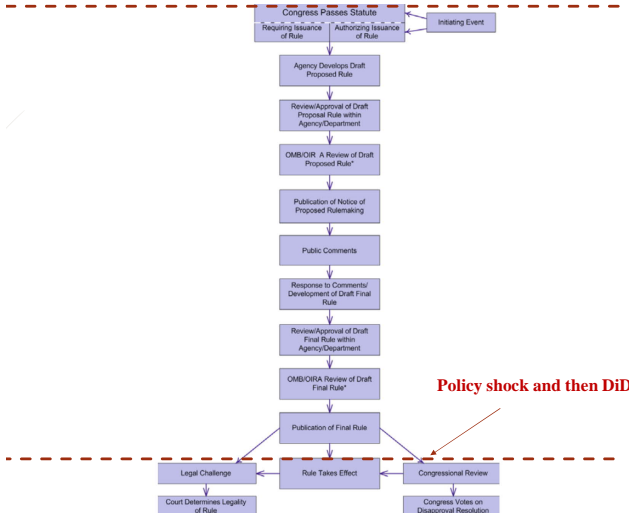
Background on rulemaking process for regulation

- The U.S. regulatory system takes a process to make a new regulation



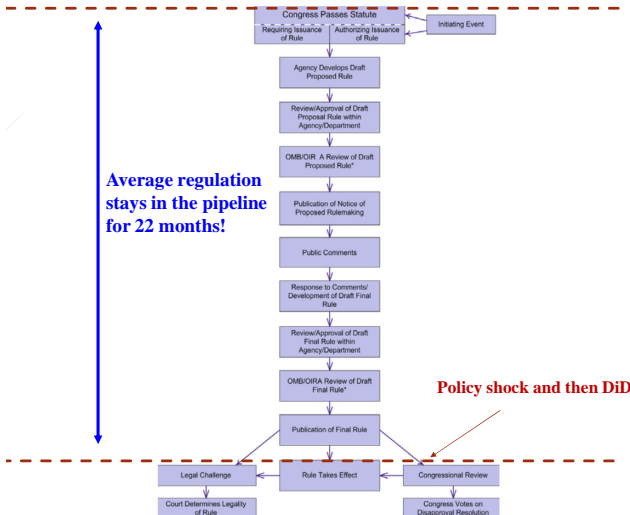
Background on rulemaking process for regulation

- Researchers typically use “enactment” of regulation as policy shocks



Background on rulemaking process for regulation

- But, firms can anticipate the shocks while regulations are in process



Measuring firms' exposure to regulatory pipeline

$$RegPipeline_{i,t} = \sum_{o=1}^O \omega_{i,o,t} \cdot TopicPipeline_{o,t}$$

- Use LDA to identify 100 regulation-related topics — o
- $TopicPipeline_{o,t}$ — the topic distribution of current regulations in the pipeline
- $\omega_{i,o,t}$ — firm i earnings conference call's relevance to each topic o

Variation of $RegPipeline_{i,t}$ comes from:

- 1 The types of regulations currently in the pipeline
- 2 The firm's earnings conference call transcript in the quarter

Summary of this paper

An innovative study on the effects of *proposed* regulations instead of *effective* regulations:

- 1 Construct a new measure of firms' exposure to proposed yet ineffective regulations
 - United Agenda database: tracking the entire rulemaking activities of all agencies
- 2 Main finding 1: firms react to anticipatory regulatory changes
 - Firms with higher exposure to pipeline increase overhead costs; see lower profits; build up cash reserves; reduce capital investment; and increase lobby spending*
- 3 Main finding 2: heterogeneous reactions across firms
 - Financially constrained and small firms are especially responsive to regulatory pipeline

Overview

- An important message from political economy to corporate finance
 - firms can have anticipatory reactions to regulations before enactment
 - There are some leads from prior work, Hassan et al. (2019), Calomiris et al (2020)...
- Interesting findings on firms' heterogeneous reactions to pipeline, complementing prior studies on the effective regulation and firm size (Trebbi et al. (2023))
- My comments will focus on two areas
 - ★ Strengthening the interpretation of the findings
 - ★ Implications for the literature to hopefully help improve the impact

Comment 1: Clarification on the conceptual framework

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 - Different from macro uncertainty, firms may spend resources to influence rulemaking, e.g., lobbying or political contribution, or to mitigate the impact
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Outcome:	CAPX	Δ CAPX	Δ PPEGT	Δ Emp	Δ Wages	R&D	Lobby
RegPipeline	-0.212*** (0.046)	-1.706** (0.697)	-0.203** (0.088)	1.606** (0.750)	1.732** (0.840)	0.397** (0.167)	2.257 (4.019)

Outcome:	Cash	Leverage	Debt ST	Debt ^{LT}	Market	$\frac{Debt}{EBITDA}$
RegPipeline	0.477** (0.211)	0.936*** (0.213)	0.268*** (0.085)	-0.060 (0.226)	110.074 (190.399)	0.894*** (0.335)

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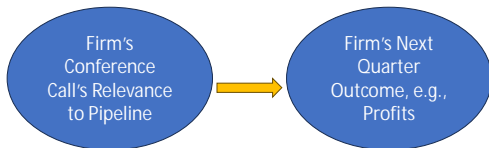
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Suggestion: Test of channel—examine firms' direct reactions to “deal with” regulation

- Political influence: donations to politician, lobby to specific to the specific topic (Hassan et al. (2019))
- Hedging: Job posting for regulation-related occupations, e.g., regulatory specialists.

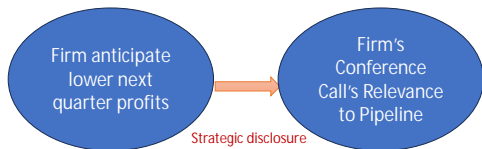
Comment 2: Anticipatory action vs. Anticipatory talking

- The anticipatory action story:



Comment 2: Anticipatory action vs. Anticipatory talking

- When anticipating low next quarter profits, What if firms become strategic in disclosure?



Comment 2: Anticipatory action vs. Anticipatory talking

Suggestion: Mitigate the concern of using quarterly conference call

- Inspect the outcome variables at a horizon beyond quarterly
- Alternative measure using firm topic exposure immune to anticipatory talking
- Thought 2: Use labor tasks to construct the relevance

Measuring firms' exposure to agency-specific regulations (Trebbi, Zhang, Simikovic (2023))

- Use BLS confidential data to obtain 1.2 million establishments occupation composition
- Each occupation performs a set (22) tasks from O*Net
- Measure each task's exposure to each regulatory agency's regulatory texts

Comment 3: Implications for assessing regulation impact

What types of regulations are more likely to show anticipatory actions?

- Are more impactful regulations more likely to illicit anticipatory actions by firms?
- Are regulations on concentrated firms more likely to illicit anticipatory actions by firms?

Implications for research using regulatory shocks:

- Most studies present parallel trend and sharp changes at the time of “enactment” .
- Regulations less affected by anticipatory actions are more likely to be studied
- How can we systematically assess regulations that illicit anticipatory actions?

Conclusion

- An interesting paper constructing a new measure of firms' exposure to potential regulations
- A fruitful set of analyses of firms' anticipatory actions
- Lots of potential ways to and implications for our profession