ABSTRACT

We exploit the landmark U.S. Supreme Court decision of *Kokesh v. SEC* [2017] as a unique identification strategy to investigate the value of securities law enforcement. The *Kokesh* decision was an unanticipated legal change that limits the SEC’s ability to impose disgorgement—its most potent enforcement tool—in actions for securities law violations. Using an event study framework, we find a significantly negative price response to the *Kokesh* ruling, indicating shareholders view the erosion in SEC enforcement powers as value destroying for the average firm. Cross-sectional tests reveal that the negative price response is less severe for firms facing higher enforcement costs but more severe for those with greater institutional monitoring, suggesting that SEC enforcement and external monitoring act as complements, not substitutes.

(Copies of the paper are available in the AOIS Department offices)