

**Social Media as a Governance Catalyst: Evidence from SEC Investigations of
Financial Restatements**

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Abstract

We analyze a comprehensive sample of formal investigations conducted by the U.S. Securities and Exchange Commission's (SEC) Division of Enforcement to evaluate the influence of negative social media information on enforcement efficiency. We find that negative social media sentiment increases the likelihood of the SEC initiating a formal investigation into restating firms by approximately 55.93%. This effect is driven by heightened public attention and information dissemination, which signal potential governance concerns. The effect is more pronounced for firms with high social media visibility, significant investor losses, no prior misconduct, or when SEC officials face higher electoral pressure. Furthermore, negative sentiment accelerates the SEC's response, shortening the average time to launch an investigation by about 26 days, and increases the probability that investigations are publicly disclosed in Accounting and Auditing Enforcement Releases (AAERs) with more severe penalties imposed. These findings highlight social media's role as a digital whistleblower and informal governance mechanism, offering regulators valuable insights that enhance enforcement efficiency and improve the allocation of investigative resources.

Keywords: Social Media Sentiment, SEC Enforcement, Investigation, Accounting Restatement

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