

Responses to SEC Comment Letters on Cybersecurity Disclosures

Abstract

Cybersecurity comment letters issued by the Securities and Exchange Commission (SEC) may ask companies to disclose additional or clarifying information of a firm's cybersecurity incidents, risks, and corresponding controls where appropriate. Though the additional detailed information can better reflect a company's security gesture, it may expose a company to higher levels of cybersecurity risks due to the information disclosed. Using a sample consisting of 52 cybersecurity comment letters issued between 2011 and 2019 and their no-letter matched companies, our findings suggest that the comment letter companies change the disclosures as pointed out by the SEC regarding cybersecurity. However, as shown in the short-term cumulative abnormal returns around the response letter days, the stock market reacts negatively to the responses. Our results may provide policy implications that whether to disclose cybersecurity disclosures may be a tradeoff between transparency and proprietary costs, and market participants may not positively react to the transparency.

Keywords: cybersecurity; comment letter; risk factor disclosures