Regulation versus Courts: The Equity Market's View

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Abstract

We examine how financial markets value regulation versus courts as enforcement mechanisms by exploiting the Supreme Court's 2024 reversal of *Chevron* deference, which shifted interpretive authority from federal agencies to the judiciary. Using firm-level event studies, we document substantial cross-sectional heterogeneity in abnormal returns: heavily regulated firms and medium-sized firms gain, while small firms experience significant losses. These effects are amplified in districts with congested or ideologically imbalanced courts and among firms with higher complexity. We further show that the transfer of power increases return volatility and downside tail risk, particularly for small firms. Our findings indicate that markets view regulation as costly but courts as uncertain, revealing a trade-off in governance structures that differentially affects firms.

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1 Introduction

Modern economies have a variety of approaches for dealing with externalities and enforcing property rights, which is critical for trade, investment and growth. Mechanisms for enforcement range from those that are established privately – such as reputation (Macaulay (1963); Diamond (1989)) – to those that are supplied publicly, such as regulation and litigation via courts. Despite this, economic theory provides little guidance on which of the many alterative mechanisms are best. Even among the two main public institutions – regulation vs. courts – the answer to how society should enforce property rights remains elusive.

Critics of regulation argue that regulators face poor incentives due to revolving doors (e.g., Shive and Forster (2017); Tabakovic and Wollmann (2024)), are subject to interest group pressure and capture (e.g. Tullock (1967); Stigler (1971); Posner (1974); Pelztman (1976)), or act to enhance bureaucratic and political rents (e.g., McChesney (1987); De Soto (1989); Shleifer and Vishny (1998); Djankov, La Porta, Lopez-de Silanes, and Shleifer (2002)). It is argued that these factors, along with potentially large and uneven compliance costs associated with regulation (Trebbi, Zhang, and Simkovic (2023)) have contributed to falling entry, industrial competition, investment and innovation (Gutiérrez and Philippon (2017); Gutiérrez and Philippon (2019); Aghion, Bergeaud, and Van Reenen (2023)).

At the same time, proponents of regulation argue that courts are costly, lack expertise and impartiality; thus have less predictable outcomes (e.g., Djankov, La Porta, Lopez-de Silanes, and Shleifer (2003); Glaeser and Shleifer (2003); Posner (2010); Shleifer (2010)). A central idea in this work is that courts are likely to fail relative to regulation due to the ex-post enforcement problem: because liability regimes entail infrequent but large penalties, such regimes are prone to ex post subversion by the "injurer". Glaeser and Shleifer (2003) point out that subversion can be completely legal, for example, by lobbying for the appointment of a friendly judge, hiring top lawyers, or using delay tactics in the event of a lawsuit. It naturally follows then that larger corporations with their vast resources are likely to prevail

against individuals and small firms in the courts. In such a situation, it is better to regulate inputs ex ante.

Assessing which view of the world holds more truth is empirically challenging, not least because isolating variation in the relative power of courts vs. regulators is very difficult. The literature is then left to focus on cross-country comparisons in a narrowly defined domain of outcomes (e.g., M&A break fees in Coates (2010)) or examine the responses of agents directly affected by liability or regulatory reforms (e.g. doctors in Kessler and McClellan (1996)).

We make progress by examining the stock market responses to two landmark rulings, *SEC v. Jarkesy* and companion cases *Loper Bright v. Raimondo/Relentless v. Department of Commerce*, by the Supreme Court of the United States that effectively transferred power– both in terms of enforcement and interpretive–from regulators to the courts. The companion cases *Loper Bright v. Raimondo* and *Relentless v. Department of Commerce*, in particular, overturned a 40-year precedent known as *Chevron deference* which obliged courts to defer to the regulatory agencies who created rules based on their statutory authority when the statutes were ambiguous or silent. Chevron deference has been cited in more than 19,000 cases, 70 of which came from the Supreme Court itself. Now, firms operate under a system of "judicial veto" where litigants and the courts will decide how and when regulation is interpreted and enforced.

Understanding how U.S. financial markets and shareholders assess the transfer of power is important because equity markets allocate capital and send valuation signals to firms that can inform and potentially influence corporate policies. Critically, financial markets also provide an assessment of who the likely winners and losers are from this transfer of power, provide a clue to the relative efficiency of courts vs. regulation, and highlight the trade-offs between the two.

We begin by computing short-window (i.e., [-1, +3] trading days) firm-level buy-and-hold

cumulative abnormal returns (BHAR) around the Supreme Court decisions. We find that the average BHAR across firms is virtually zero, which is surprising given business groups like the U.S. Chamber of Commerce have long advocated for the Cheveron doctrine to be overturned, arguing that it gave regulators too much power and also subject businesses to regulations that shift with the political cycle.[1]

The average BHAR masks the significance of investors' response to the event. Figure 1 Panel A and B plot the histogram of short- and long-window BHARs, respectively, and shows a wide distribution of outcomes: rather than being universally good for business, there are big winners and big losers. In Figure 2, we plot the average short-window abnormal returns by industries classified by SIC2 codes. There is significant heterogeneity across industries; the winners are upstream producers, such as coal and metal miners, and oil and gas extractors, whereas the losers are downstream firms in industries like wholesale and retail trade and services.

A natural question to ask is whether more heavily regulated firms are the beneficiaries of the Supreme Court decision. We proxy for the extent of regulation using the *Regulatory Quantity* variable constructed by Kalmenovitz, Lowry, and Volkova (2025). This variable measures the total word count in the Federal Register across 100 topics, weighted by the importance of each topic to the focal firm. We show that BHARs are increasing in *Regulatory Quantity*, an effect which is reinforced at longer horizons. Figure 3 demonstrates this result well, Panel A plots BHARs from a market-adjusted model whereas Panel B plots BHARs from a Farmer-French 4-factor model. In both panels, we divide firms into high, medium and low-Regulatory Quantity and show that the gap between the BHARs of high/medium-Regulatory Quantity firms and low-Regulatory Quantity firms increases with the time horizon. We confirm this result in panel regressions controlling for firm characteristics and a host of fixed-effects: A one-standard deviation increase in Regulatory Quantity

[1]See for example: "Our Role in Shaping Chevron Deference in the Supreme Court", by Daryl Josefer, January 10, 2025. Available at https://www.uschamber.com/lawsuits/our-role-in-shaping-the-future-of-chevron-deference-in-the-supreme-court (accessed November 5, 2025)

is associated with a 48 basis point higher short-window BHAR and a 147 basis point higher long window BHAR.

What is the source of these gains and losses for the firms? One possible benefit is that the end of Chevron deference will lead to a general reduction in new rules, and thus a fall in potentially large compliance costs. For example, Trebbi et al. (2023) estimate that between 2002 and 2014, labour costs related to compliance made up, on average, from 1.34% to 3.33% of a firm's total paid wages, or when added up, to $239 billion in 2014. This number jumps to $289 billion when adding in capital equipment costs. A key insight from Trebbi et al. (2023) is that compliance costs are not even across the size distribution for firms. Rather, they document an inverted U-shape where medium sized firms face the largest regulatory burdens. We confirm this U-shape in Figure 4 by plotting Regulatory Quantity on twenty firm size bins. If markets are expecting a reduction in compliance costs, then BHARs will be proportional to the degree of regulation implying an inverted U-shape in BHARs: Relative to small and very large firms, medium sized firms have the highest BHARs.

Remarkably, this is exactly what we find in Figure 5 and 6, which plot the short- and long-window BHARs, respectively, against firm size decile buckets. The market appears adept at determining the relative regulatory burdens of different firms, producing a shape which maps almost exactly into the regulatory burden-size plot in Trebbi et al. (2023) as well as into our Figure 4. Additionally, Figure 5 shows that medium to large firms have a non-negative BHAR, but firms in the lower tercile experience significantly negative BHARs. Thus, despite the potential reduction in compliance costs, the net effect of a transfer of power from regulators to the courts is negative for small firms. These findings are supported in our regressions: small firms (i.e., bottom size tercile) experience significantly negative BHAR, relative to medium and large firms as well as in absolute terms. Controlling for firm characteristics and a host of fixed effects, firms in the bottom size tercile experience a 1.9% lower short-window BHAR than other firms, which increases in magnitude to -4.6% for the long window BHAR.

We examine the costs associated with overturning the Chevron doctrine, especially those that potentially fall more on small firms. We expect that, at least in the short-run, regulatory uncertainty will rise. The transfer of power introduces many unknowns into the regulatory process which may or may not resolve overtime. For example, the decision now opens the door for an increasing number of legal challenges, from an unknown number of litigants the outcomes of which will depend on which of the federal courts hears the case. That is, the evaluation the legality rules now falls to judges across nearly 100 federal district courts and 13 appellate courts. Thus, the largely-unified regulatory frameworks of today will splinter into different rules in different parts of the country.

Glaeser and Shleifer (2003) point out that specialization of the regulators is the central efficiency argument in their favor: regulatory agencies are staffed by experts in areas including aviation, securities, the environment, and communications whereas judges are generalists who face week incentives (Landis (1938); Glaeser, Johnson, and Shleifer (2021); Posner (2008); Shleifer (2010)), are overworked and time poor (Wright (1963); Yang (2016)) and may not be impartial (Berdejó and Yuchtman (2013); Fedderke and Ventoruzzo (2015); Park (2017); Hassan, Hollander, Van Lent, and Tahoun (2019); Lambais and Sigstad (2023); Cohen (2025)).

Accordingly, we use a host of court characteristics to proxy for potential court inefficiencies: (i) average filings per judge (i.e., judge business and resource constraints); (ii) cases pending (i.e., case backlog and timeliness); (iii) cases completed in the last three-years (i.e., court size which increases verification costs and knowledge requirements (e.g. Peyrache and Zago (2016))); and (iv) the political orientation of judges (i.e., share of Democrat judges) to capture impartiality.

We find that BHARs are decreasing across all four measures. Precisely, courts with more resource constraints, larger courts with greater verification and knowledge requirements, and courts with a higher fraction of democrat judges are all associated with lower BHARs around

the Supreme Court's decision. Further, of these factors, our court size variables are the ones that most able to explain the negative BHAR for small firms (i.e., those in the bottom tercile of the size distribution). This result is particularly interesting. It tells us that small firms are expected to do poorly in larger courts. Judges in larger courts must deal with a wider variety of cases covering a wider spectrum of topics in which they are not experts. The result is that judges in these courts increasingly rely on external experts and lawyers. But as Shleifer (2010) so aptly put it, the goal of lawyers and experts is to seek judicial favor not enlightenment. It follows that litigants with more resources have a substantial advantage in court: Larger firms with their vast resources can supply the court with better lawyers and experts.

We further show that the costs of the Chevron reversal depend critically on firm complexity. Using three complementary measures—textual complexity of regulatory disclosures, product-market scope, and organizational segmentation—we find that complex firms face larger valuation losses when interpretive authority shifts from regulators to courts. These effects are especially pronounced for small firms, for whom complexity becomes a liability in a litigation-centered enforcement regime. Moreover, complexity is more costly in judicial districts characterized by congestion and large, heterogeneous dockets, consistent with heightened uncertainty when generalist courts interpret technically complex rules. Together, these results indicate that regulatory expertise plays an important role in mitigating both resource-based disadvantages and interpretive uncertainty for complex firms.

Furthermore, we also find that the transfer of interpretive authority from regulators to courts increases uncertainty in a manner that is highly asymmetric across firms. We document that both implied and realized return volatility rise significantly, and that this increase is concentrated among small firms. Return distributions become wider and more left-skewed for small firms, indicating a sharp increase in downside risk and a loss of upside potential, whereas medium and large firms exhibit little change or even a slight strengthening of their positive tail. These results demonstrate that judicial veto not only redistributes

expected returns but also reshapes the entire risk profile of firms. This mechanism helps explain why small firms experience negative abnormal returns despite any potential reduction in regulatory burdens: The uncertainty associated with decentralized and heterogeneous courts disproportionately harms resource-constrained firms.

Overall, our results show that firms may benefit from a reduction in compliance costs but that these benefits are overshadowed by uncertainty associated with the a move towards a judicial veto system. These costs are especially bourne by small firms (and individuals/groups) that have limited resources to deploy in the courtroom against corporate giants. Our findings provide support for the concerns raised by small business groups prior to the Supreme Court's decision. For example, groups representing almost 300,000 small businesses submitted an Amicus brief to the Supreme Court prior to the ruling arguing that "Chevron results in a more uniform and predictable interpretation of regulations. Chevron has also been shown to play a critical role in constraining the judiciary, ensuring that the judiciary's policy preferences do not drive regulatory policy (pg.5)" and that overturning Chevron "would create untenable uncertainty for the world of small business (pg. 5)".[2]

Our paper is related to literature examining the costs and benefits of regulation. As the previously cited literature demonstrates, the ubiquitous nature of regulation means that there is no shortage of critics, arguing that regulation is subject to interest group pressure, is costly, and depresses real economic activity. Recent advances have focused on estimating the burden of regulation (e.g., Calomiris, Mamaysky, and Yang (2024); Trebbi et al. (2023); Kalmenovitz (2023); Ewens, Xiao, and Xu (2024); Armstrong, Glaeser, and Hoopes (2025); Kalmenovitz et al. (2025)) and showing that these various measures are negatively correlated with factors like profit, productivity, investment, and growth. The general conclusion is that regulation is inefficient. It is hard to deny that *all else equal* a higher regulatory burden will depress economic activity, yet it is rarely the case that all else is equal. What

[2]See https://www.supremecourt.gov/DocketPDF/22/22-451/280229/20230922133356720˙Amicus%20Brief%20of%20Small%20Business%20Associations.pdf (accessed Novermber 11, 2025)

is missing from these contributions is a fair counterfactual for comparison. That is, a fair assessment of the costs of regulation must weigh these costs with the costs of the next best alternative for enforcing property rights, namely the judicial system. Our paper fills this gap by documenting the stock market's views on the likely trade-offs associated with a transfer of power from regulators to the courts. We show that the market is well adept at determining the relative regulatory burdens for firms in our sample; and that the benefits associated with a potential reduction in compliance costs are likely overshadowed by the costs associated with judicial uncertainty, especially for small firms linked to large courts.

Finally, our paper is related to economics debate (discussed above) on how to best protect property rights; regulation vs. courts. Optimal arrangements depend on a number of factors, such as the stage of economic development (Djankov et al. (2003), the size of the market (Mulligan and Shleifer (2005)), and importantly, the relative ease of subverting regulators vs. courts. Glaeser et al. (2021) and Glaeser and Shleifer (2003) argue that the success of courts over regulation relies on the ability and willingness of courts to read, understand and verify complicated contracts and facts in a variety of specialized areas of engagement – a tall order for generalist judges working in resource constrained courts. As complexity rises, so does the cost of verification and the demands for specialized knowledge which is to the benefit of those with deep pockets. As compelling as the arguments (on both sides of the debate) are, an empirical assessment has proven difficult relying predominantly on case studies and cross-country comparisons. Our contribution is to provide the first large scale within country assessment of a comprehensive and nation wide transfer of power from regulators to the courts. Our findings are consistent with regulation being a relatively efficient mechanism for enforcing property rights, providing much needed balance to the current debate.

2 Chevron Deference: History, Reversal, and Empirical Relevance

2.1 Historical Background and Institutional Significance

The doctrine of *Chevron* deference, established in *Chevron U.S.A., Inc. v. Natural Resources Defense Council*, 467 U.S. 837 (1984), was one of the most consequential judicial principles in modern American governance. For four decades, it structured the relationship between federal regulatory agencies and the courts, shaping how statutory ambiguities were interpreted and how administrative power was exercised. The Supreme Court's opinion, authored by Justice Stevens, held that when a statute enacted by Congress is ambiguous, a court must defer to the interpretation of the agency charged with administering that statute, provided the agency's interpretation is "reasonable." The ruling reflected the view that agencies possess specialized expertise and democratic accountability through the executive branch, whereas courts are generalists lacking both the technical knowledge and the political legitimacy to make detailed policy judgments.

Before *Chevron*, deference to administrative agencies was more ad hoc. Cases such as *Skidmore v. Swift & Co.* (1944) and *NLRB v. Hearst Publications* (1944) recognized that agency expertise warranted respect, but the degree of deference varied case by case. *Chevron* introduced a simple and durable two-step test: first, if Congress had spoken directly to the issue, that interpretation controlled; second, if the statute was silent or ambiguous, the court had to uphold the agency's interpretation if it was reasonable. This doctrinal clarity quickly became a cornerstone of administrative law. Courts invoked *Chevron* to justify restraint in reviewing agency actions, and Congress, recognizing this deference, often wrote statutes in broader terms, leaving interpretive details to administrative discretion.

The effects of *Chevron* were far-reaching. By expanding the sphere of agency discretion, the decision entrenched the administrative state as the principal locus of policymaking across

a wide range of economic and social domains. Federal agencies grew increasingly confident in issuing detailed regulations, knowing that courts would generally uphold their interpretations. As a result, *Chevron* deference became deeply embedded in U.S. regulatory practice. Between 1984 and 2024, the doctrine was cited in over 19,000 federal court decisions, including more than seventy Supreme Court opinions, underscoring its central role in defining the contours of agency authority and judicial oversight.

However, over time, this delegation of interpretive authority provoked sustained criticism. Legal scholars and policymakers from across the political spectrum argued that *Chevron* blurred the separation of powers by allowing executive agencies to expand their jurisdiction with limited judicial constraint. Economists pointed to the doctrine's potential to facilitate regulatory capture and policy instability as administrative priorities shifted with presidential administrations. Within the judiciary, several Justices began to question whether deference to agency interpretations was consistent with Article III's assignment of interpretive authority to the courts. By the late 2010s, the Supreme Court had begun to narrow *Chevron*'s scope through decisions such as *King v. Burwell* (2015), *Michigan v. EPA* (2015), and *Kisor v. Wilkie* (2019), each emphasizing that statutory interpretation ultimately rests with the courts. These developments set the stage for *Chevron*'s eventual demise.

2.2 The 2024 Reversal and the New Institutional Landscape

The Supreme Court formally overruled *Chevron* deference in its 2024 term through two companion decisions: *Loper Bright Enterprises v. Raimondo* and *Relentless, Inc. v. Department of Commerce*. Writing for the majority, Chief Justice Roberts held that courts must exercise independent judgment when interpreting ambiguous statutes and that deference to administrative agencies is incompatible with the judiciary's constitutional duty to "say what the law is." The opinion declared that "courts do not defer to an agency's interpretation simply because Congress has left ambiguity in a statute," marking the end of four decades

of administrative primacy.

The reversal transformed the allocation of interpretive authority within the U.S. government. Whereas the *Chevron* framework centralized regulatory interpretation within specialized agencies, the post-*Chevron* regime disperses that power across nearly one hundred federal district courts and thirteen appellate circuits. Judges—often generalists working under significant workload constraints—now determine the meaning of ambiguous statutes that govern complex policy areas such as environmental regulation, financial markets, and healthcare. In this new system, litigants can challenge agency actions in any relevant jurisdiction, raising the possibility of divergent interpretations and inconsistent enforcement across the country.

The immediate consequence of the *Chevron* reversal is greater institutional uncertainty. Regulatory decisions that once enjoyed a presumption of validity under agency expertise are now subject to de novo judicial review. The outcome of a dispute may depend heavily on local court capacity, ideological composition, and the individual judge assigned to the case. As a result, the uniformity and predictability that characterized the administrative state under *Chevron* have been replaced by a more fragmented and decentralized enforcement regime. From a governance perspective, the ruling represents a profound reallocation of power from expert bureaucracies to the judiciary, reintroducing the courts as the dominant interpreters of federal law.

2.3 Empirical Relevance: Chevron Reversal as an Exogenous Shock

The reversal of *Chevron* deference provides a unique and powerful setting for examining how markets assess the relative efficiency of courts and regulators as mechanisms for enforcing and interpreting economic rules. As discussed in the introduction, the decision represents a nationwide, externally imposed shift in institutional power—from administrative agencies to the judiciary—that was not driven by contemporaneous economic conditions. The ruling

applies uniformly across industries, but its implications differ systematically across firms depending on their prior exposure to regulatory oversight and their potential reliance on judicial forums after the shift.

This combination of broad scope and differential exposure makes the *Chevron* reversal an ideal quasi-experimental setting for our analysis. The event alters the expected costs and benefits of regulatory enforcement without directly changing the underlying statutes or firms' fundamental operations. Firms heavily engaged with federal agencies, or operating in sectors governed by complex and overlapping regulations, face a sudden change in the mechanism through which their legal obligations will be interpreted and enforced. Conversely, firms in less regulated or less litigious sectors experience minimal immediate impact. The resulting cross-sectional variation allows us to test how financial markets value the transfer of interpretive power from specialized regulators to generalist courts.

Moreover, because the decision reshapes the relative roles of two longstanding institutions—agencies and courts—it directly informs broader economic debates about the optimal design of enforcement and governance. Markets' reactions to this shift offer a contemporaneous and forward-looking assessment of which institution investors view as more efficient in interpreting and enforcing property rights. In this sense, the *Chevron* reversal functions not only as an institutional shock but also as a natural experiment revealing how the judiciary's characteristics, constraints, and political composition influence the perceived costs of regulatory enforcement. This makes it an unusually clean setting for studying the economic consequences of judicial versus administrative governance.

3 Data and Empirical Measures

3.1 Abnormal Returns

We compute firm-level abnormal returns surrounding the Supreme Court's reversal of the *Chevron* deference doctrine using daily equity return data from the Wharton Research Data Services (WRDS) Event Study dataset. The WRDS platform provides standardized event-study outputs based on the CRSP daily stock file and associated factor benchmarks, ensuring consistency with the canonical event-study methodology in finance.

We focus on two symmetric windows centered on the Court's decision dates: a short window of $[-1, +3]$ trading days and a longer post-event window of $[-2, +30]$ trading days. These windows capture both immediate and longer-horizon market adjustments to the rulings. All returns are expressed relative to the announcement day ($t = 0$).

Following standard practice, we estimate abnormal returns under two benchmark models: (i) a *market-adjusted* model and (ii) a *Fama–French four-factor* model. For both methods, we used the estimation window of $[-252, -40]$ with minimum number of observations required is 100. In the market-adjusted specification, the expected return is the daily return on the CRSP value-weighted market index. Abnormal returns for firm i on day t are defined as:

$$AR_{i,t} = R_{i,t} - R_{m,t}, \tag{1}$$

where $R_{i,t}$ is the stock's raw return and $R_{m,t}$ is the contemporaneous market return.

For the Fama–French model, expected returns are estimated using pre-event daily data over the estimation window:

$$R_{i,t} - R_{f,t} = \alpha_i + \beta_i(R_{m,t} - R_{f,t}) + s_i SMB_t + h_i HML_t + m_i MOM_t + \varepsilon_{i,t}, \tag{2}$$

where $R_{f,t}$ is the risk-free rate, SMB_t, HML_t, and MOM_t are the size, value, and momentum

factors, respectively, and α_i captures the firm-specific abnormal performance. Estimated parameters are then used to compute predicted returns during the event window.

We aggregate daily abnormal returns into buy-and-hold abnormal returns (BHARs) for each firm and event window:

$$BHAR_{i,[\tau_1,\tau_2]} = \prod_{t=\tau_1}^{\tau_2}(1 + R_{i,t}) - \prod_{t=\tau_1}^{\tau_2}(1 + \widehat{R}_{i,t}), \tag{3}$$

where $\widehat{R}_{i,t}$ denotes the model-implied expected return from either the market-adjusted or Fama–French four-factor model. This buy-and-hold approach captures compounding effects over the window and is less sensitive to microstructure noise than simple cumulative sums.

All return data, market indices, and factor series are sourced directly from the WRDS Event Study dataset, which integrates CRSP securities files with Fama–French daily factors. We use the dataset's default parameterization for trading calendars, return compounding, and delisting adjustments, ensuring replicability and comparability with prior event-study work.

We compute both short- and long-horizon BHARs for each firm surrounding the *Chevron* decision dates and use these as the dependent variables in our cross-sectional analyses.

3.2 Firms' Regulatory Environment Proxies

To characterize firms' exposure to the regulatory state prior to the *Chevron* reversal, we employ two firm-level measures from Kalmenovitz et al. (2025): *Regulatory Quantity* and *Regulatory Fragmentation*. These variables provide comprehensive, text-based proxies for the scope and structure of federal regulation surrounding each firm. We do not construct these measures; rather, we use the publicly available firm-year data released by the authors.[3]

[3]The data are available at `https://www.dropbox.com/s/mw23g61s2p9xhjs/companyyear_measures.csv?dl=0`.

Regulatory Quantity measures the volume of regulatory activity pertinent to a firm. It is based on the total number of words published in the *Federal Register* (FR) across 100 topics identified via Latent Dirichlet Allocation (LDA) applied to the full text of the FR. For each firm f in year t, Kalmenovitz et al. (2025) compute the share of the firm's 10-K devoted to each topic i, denoted $P_{f,i,t}$, and use these shares to weight the total FR word count in each topic:

$$\text{RegQty}_{f,t} = \sum_i P_{f,i,t} \log(\text{Words}_{i,t}), \tag{4}$$

where $\text{Words}_{i,t}$ is the number of FR words associated with topic i in year t. Intuitively, $\text{RegQty}_{f,t}$ captures the overall intensity of rulemaking activity relevant to the firm's business environment. Firms with high *Regulatory Quantity* operate in domains that attract more frequent or more detailed federal rulemaking.

Regulatory Fragmentation quantifies the dispersion of rulemaking authority across agencies for the topics that matter to each firm. For every topic i in year t, the authors calculate the share of FR text produced by each federal agency a, $\omega_{i,a,t}$, and derive a topic-level fragmentation index:

$$\text{RegFrag}_{i,t}^{\text{topic}} = 1 - \sum_a \omega_{i,a,t}^2. \tag{5}$$

This index equals zero when a topic is regulated by a single agency and approaches one when multiple agencies share jurisdiction evenly. Firm-level *Regulatory Fragmentation* is then defined as the weighted average of topic-level fragmentation across the firm's relevant topics:

$$\text{RegFrag}_{f,t} = \sum_i P_{f,i,t} \, \text{RegFrag}_{i,t}^{\text{topic}}. \tag{6}$$

Hence, $\text{RegFrag}_{f,t}$ is higher for firms whose economic activities span regulatory areas governed by multiple, potentially overlapping agencies.

These two measures jointly summarize the breadth and complexity of federal oversight that firms face. *Regulatory Quantity* captures the intensity of rulemaking, while *Regulatory*

Fragmentation captures the institutional structure through which those rules are produced and enforced. Firms with high regulatory quantity are deeply embedded in heavily regulated sectors, whereas those with high fragmentation navigate rules that originate from multiple agencies, reflecting greater coordination challenges and interpretive uncertainty.

The *Chevron* deference reversal fundamentally altered the balance of authority between agencies and the judiciary by eliminating automatic judicial deference to agency interpretations of ambiguous statutes. Consequently, the economic consequences of this shift should be most pronounced among firms whose operations are most intertwined with federal rulemaking—particularly those exposed to high regulatory quantity (greater stock of rules) and high fragmentation (multiple agencies). These measures therefore provide theoretically grounded, ex ante proxies for firms' exposure to the institutional change induced by the Supreme Court's decision.

3.3 Court and Judge Characteristics

To examine how market reactions to the *Chevron* deference reversal vary with the characteristics of the courts that newly gain interpretive authority, we incorporate several measures of court capacity and judicial composition. All variables are constructed from publicly available information on federal district courts and their judges obtained from *Ballotpedia* (`https://ballotpedia.org`), a nonpartisan encyclopedia of U.S. courts and officeholders. Ballotpedia provides complete biographical data for sitting and senior federal judges, including court affiliation, appointment dates, and the political party of the appointing president, as well as descriptive information about the size and organization of each district court.

Specifically, we construct four variables that capture distinct dimensions of judicial efficiency, workload, and ideological orientation.

(1) Average Filings per Judgeship. This variable measures the average number of new

civil and criminal case filings per authorized judgeship within each federal district court. It captures the effective *workload pressure* faced by judges. Courts with higher filings per judgeship operate under greater resource constraints: judges must process more cases with the same institutional capacity, often leading to longer resolution times and higher procedural uncertainty. In the context of the *Chevron* reversal—where interpretive authority shifts from specialized agencies to generalist courts—markets may view firms exposed to over-burdened courts as facing slower or less predictable adjudication. We therefore expect stronger negative abnormal returns in districts with heavier caseloads.

(2) Log of Cases Pending. We calculate the natural logarithm of the total number of cases pending in each district court at the end of the year preceding the event. This proxy reflects *court congestion* or backlog. A larger backlog indicates delays in case processing and greater uncertainty regarding the timing and consistency of judicial outcomes. Firms headquartered in districts with substantial pending caseloads are therefore expected to experience more uncertainty about future enforcement and compliance adjudication once courts replace agencies as the primary interpreters of regulation.

(3) Log of Three-Year Civil Cases. This variable equals the natural logarithm of the cumulative number of civil cases filed over the prior three years in a district court. It captures both the *scale* and *scope* of judicial activity. Large-volume courts typically handle a wide array of legal and technical issues, which increases the cognitive demands on judges and reduces topic-specific expertise. In the regulatory domain—where factual and technical complexity is high—larger and more diverse dockets imply that generalist judges must rely more heavily on external experts and lawyers, increasing litigation costs and informational asymmetries. As a result, the transfer of power from agencies to such courts is expected to generate lower market valuations for affected firms.

(4) Judges' Democratic Affiliation. To capture the ideological orientation of the judiciary, we compute the ratio of the number of senior district-court judges appointed by

Democratic presidents to the number appointed by Republican presidents, using appointment data from Ballotpedia. Senior judges—those who have taken senior status but continue to hear cases—are often among the most experienced and influential members of each district court and frequently shape precedent within their jurisdictions. This ratio proxies for the ideological balance of the most influential judicial actors in the district. Ideological composition matters because, absent the *Chevron* doctrine, judges have greater discretion in interpreting statutes and agency rules. A more partisan or ideologically skewed bench increases uncertainty about how regulations will be interpreted, thereby affecting firms' expected compliance and litigation costs. Markets may therefore discount firms located in districts where the ideological mix suggests heightened unpredictability.

Collectively, these four variables summarize the heterogeneity in judicial environments that firms face once interpretive authority shifts from administrative agencies to the courts. They capture, respectively, (i) workload and resource constraints, (ii) case backlog and timeliness, (iii) court size and specialization demands, and (iv) ideological orientation. If the efficiency and predictability of judicial decision-making are valued by investors, we expect that firms linked to overburdened, complex, or ideologically imbalanced courts will experience more negative abnormal returns following the *Chevron* reversal.

3.4 Skewness and Volatility Measures

We construct firm-level option-implied volatility using single-stock options that satisfy a set of standard data-quality and maturity restrictions (Kruttli, Tran, and Watugala (2025)). Specifically, we retain options with standard settlement, strictly positive open interest, valid bid and bid–ask prices, and a non-missing implied volatility estimate. We further restrict the sample to options with between 90 and 200 calendar days to expiration, capturing longer-dated impacts. Furthermore, we only keep options with absolute option delta between 0.2 and 0.5, ensuring that the options are neither too deep in- nor out-of-the-money.

For each firm i at time t, we compute implied volatility as the average across all qualifying options with the nearest expiration date. Let M denote the closest maturity at time t, and let Z be the number of valid options for firm i expiring at M. The implied volatility measure is given by

$$IV_{i,t} = \frac{1}{Z} \sum_{z=1}^{Z} IV_{i,z,t,M}.$$

This measure proxies for the market's risk-neutral expectation of firm i's future return volatility over the horizon from t to M, and is comparable to the option-based volatility measures used in Kelly, Pástor, and Veronesi (2016).

For each option, we also calculate realized volatility corresponding to each of the options that we use to calculate the implied volatility as the annualized standard deviation of the underlying stock's daily returns over the remaining life of the option. For each firm i for each day t, we then compute realized volatility as the average across all qualifying options.

To measure asymmetry in firms' short-horizon return distributions, we construct a daily firm-level realized skewness measure using high-frequency intraday data from the TAQ database. For each firm i and trading day t, we compute 5-minute intraday returns based on volume-weighted average prices (VWAP) over regular trading hours, yielding a sequence of returns $\{r_{i,t,k}\}_{k=1}^{N_{i,t}}$, where $N_{i,t}$ denotes the number of non-missing 5-minute intervals for firm i on day t. Using VWAP prices mitigates microstructure noise associated with individual trades and bid–ask bounce.

For each firm-day (i, t), skewness is defined as

$$\text{Skew}_{i,t} = \frac{N_{i,t}}{(N_{i,t}-1)(N_{i,t}-2)} \sum_{k=1}^{N_{i,t}} \left(\frac{r_{i,t,k} - \bar{r}_{i,t}}{s_{i,t}} \right)^3,$$

where $\bar{r}_{i,t} = \frac{1}{N_{i,t}} \sum_{k=1}^{N_{i,t}} r_{i,t,k}$ is the sample mean of 5-minute returns and $s_{i,t} = \sqrt{\frac{1}{N_{i,t}-1} \sum_{k=1}^{N_{i,t}} (r_{i,t,k} - \bar{r}_{i,t})^2}$ is the sample standard deviation. This procedure yields a 60-trading-day panel of daily skewness observations for each firm, around the Supreme Court decision.

3.5 Summary Statistics

Table 1 reports summary statistics for the main variables used in the analysis. The sample consists of U.S. publicly traded firms with available CRSP and Compustat data around the Supreme Court's reversal of *Chevron* deference. The mean buy-and-hold abnormal return (BHAR) over the short event window $[-1, +3]$ is close to zero under both the market-adjusted and Fama–French four-factor models, masking substantial dispersion across firms. The longer-window BHARs exhibit considerably higher volatility, consistent with heterogeneous firm-level adjustments following the decision.

The regulatory environment measures display meaningful cross-sectional variation. *Regulatory Quantity* has a relatively tight distribution, reflecting persistent differences in firms' exposure to federal rulemaking activity, while *Regulatory Fragmentation* varies more modestly across firms. Firm size measures—market capitalization, total assets, and employment—are highly right-skewed, indicating substantial heterogeneity in firm scale. Court-level characteristics also vary widely across districts, with notable dispersion in judicial workload, case backlogs, court size, and ideological composition. Overall, the summary statistics highlight substantial variation along regulatory, firm, and judicial dimensions, providing a rich setting to study heterogeneous market responses to the *Chevron* reversal.

4 Empirical Results

This section examines how the equity market responded to the Supreme Court's reversal of *Chevron* deference and how the reaction varied across firms and industries. Although the average market-wide response to the decision is modest and statistically indistinguishable from zero, the cross-sectional dispersion in abnormal returns is striking. Some firms and sectors gained substantially, while others lost, indicating that investors viewed the shift of interpretive authority from administrative agencies to courts as redistributing value rather

than creating or destroying it uniformly.

4.1 Aggregate Market Reaction and Cross-Sectional Dispersion

We begin by examining the aggregate stock market reaction to the Supreme Court's reversal of *Chevron* deference. Table 2 reports firm-level regressions of buy-and-hold abnormal returns (BHARs) on an indicator for the decision day (i.e., $t = [-1, +3]$). The average market response is economically small and statistically insignificant under the Fama–French four-factor model, and only modestly positive under the market-adjusted specification. On average, therefore, the reversal of *Chevron* deference does not appear to have been uniformly "good for business."

The absence of a clear aggregate effect masks large heterogeneity across firms. Figure 1 illustrates this dispersion by plotting the distribution of BHARs around the decision date over both short and long event windows. In the short window of $[-1, +3]$ trading days, the histogram is centered near zero but displays fat tails on both sides, with some firms earning sharply positive abnormal returns and others large losses. The dispersion widens substantially over the extended window of $[-2, +30]$ trading days, as shown in Panel (b), suggesting that markets continued to update firm valuations as the implications of the decision became clearer. The wide spread of reactions—ranging from large negative to large positive abnormal returns—indicates that investors reassessed firms very differently in response to the same institutional shock.

Taken together, the evidence from Table 2 and Figure 1 demonstrates that while the average market reaction to the *Chevron* reversal is muted, the cross-sectional variation is substantial. This heterogeneity provides the first clue that investors perceived the transfer of interpretive authority from administrative agencies to the courts as benefiting some firms while harming others. The remainder of this section explores the sources of that heterogeneity—focusing on firms' regulatory exposure, size, and the characteristics of the

courts that now govern them.

4.2 Regulatory Exposure and Market Reactions

To understand the sources of heterogeneity in firms' valuation responses, we next examine whether market reactions vary systematically with firms' regulatory environments prior to the *Chevron* reversal. Table 3 relates buy-and-hold abnormal returns (BHARs) to two firm-level measures of regulatory exposure: *Regulatory Quantity* and *Regulatory Fragmentation*, both obtained from Kalmenovitz et al. (2025). *Regulatory Quantity* captures the volume of rulemaking activity that affects a firm, while *Regulatory Fragmentation* measures the dispersion of authority across multiple agencies. Both variables proxy for the scope and complexity of federal oversight faced by each firm before the decision.

The results in Table 3 show that the stock-price response to the *Chevron* reversal depends critically on these pre-existing regulatory conditions. Firms with higher *Regulatory Quantity* or greater *Regulatory Fragmentation* experience significantly larger positive abnormal returns around the decision. These effects hold across both the short $[-1, +3]$ and extended $[-2, +30]$ event windows, suggesting that markets expect the rollback of administrative deference to benefit firms most entangled in federal rulemaking. Results in Table 1 and 3 tell us that a one-standard-deviation increase in Regulatory Quantity is associated with a 48-basis-point (0.075 x 640) higher short-window BHAR and a 147-basis-point (0.075 x 1,970) higher long-window BHAR. In other words, investors appear to interpret the shift of interpretive authority from regulators to courts as a reduction in expected compliance costs for highly regulated firms.

Figure 3 visualizes these results by plotting the cumulative difference in abnormal returns between firms in the top (or medium) and bottom terciles of *Regulatory Quantity*. Panel A shows returns computed under the market-adjusted model, and Panel B under the Fama–French four-factor model. In both cases, the performance gap between high- and low-regulation firms widens steadily over the 30 trading days following the decision, indicating

that markets continued to reassess the relative advantages of firms deeply embedded in the federal regulatory apparatus. The positive differential in cumulative returns implies that the expected reduction in administrative oversight outweighed any short-term uncertainty associated with the transition to a more judicially driven system for these firms.[4]

Together, the evidence from Table 3 and Figure 3 demonstrates that firms' regulatory exposure is a first-order determinant of how investors perceive the consequences of the *Chevron* reversal. The finding that heavily regulated and more fragmented firms benefited most provides direct support for the hypothesis that the market viewed the end of agency deference as easing regulatory burdens and potentially improving operating flexibility.

4.3 Firm Size, Compliance Costs, and Judicial Asymmetry

We next examine how the effects of the *Chevron* reversal vary across the firm-size distribution. Differences in size capture important asymmetries in both regulatory burden and the ability to navigate litigation. As documented by Trebbi et al. (2023), compliance costs exhibit an inverted-U relationship with firm size: medium-sized firms bear the greatest proportional costs of regulation, while very small and very large firms face lower average burdens. If the end of *Chevron* deference reduces the expected intensity of rulemaking, the market reaction should follow a similar pattern—largest for mid-sized firms and weakest or even negative for the smallest firms, which are less able to absorb the uncertainty and potential legal costs of judicial enforcement.

Before examining how market reactions vary by firm size, we first document the cross-sectional relation between firm size and regulatory exposure. Figure 4 plots the average

[4]The figure also shows that gap in abnormal returns accelerated on $t = +10$ (Wednesday, July 10, 2024): Following the supreme court decision, House Republican leaders, including Education and the Workforce Committee Chairman Virginia Foxx, sent letters to federal agencies demanding a review of pending and existing regulations that could be affected by the Supreme Court's recent decision to overturn the "Chevron deference" legal precedent. This action was part of a broader effort by House Republicans to scrutinize and potentially roll back what they view as "regulatory overreach" by the administrative state, in light of the Supreme Court's decision.

Regulatory Quantity by market-capitalization decile, showing that regulatory exposure increases sharply with firm size and levels off for the largest firms. This pattern mirrors the inverted-U relationship between compliance costs and firm size documented by Trebbi et al. (2023), whose *RegIndex* measures the share of a firm's wage bill devoted to regulation-related tasks. Together, the two measures suggest that mid-sized and large firms operate in more heavily regulated environments, implying that firm size captures systematic differences in both the intensity of regulation and the capacity to manage compliance. We next examine how these pre-existing differences shape firms' market reactions to the *Chevron* reversal.

Figure 5 presents average buy-and-hold abnormal returns (BHARs) over the short $[-1, +3]$ window across market-capitalization deciles, while Figure 6 extends the horizon to $[-2, +30]$ trading days. In both event windows, the relation between firm size and abnormal returns is clearly inverted-U shaped: medium-sized firms exhibit the strongest positive performance, whereas small firms experience the largest negative returns, and large firms show little change. The dispersion of returns widens over the longer horizon, indicating that investors continued to reassess firm-specific implications of the institutional shift in the weeks following the ruling.

Regression evidence in Table 4 confirms this pattern. Across alternative measures of size—market capitalization, total assets, and employment—the interaction between the decision-day indicator ($DDay$) and the small-firm dummy is significantly negative. Small firms underperform both medium and large firms around the event, and the magnitude of underperformance grows over the extended window. Controlling for firm characteristics and a host of fixed effects, firms in the bottom size tercile experience (when using MCAP as the measure of size) a 1.9% (Panel A, Column 1) lower short-window BHAR than other firms, which increases in magnitude to -4.6% (Panel B, Column 1) for the long window BHAR. This result implies that, despite potential relief from future regulation, small firms are disadvantaged in a system where enforcement and interpretation shift from administrative agencies to generalist courts. Unlike larger firms, they possess limited financial resources and less

access to legal expertise, making them more vulnerable to higher expected litigation costs and greater procedural uncertainty.

Together, Figures 5 and 6, and Table 4 indicate that the equity market perceived the transfer of authority from regulators to courts as redistributing value along firm size. The benefits of deregulation accrue primarily to mid-sized and large firms that face the heaviest compliance burdens, while the smallest firms incur losses due to rising legal frictions and informational disadvantages. These findings highlight a key asymmetry in the new institutional landscape: although the *Chevron* reversal may reduce aggregate regulatory costs, it simultaneously amplifies disparities in firms' ability to operate effectively within a judicially dominated enforcement regime.

4.4 Judicial Efficiency, Ideology, and Market Valuation

Having established that firm size mediates the effects of the *Chevron* reversal, we next explore whether heterogeneity in court characteristics further explains the cross-section of market reactions. When interpretive authority shifts from specialized regulators to generalist judges, local court capacity, workload, and ideological composition become central to how firms anticipate enforcement. Courts that are overburdened, slow, or politically imbalanced are likely to impose greater uncertainty and higher expected litigation costs, particularly for firms that depend on consistent and timely interpretation of complex regulations.

Table 5 investigates this channel by interacting the decision-day indicator ($DDay$) with several district-level judicial variables drawn from Ballotpedia. *Avg. Total Filings per Judgeship* proxies for resource constraints and judicial workload; *Ln Cases Pending* measures court congestion; *Ln Three-Year Civil Cases* captures the scale and diversity of the court's docket; and *Judges' Democratic Affiliation* reflects the ideological composition of the most influential senior judges in each district. These measures are matched to firms by their headquarters' federal judicial district.

The results indicate that judicial inefficiency and ideological imbalance are associated with more negative stock-price responses. In the short window $[-1, +3]$, the interactions of *DDay* with workload and size proxies—*Avg. Filings per Judgeship*, *Ln Cases Pending*, and *Ln Three-Year Civil Cases*—are all significantly negative. This pattern suggests that firms linked to busier and larger courts experience weaker abnormal returns following the decision, consistent with markets expecting slower adjudication and reduced predictability in legal outcomes. Similarly, the negative and significant coefficient on *DDay* $\times$ *Judges' Democratic Affiliation* indicates that firms headquartered in districts with a more Democratic-leaning judiciary experienced larger losses, potentially reflecting investor expectations of stricter judicial interpretation of business conduct.

The long-window results over $[-2, +30]$ days reveal that these effects persist, particularly for ideological composition: the *Judges' Democratic Affiliation* interaction remains strongly negative. The persistence of these patterns suggests that markets did not view the judicialization of regulation as a uniformly positive development but rather one whose costs depend on the local institutional environment. Firms exposed to overworked or ideologically polarized courts face heightened uncertainty about future enforcement, reducing their expected value in the new post-*Chevron* regime.

Overall, the evidence from Table 5 highlights that judicial capacity and impartiality are now key determinants of firm value. Whereas agencies previously provided centralized expertise and policy continuity, the end of deference decentralizes enforcement across courts that differ widely in resources and ideology. This decentralization introduces a new dimension of institutional risk: The quality of local courts. Firms situated in jurisdictions with more efficient and balanced courts are better positioned to benefit from deregulation, while those linked to resource-constrained or politically skewed courts are penalized by markets.

4.5 Industry-Level Winners and Losers

Finally, we examine how the *Chevron* reversal reshaped valuations across industries. Aggregating firm-level buy-and-hold abnormal returns (BHARs) to the two-digit SIC level allows us to identify the sectors that benefited most—or suffered most—from the transfer of interpretive authority from regulators to courts. Figure 2 shows that, consistent with firm-level results, the market reaction varied substantially across industries. Table 6 lists the ten industries with the largest positive ("winners") and negative ("losers") average BHARs over the short event window $[-1, +3]$, computed under both the market-adjusted and Fama–French four-factor models.

The results show sharp heterogeneity across sectors that aligns closely with differences in regulatory dependence. Upstream, resource-intensive, and capital-heavy industries such as coal and metal mining, oil and gas extraction, and engineering and management services record the strongest positive abnormal returns. These industries operate under extensive federal oversight—particularly from agencies such as the EPA, Department of Energy, and Department of the Interior—and thus stand to gain most from reduced regulatory intensity and the prospect of greater operational flexibility. In contrast, downstream and service-oriented sectors, including wholesale and retail trade, apparel, construction, and healthcare, experience large negative abnormal returns. Firms in these industries rely heavily on uniform and predictable regulatory frameworks to ensure product, labor, and safety standards. For them, the decentralization of interpretive authority to nearly one hundred district courts introduces heightened uncertainty and compliance risk.

This cross-industry pattern mirrors the firm-level results: the benefits of deregulation accrue primarily to sectors previously constrained by administrative rulemaking, whereas industries dependent on regulatory consistency are penalized. The evidence also underscores the asymmetric nature of the *Chevron* reversal's economic impact. Rather than producing a uniformly pro-business environment, the decision redistributed value across the econ-

omy—rewarding sectors that faced high compliance costs while imposing costs on those that depend on regulatory clarity.

Table 6, combined with earlier results, highlights that the equity market's response to the *Chevron* reversal reflects a broad reallocation of value across both firms and industries. The event favored resource- and production-intensive sectors that benefit from deregulation, while service and consumer-facing industries absorbed losses associated with judicial uncertainty and interpretive fragmentation. These sectoral differences reinforce our central conclusion that the end of administrative deference creates both winners and losers, depending on the balance between the relief from regulatory burden and the costs of decentralized judicial enforcement.

5 Discussion: Mechanism

5.1 Firm Size and Court Characteristics

The results so far indicate that small firms experienced significantly negative abnormal returns following the *Chevron* reversal (Table 4) and that firms linked to overburdened or ideologically skewed courts were also penalized (Table 5). In this subsection, we combine these dimensions to test whether the adverse effects on small firms are amplified in judicial environments characterized by heavy caseloads or ideological imbalance.

Table 7 reports regressions that include triple interaction terms between the decision-day indicator ($DDay$), a small-firm dummy, and each of the four court-level variables examined previously. This design allows us to assess whether the market's negative reaction to small firms depends on the institutional capacity and political composition of the courts that now hold interpretive authority. The coefficients on these triple interactions capture how the difference in abnormal returns between small and larger firms varies with judicial conditions.

The results reveal a clear pattern: the disadvantages of small firms are greatest in jurisdictions with larger and more congested courts. In the short event window $[-1, +3]$, the triple-interaction coefficients for *DDay* × *Size Dummy* × *Ln Cases Pending* and *DDay* × *Size Dummy* × *Ln Three-Year Civil Cases* are negative and statistically significant. This indicates that small-firm underperformance is concentrated in districts where judges face heavier workloads and broader dockets, conditions that reduce judicial specialization and slow case resolution. Similarly, the negative coefficient on *DDay* × *Size Dummy* × *Judges' Democratic Affiliation* suggests that small firms located in more politically imbalanced courts are penalized more, consistent with concerns about differential treatment and interpretive uncertainty.

The long-window results $[-2, +30]$ reaffirm these findings, though magnitudes attenuate as markets absorb information about the post-*Chevron* landscape. The evidence overall implies that the judicial environment mediates how firm size shapes investor responses: small firms are disproportionately harmed in places where courts are less efficient or more polarized. These firms likely anticipate higher legal expenses, longer resolution times, and less predictable enforcement outcomes, all of which offset any gains from potential deregulation.

Collectively, the results in Table 7 provide a mechanism that unifies the previous findings. The shift from agency to judicial enforcement amplifies pre-existing asymmetries across firms by embedding them within heterogeneous court systems. Larger firms, with greater financial and legal resources, can better manage judicial complexity and uncertainty, while smaller firms face new disadvantages when enforcement depends on the efficiency and impartiality of local courts. This mechanism underscores that the costs of judicialization are not evenly distributed: the transition away from regulatory expertise increases institutional risk in ways that disproportionately affect resource-constrained firms.

5.2 Firm Complexity

5.2.1 Firm Size and Firm Complexity

We begin by examining how firm complexity interacts with firm size in shaping the market's response to the reversal of Chevron deference. The central idea is that complexity magnifies the costs of operating in a judicially driven enforcement regime, but that these costs are not borne uniformly across firms. In particular, small firms—despite often being less politically visible and less regulated in absolute terms—may be disproportionately harmed when complex operations or disclosures must be evaluated and contested in courts rather than interpreted by specialized regulatory agencies.

Panel A of Table 8 reports results from regressions that interact the Chevron decision-day indicator with firm size and three distinct measures of firm complexity: textual complexity based on firms' 10-K disclosures following Loughran and McDonald (2024), product-market scope constructed using the Hoberg–Phillips methodology Hoberg and Phillips (2025), and organizational complexity measured by the number of reported business segments. These measures capture complementary dimensions of complexity, including informational opacity, breadth of economic activities, and internal organizational structure.

Across all three measures, we find a consistent pattern: small, complex firms experience significantly more negative abnormal returns following the Chevron reversal. While firm complexity is not inherently detrimental—and in some cases is associated with positive valuation effects for medium and large firms—the interaction between complexity and small firm size is uniformly negative. This result indicates that complexity becomes a liability when firms lack the scale and resources required to operate effectively in a litigation-centered enforcement environment.

The economic interpretation is straightforward. Complex firms are more likely to face ambiguous statutory interpretation, higher verification costs, and more intensive legal scrutiny

once interpretive authority shifts from regulators to courts. Small firms are less able to absorb these costs, hire specialized legal counsel, or withstand prolonged litigation. As a result, investors anticipate that when regulatory interpretation shifts to courts it will disproportionately burden small firms with complex operations or disclosures, leading to sharper valuation losses at the time of the Chevron reversal. This finding supports a resource-based mechanism in which firm size, rather than judicial expertise per se, determines the ability to manage complexity once enforcement shifts to the courts.

5.2.2 Firm Complexity and Court Characteristics

We next examine whether the market penalty associated with firm complexity depends on the characteristics of the courts that gain interpretive authority following the reversal of Chevron deference. Unlike the previous subsection, which focuses on a resource-based size mechanism, this analysis speaks to a distinct channel: the increase in legal and regulatory uncertainty arising from the replacement of expert agencies with generalist courts. If judicial generalism and limited court capacity impair the consistent interpretation of complex statutes and facts, then complexity should be more costly in judicial environments characterized by congestion, large and diverse dockets, or heavy workloads.

Panel B of Table 8 reports results that interact firm complexity with measures of court characteristics, estimated separately for small and large firms. The court variables capture different dimensions of judicial capacity and specialization, including court congestion (log cases pending), court size and docket breadth (log three-year civil cases), and judicial workload (average filings per judgeship). These characteristics proxy for environments in which judges face greater informational and verification challenges when adjudicating complex regulatory disputes.

The results show that the adverse valuation effects of firm complexity are significantly amplified in weaker judicial environments, particularly in courts that are more congested.

This pattern is most pronounced for small firms, but the underlying mechanism does not rely on firm size per se. Rather, it reflects heightened uncertainty about legal outcomes when complex firms are subject to interpretation by courts with limited capacity. In such settings, investors anticipate greater dispersion in rulings, longer resolution times, and increased reliance on adversarial expert testimony, all of which raise expected litigation risk.

Importantly, these findings highlight a channel that is conceptually independent of the size-based disadvantage emphasized earlier. Even abstracting from differences in firms' ability to deploy legal resources, complexity itself becomes more costly when interpreted by generalist judges operating under institutional constraints. Regulatory agencies, by contrast, mitigate these costs through specialization, accumulated expertise, and more uniform application of rules. The elimination of Chevron deference therefore exposes complex firms to greater interpretive risk, especially in judicial districts where courts are least equipped to process technically demanding cases.

Taken together, the evidence in Panel B supports an uncertainty-based mechanism: the transfer of interpretive authority from regulators to courts increases the unpredictability of enforcement for complex firms. This mechanism operates alongside, but independently from, the resource-based disadvantage faced by small firms, and helps explain why the Chevron reversal leads to greater dispersion in abnormal returns, volatility, and downside risk across the cross-section of firms.

5.3 Rise in Uncertainty for Small Firms

A core implication of shifting interpretive authority from administrative agencies to courts is that the predictability of enforcement declines, at least in the short run. Unlike regulators—who provide centralized expertise, functional specialization, and relatively uniform application of rules—courts operate in a decentralized system characterized by heterogeneous caseloads, differing judicial philosophies, and varying resource constraints. These

institutional features imply that the *Chevron* reversal should generate greater uncertainty, particularly for firms with limited capacity to navigate the judicial process. In this subsection, we show that this channel is reflected not only in average abnormal returns but also in the distributional properties of returns, including volatility and skewness.

5.3.1 Volatility Evidence

Table 9 presents formal evidence on how the *Chevron* reversal affected option-implied and realized volatility. Both measures capture distinct but complementary aspects of uncertainty: implied volatility reflects investors' expectations of future risk and is therefore forward-looking, while realized volatility captures the ex post variability of returns following the ruling.

Across specifications, the coefficient on the *Post* indicator is positive and highly significant, indicating that the 30 days following the Supreme Court's decision were marked by a notable increase in market-wide uncertainty. This is consistent with the idea that replacing administrative expertise with judicial interpretation introduces immediate uncertainty about how rules will be enforced and how future litigation will unfold.

The size dimension is especially revealing. The interaction term *Post* $\times$ *Size Dummy* is positive and statistically significant across both implied and realized volatility specifications, showing that the increase in uncertainty is disproportionately borne by small firms. In contrast, the corresponding effects for medium and large firms are noticeably smaller in magnitude and often statistically indistinguishable from zero. Large firms appear capable of absorbing or mitigating the additional uncertainty created by the judicial shift, whereas small firms—lacking legal resources, political visibility, or economies of scale in compliance—experience a sharp rise in perceived and realized risk.

These results align with earlier findings on abnormal returns. While medium and large firms benefited from the expected reduction in regulatory burdens, small firms suffered be-

cause the structure of judicial enforcement magnifies their vulnerabilities. Table 9 provides direct evidence that the risk environment changed asymmetrically, consistent with the idea that courts introduce more variability and less predictability than regulators, harming lightweight litigants most.

5.3.2 Skewness Evidence

The volatility results say little about the shape of uncertainty. Table 10 addresses this by examining changes in the skewness of returns before and after the ruling. Skewness is crucial for understanding how uncertainty is distributed—whether firms face symmetric risk or disproportionately large downside movements.

The key finding is that the *Post* $\times$ *Size Dummy* coefficient is negative and statistically significant in most specifications, indicating that the left tail of the return distribution for small firms becomes heavier after the decision. This pattern implies two things: first, downside risk increased for small firms, as bad outcomes became more likely; and second, upside potential decreased, as the positive tail did not expand correspondingly.

Taken together, this points to a systematic shift toward negative asymmetry for small firms. Medium and large firms, by contrast, show no significant change in skewness, reinforcing the view that these firms are better equipped to operate in a judicialized enforcement environment. The skewness evidence is powerful because it shows that the costs of the *Chevron* reversal are not merely first-moment effects (lower BHARs for small firms) or second-moment effects (higher volatility), but also third-moment effects—the entire distribution tilts toward greater downside exposure. This is precisely the pattern one would expect if regulatory agencies provide protective predictability, while courts introduce greater heterogeneity in outcomes, particularly for weaker litigants.

5.3.3 Return Distributions

Figure 7 provides a visual counterpart to the results in Tables 9 and 10. Panels (a) and (c) show essentially overlapping pre- and post-event return distributions for medium and large firms. The only notable change is a slight thickening of the right tail in the post-event distribution, indicating stronger upside potential consistent with expectations of reduced regulatory constraints. This finding is consistent with the narrative that larger firms expected to gain flexibility from reduced regulatory oversight without facing substantial new risks from judicial veto.

Panels (b) and (d), which depict small firms, show a starkly different pattern. The post-event distribution is wider, indicating increased volatility, and more left-skewed, confirming the skewness results. The positive shoulder does not expand; instead, the distribution shifts leftward, suggesting that small firms lose both upside potential and face heightened downside risk. This asymmetry reinforces the mechanism highlighted in Tables 9 and 10: judicial enforcement introduces a risk structure that disproportionately harms resource-constrained firms while leaving larger firms relatively insulated or even marginally advantaged.

The figure crystallizes the underlying economic interpretation. The shift from centralized regulatory expertise to decentralized judicial interpretation does not simply raise uncertainty uniformly; rather, it redistributes uncertainty across firms, amplifying risks for small firms while maintaining or slightly improving the risk profile of larger firms.

5.3.4 Discussion

Tables 9 and 10, along with Figure 7, provide strong evidence for the mechanism behind the heterogeneous market reaction to the *Chevron* reversal. They show that judicial veto increases total uncertainty (higher volatility), that this uncertainty is asymmetric (more downside tail risk), and that the burden is concentrated among small firms, who lack the resources to navigate an unpredictable and costly litigation environment. At the same time,

larger firms may even gain upside optionality, consistent with reduced regulatory constraints.

This mechanism helps explain why the mean abnormal returns of small firms are negative while those of medium and large firms are neutral or positive. It also helps interpret the broader policy implication: the efficiency of governance depends not only on the level of regulation but also on the distribution of uncertainty produced by the institutions that enforce it. The *Chevron* reversal thus did not merely change who interprets the law; it reshaped the risk landscape in a way that systematically disadvantages smaller, resource-constrained firms.

6 Conclusion

This paper examines how financial markets evaluated the Supreme Court's 2024 reversal of *Chevron* deference—one of the most consequential shifts in U.S. administrative law in four decades. The decision transferred interpretive authority from specialized regulatory agencies to the federal judiciary, offering a rare, nationwide experiment to assess how investors value the relative efficiency of regulation versus courts.

We find that the market viewed the end of administrative deference as a redistribution of value rather than a uniform improvement in the business environment. The average market reaction is close to zero, but abnormal returns vary widely across firms and industries. Heavily regulated and institutionally fragmented firms gained value, consistent with expectations of lower compliance costs, while small firms lost value, reflecting their limited capacity to manage litigation and judicial uncertainty. Medium-sized firms—those bearing the greatest proportional regulatory burden—experienced the largest positive returns.

Judicial heterogeneity further explains this dispersion. Firms headquartered in districts with congested, resource-constrained, or ideologically imbalanced courts experienced lower abnormal returns, indicating that markets anticipated slower and less predictable adjudica-

tion. The interaction of firm size and court characteristics confirms that these disadvantages are most severe for small firms in inefficient or politically polarized jurisdictions. At the industry level, upstream, resource-intensive sectors such as mining, energy, and engineering services benefited the most, while service-oriented and consumer-facing industries—retail, construction, and healthcare—were penalized.

Taken together, the results show that the *Chevron* reversal did not create or destroy value uniformly but reallocated it along dimensions of regulatory exposure, firm resources, and judicial capacity. The findings highlight the trade-off between centralized regulatory expertise and decentralized judicial enforcement: Deregulation may reduce compliance burdens but introduces new sources of institutional uncertainty. Our evidence provides a market-based perspective on this trade-off, showing that the costs of judicial veto can rival the burdens of regulation itself. Future work can extend this analysis to the long-run effects of the *Chevron* reversal on investment, innovation, and the evolution of regulatory and judicial behavior in the United States.

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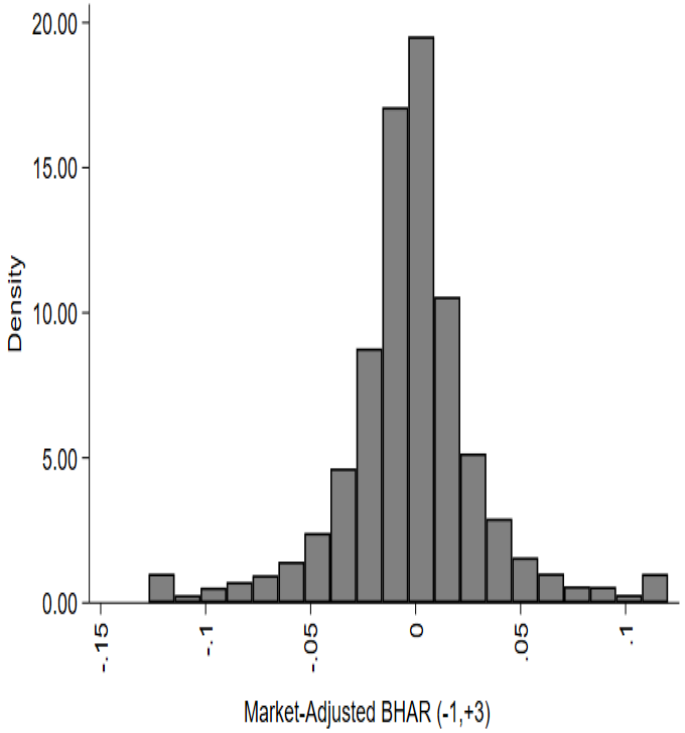
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The Distribution of BHAR

Panel A: Short Window (-1,+3)



Panel B: Long Window (-2,+30)

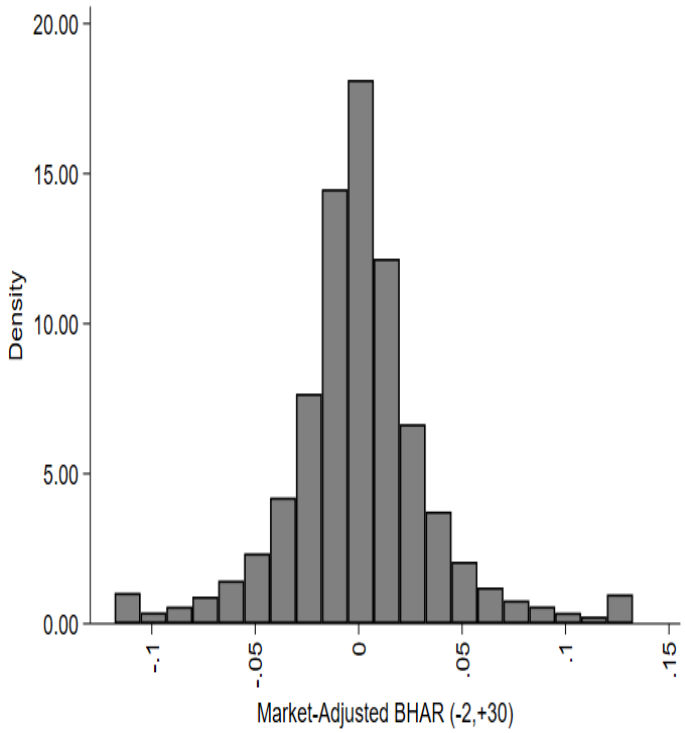


Figure 1: This figure plots the distribution of firm-level buy-and-hold abnormal returns (BHARs) surrounding the Supreme Court's reversal of *Chevron* deference. Panel A shows BHARs calculated over short-window $[-1, +3]$ and Panel B shows BHARs calculated over the extended event window $[-2, +30]$ trading days, both using the market-adjusted model. The distributions are centered near zero but display substantial dispersion, with both large positive and negative outliers. The widespread abnormal returns indicate that investors reacted heterogeneously to the decision, consistent with the view that the transfer of interpretive authority from administrative agencies to the judiciary generated both perceived winners and losers across firms.

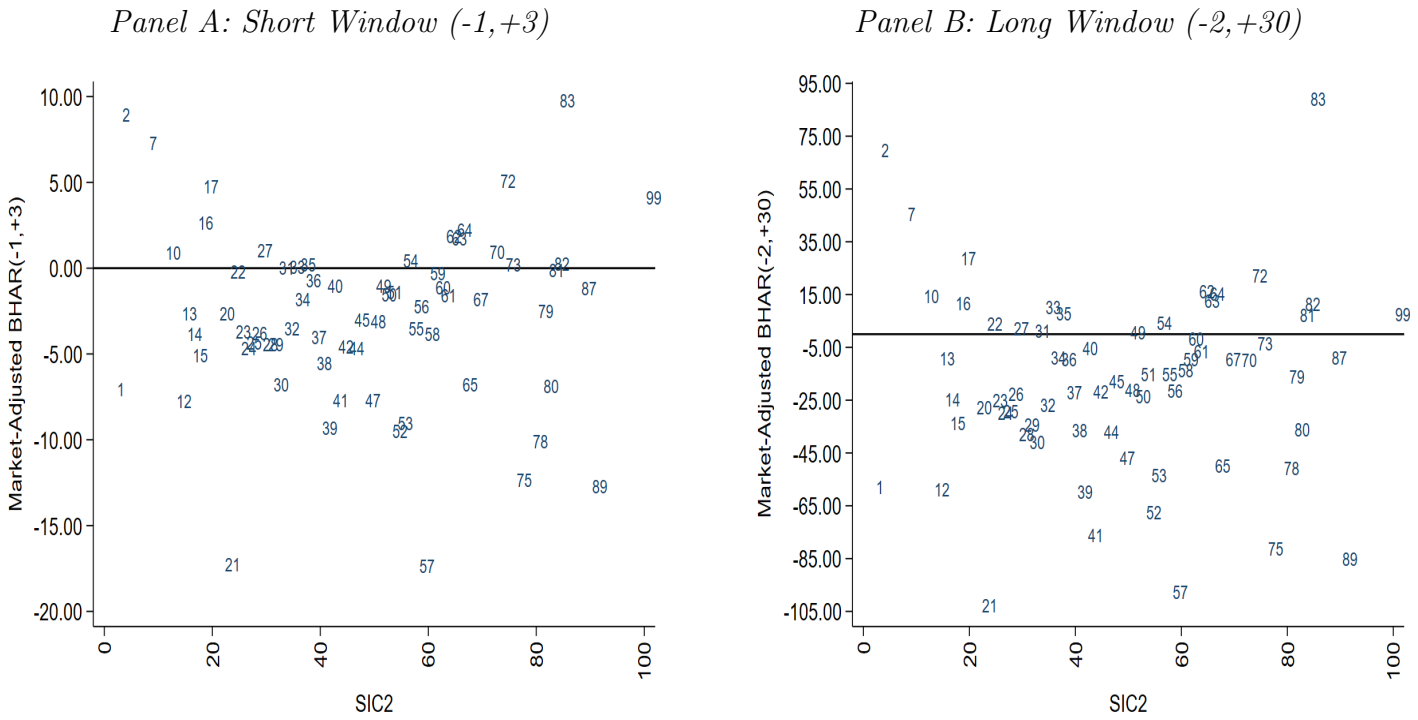
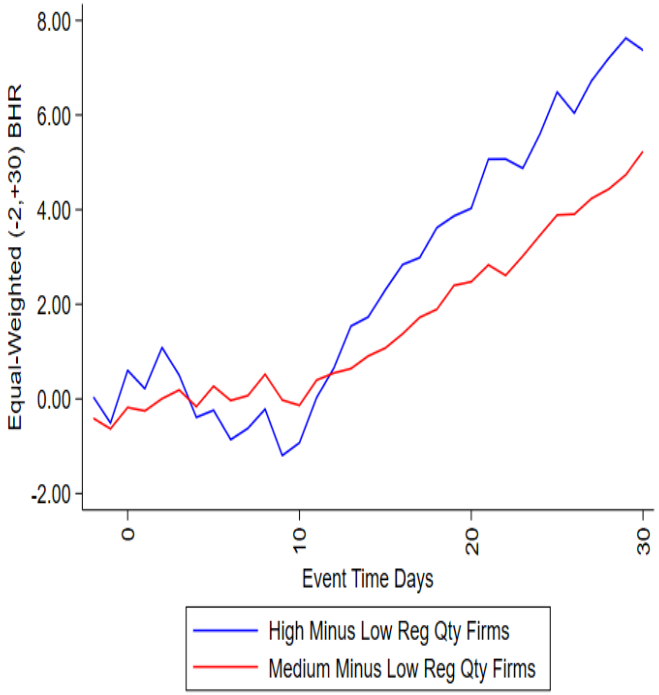


Figure 2: This figure plots average buy-and-hold abnormal returns (BHARs) across two-digit SIC industries over the short event window $[-1, +3]$ and long event window $[-2, +30]$ trading days surrounding the Supreme Court's reversal of *Chevron* deference. Both panels show BHARs computed using the market-adjusted model. Each point represents the average industry-level abnormal return, with the industry's two-digit SIC code labeled on the horizontal axis. The wide dispersion of BHARs across industries indicates substantial heterogeneity in market reactions: some sectors experienced large positive abnormal returns, while others faced significant losses. Consistent with the results in Table 6, the figure illustrates that the effects of the *Chevron* reversal were far from uniform, reflecting differences in industries' regulatory exposure and reliance on administrative enforcement.

BHAR(-2,+30) within Regulatory Quantity

Panel A: Market-Adjusted



Panel B: Fama–French Four Factor

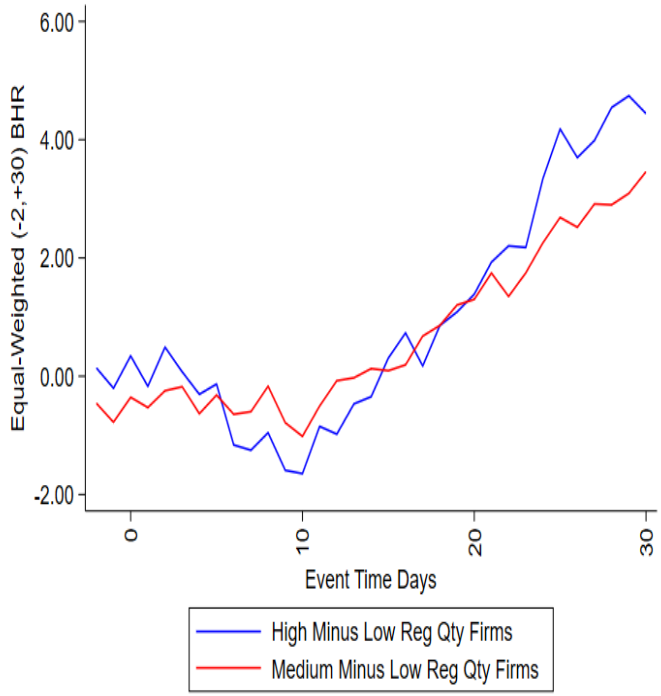


Figure 3: This figure plots the difference in buy-and-hold abnormal returns (BHARs) between firms with high and low *Regulatory Quantity*, following the Supreme Court's reversal of *Chevron* deference. *Regulatory Quantity*, obtained from Kalmenovitz et al. (2025), measures the volume of federal rulemaking activity relevant to each firm based on text analysis of the *Federal Register*. Panel A reports results using the market-adjusted model, and Panel B reports results using the Fama–French four-factor model. The figure shows that firms with higher exposure to regulatory activity outperform those with lower exposure over the extended event window $[-2, +30]$ trading days, indicating that markets viewed the transfer of interpretive authority from regulators to courts as relatively beneficial for firms more deeply embedded in the federal regulatory framework.

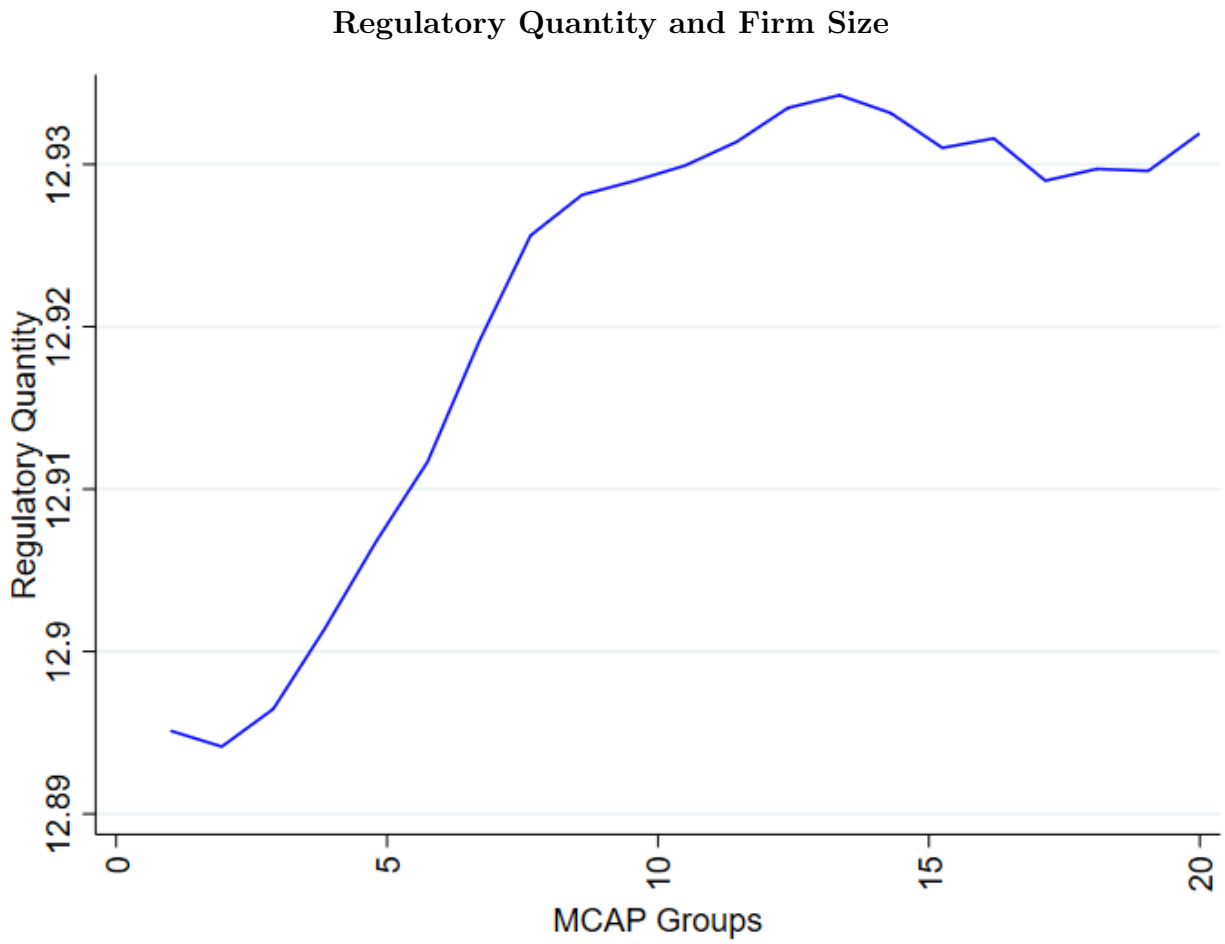


Figure 4: **Inverted U relation between regulatory quantity and size:** This figure plots the average *Regulatory Quantity* by market-capitalization groups (*MCAP groups*). *Regulatory Quantity*, obtained from Kalmenovitz et al. (2025), measures the volume of federal rulemaking activity affecting each firm, constructed from topic-weighted word counts in the *Federal Register* matched to firm-level 10-K text. The figure shows that regulatory exposure increases with firm size, indicating that larger firms operate in domains characterized by greater regulatory activity and complexity. This positive relation between firm size and regulatory exposure parallels the pattern documented by **?**, whose *RegIndex*—the share of a firm's wage bill devoted to regulation-related tasks—rises with firm size before flattening for the largest firms. Consistent with both measures, the figure suggests that regulation scales disproportionately with firm size, implying greater compliance demands for larger and more complex firms.

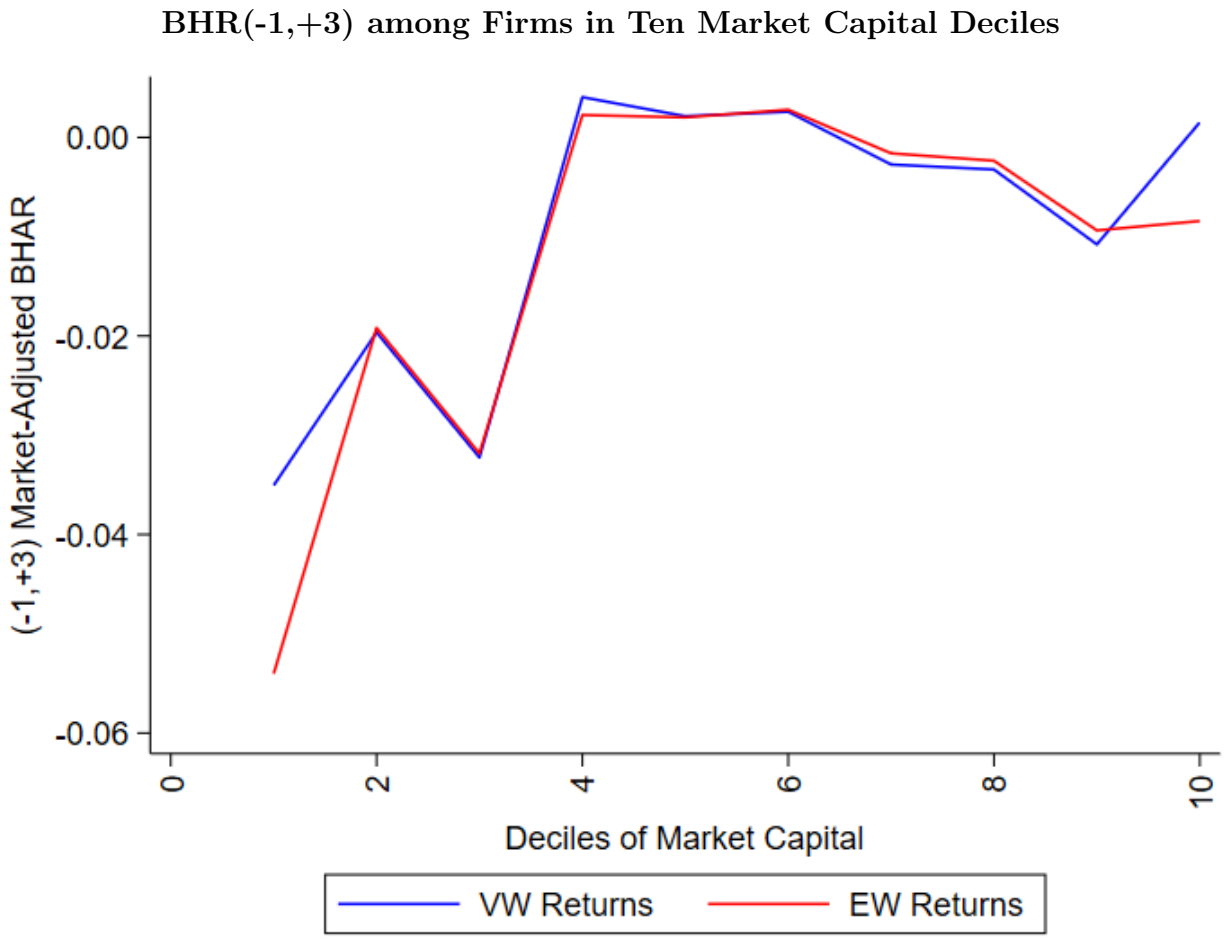


Figure 5: **Buy and Hold Abnormal Returns from from Day-1 to Day+3:** This figure plots average buy-and-hold abnormal returns (BHARs) over the event window $[-1, +3]$ trading days surrounding the Supreme Court's reversal of *Chevron* deference, grouped by firm market-capitalization deciles. Abnormal returns are computed using the market-adjusted model. The figure reveals a clear inverted-U relationship between firm size and market reaction: medium-sized firms experience the largest positive abnormal returns, whereas both the smallest and largest firms show negative or near-zero returns. This pattern is consistent with the view that the end of *Chevron* deference was expected to reduce regulatory compliance costs—benefiting mid-sized firms most—but to increase legal and enforcement uncertainty, which disproportionately harms small firms and leaves large firms relatively unaffected.

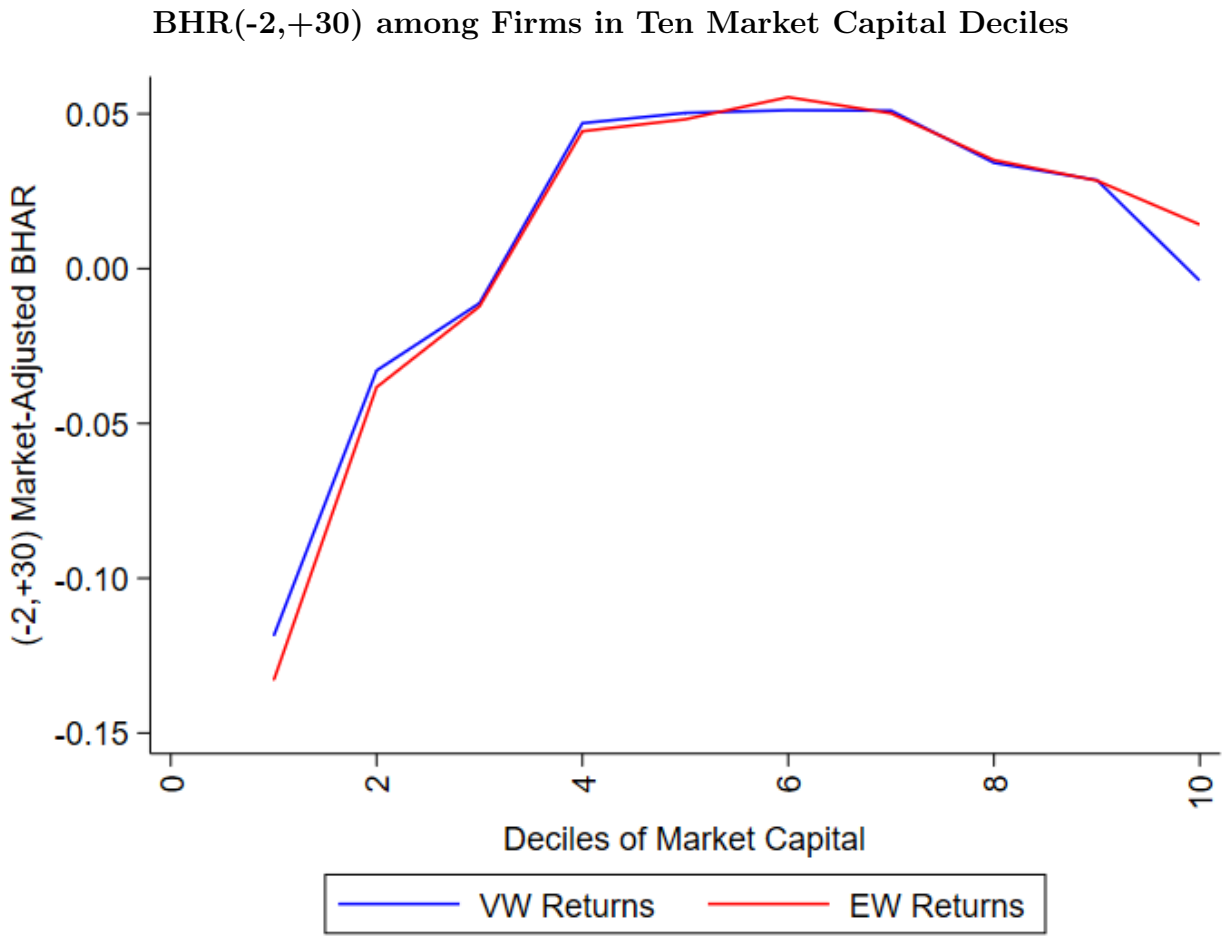
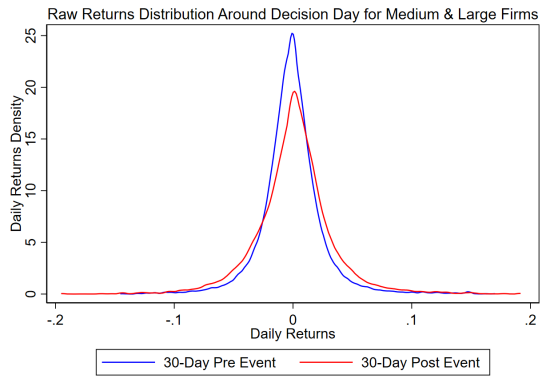
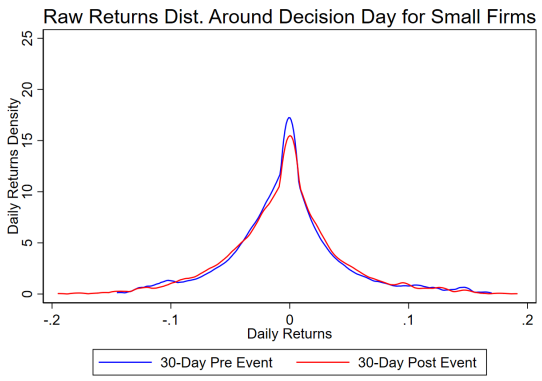


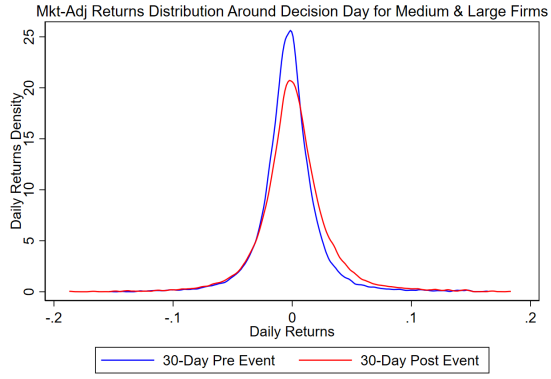
Figure 6: **(-2,+30) Buy and Hold Market-Adjusted Abnormal Returns:** This figure plots average buy-and-hold abnormal returns (BHARs) over the extended event window $[-2, +30]$ trading days surrounding the Supreme Court's reversal of *Chevron* deference, grouped by firm market-capitalization deciles. The figure is identical to the one in Trebbi et al. (2023) where they plot firms' size and regulatory index. Abnormal returns are computed using the market-adjusted model. Consistent with the short-window results in Figure 2, the relation between firm size and abnormal returns follows an inverted-U shape: medium-sized firms continue to exhibit the strongest positive performance, while small firms experience persistently negative returns and large firms show little change. The dispersion of returns widens relative to the short window, indicating that markets increasingly differentiate between expected winners and losers as the implications of the *Chevron* reversal become clearer over the subsequent weeks.



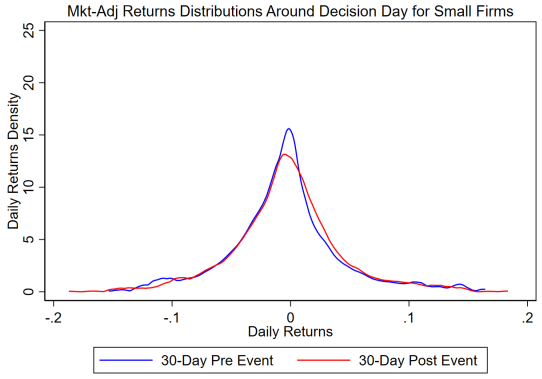
(a) Medium and Large Firms



(b) Small Firms



(c) Medium and Large Firms



(d) Small Firms

Figure 7: **Return Distributions Before and After the *Chevron* Reversal:** This figure plots the distribution of daily returns for medium and large firms (Panels a and c) and small firms (Panels b and d) during the 30 days before and after the Supreme Court's reversal of *Chevron* deference. Panels (a) and (b) show raw returns; Panels (c) and (d) show market-adjusted returns. For medium and large firms, the post-event distribution largely overlaps the pre-event distribution, except for a modestly thicker right tail. In contrast, small firms exhibit a wider and more left-skewed post-event distribution with little expansion of the positive shoulder. These patterns indicate increased downside risk and reduced upside potential for small firms, reinforcing that judicial enforcement disproportionately raises uncertainty for resource-constrained firms.

Table 1: **Summary Statistics** This table reports descriptive statistics for the main variables used in the analysis. The sample includes all U.S. publicly traded firms with available CRSP and Compustat data used in the event-study analysis of the Supreme Court's reversal of *Chevron* deference. *MAdj_BHAR(-1,+3)*, *FF4_BHAR(-1,+3)*, *MAdj_BHAR(-2,+30)*, and *FF4_BHAR(-2,+30)* are buy-and-hold abnormal returns computed using market-adjusted and Fama–French four-factor models, respectively, over the indicated event windows. *Regulatory Quantity* and *Regulatory Fragmentation* are text-based firm-level measures, capturing the intensity and dispersion of federal rulemaking activity relevant to each firm (Kalmenovitz et al. (2025) *MCAP*, *Total Assets*, and *Total Employees* measure firm size. *Avg. Total Filings per Judgeship*, *Cases Pending (#)*, *Three-Year Civil Cases (#)*, and *Judges' Democratic Affiliation* describe the workload and ideological composition of federal district courts.

	N	Mean	SD	P25	Median	P95
	(1)	(2)	(3)	(4)	(5)	(6)
MAdj_BHAR(-1,+3)	795,178	-0.001	0.109	-0.117	-0.006	0.118
FF4_BHAR(-1,+3)	795,178	0.001	0.111	-0.112	-0.003	0.116
MAdj_BHAR(-2,+30)	795,095	-0.009	0.293	-0.324	-0.027	0.317
FF4_BHAR(-2,+30)	795,095	-0.020	2.223	-0.339	-0.011	0.343
Regulatory Fragmentation	775,732	0.781	0.019	0.746	0.784	0.809
Regulatory Quantity	775,732	12.926	0.075	12.822	12.924	13.032
MCAP	798,815	15.145	110.604	0.011	0.970	49.593
Total Assets	795,474	17.701	123.092	0.016	1.431	57.109
Total Employees	792,847	11.952	58.762	0.016	1.231	48.500
Avg. Total Filings per Judgeship	781,574	0.782	1.014	0.274	0.574	1.151
Cased Pending (#)	781,574	13.326	21.736	1.719	8.407	69.229
Three-Year Civil Cases (#)	781,574	1.087	1.369	0.075	0.707	4.140
Judges' Democratic Affliation	776,485	1.308	1.712	0.217	1.167	2.000

Table 2: **Chevron Deference Reversal Decision Day and Abnormal Returns**
This table reports estimates from firm-level regressions examining the stock market reaction to the Supreme Court's reversal of *Chevron* deference. The dependent variable is the firm's buy-and-hold abnormal return (BHAR) over the event window $[-1, +3]$ trading days surrounding the decision date. *DDay* is an indicator equal to one for the *Chevron* reversal decision day and zero otherwise. *Ln MCAP* is the natural logarithm of the firm's market capitalization. *Ln BM* is the natural logarithm of the book-to-market ratio. *ROA* is return on assets. *Asst Grwth* is the year-over-year percentage change in total assets. *ILLIQ* is the Amihud (2002) illiquidity measure, defined as the average ratio of absolute daily stock return to dollar trading volume over the prior year. All regressions include firm and month fixed effects. Standard errors are double-clustered by two-digit SIC industry and month. The ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	Dependent Var: BHAR(-1,+3)	
	Madj Model	Fama-French 4 Model
	(1)	(2)
DDay	0.009***	0.000
	(6.717)	(0.372)
Ln MCAP	-0.049***	-0.053***
	(-17.910)	(-18.109)
Ln BM	0.013***	0.020***
	(4.656)	(7.371)
ROA	0.022***	0.015***
	(5.292)	(3.147)
Asst Grwth	0.005***	-0.001
	(2.976)	(-0.582)
ILLIQ	-560.113	-555.596
	(-1.222)	(-1.168)
Constant	0.341***	0.375***
	(18.673)	(19.691)
Observations	792,058	792,058

Table 3: **Regulatory Fragmentation, Quantity and Abnormal Returns**
This table presents firm-level regressions relating abnormal stock returns around the *Chevron* deference reversal to measures of firms' regulatory environments. The dependent variables are buy-and-hold abnormal returns (BHARs) over short ($[-1, +3]$) and extended ($[-2, +30]$) event windows. *DDay* is an indicator equal to one on the Supreme Court's decision day and zero otherwise. *RFrag* denotes *Regulatory Fragmentation*, which measures the dispersion of rulemaking authority across federal agencies for the topics most relevant to each firm, as constructed by Kalmenovitz, Lowry, and Volkova (2025). *RQty* denotes *Regulatory Quantity*, capturing the volume of federal rulemaking activity affecting the firm, also from Kalmenovitz et al. (2025). *Ln MCap* is the natural logarithm of market capitalization, *Ln BM* is the natural logarithm of the book-to-market ratio, *ROA* is return on assets, *Asst Grwth* is year-over-year asset growth, and *ILLIQ* is the Amihud (2002) illiquidity measure. Regulatory fragmentation and regulatory quantity are averages of the past three years and are therefore absorbed by firm fixed effects. Fixed effects are applied at the firm and month levels, and standard errors are clustered by two-digit SIC industry and month. The ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	BHAR(-1,+3)		BHAR(-2,+30)	
	(1)	(2)	(3)	(4)
DDay	-0.097***	-0.824***	-0.545***	-2.462***
	(-4.688)	(-13.335)	(-4.855)	(-5.909)
DDay x RFrag	0.135***		0.811***	
	(5.040)		(6.081)	
DDay x RQty		0.064***		0.197***
		(13.468)		(6.096)
Ln MCAP	-0.048***	-0.048***	-0.165***	-0.165***
	(-16.951)	(-16.883)	(-23.528)	(-22.547)
Ln BM	0.013***	0.013***	0.052***	0.052***
	(4.679)	(4.494)	(6.157)	(4.960)
ROA	0.025***	0.025**	0.083***	0.083***
	(5.041)	(2.628)	(6.996)	(6.839)
Asst Grwth	0.004**	0.004*	0.023***	0.023***
	(2.015)	(1.822)	(4.331)	(4.391)
ILLIQ	-555.085	-555.126	-2.5e+03	-2.5e+03
	(-1.199)	(-1.199)	(-1.580)	(-1.581)
Constant	0.336***	0.336***	1.159***	1.159***
	(18.074)	(18.067)	(23.659)	(23.552)
Observations	772,382	772,382	772,378	772,378

Table 4: **Firm Size Groups and BHARs**
This table reports regression results examining whether the stock market reaction to the *Chevron* deference reversal varies by firm size. The dependent variable is the firm's buy-and-hold abnormal return (BHAR) over the event windows $[-1, +3]$, in Panel A, and $[-2, +30]$, in Panel B. Firm size is defined in three alternative ways, shown across columns: by market capitalization, by total assets, and by number of employees. The variable *Size Dummy* equals one for small firms and zero for medium and large firms. *DDay* is an indicator equal to one on the Supreme Court's decision day and zero otherwise. *Ln BM* is the natural logarithm of the book-to-market ratio, *ROA* is return on assets, *Asst Grwth* is year-over-year asset growth, and *ILLIQ* is the Amihud (2002) illiquidity measure. Fixed effects are applied at the firm and month levels, and standard errors are clustered by two-digit SIC industry and month. The ***, **, * denote 1%, 5%, and 10% statistical significance, respectively.

Panel A: BHAR (-1,+3)

	Size=MCAP	Size=Assets	Size=Employees
	(1)	(2)	(3)
DDay x Size Dummy	-0.019***	-0.010***	-0.006***
	(-9.887)	(-3.822)	(-3.311)
DDay	0.013***	0.011***	0.010***
	(20.165)	(8.628)	(9.383)
Ln BM	0.033***	0.033***	0.033***
	(14.849)	(14.856)	(14.856)
ROA	0.000	0.000	0.000
	(0.040)	(0.039)	(0.039)
Asst Grwth	-0.012***	-0.012***	-0.012***
	(-4.506)	(-4.501)	(-4.502)
ILLIQ	12.142	12.502	12.465
	(0.094)	(0.097)	(0.096)
Constant	0.024***	0.024***	0.024***
	(10.686)	(10.688)	(10.690)
Observations	793,047	793,047	793,047

Panel B: BHAR (-2,+30)

	Size=MCAP	Size=Assets	Size=Employees
	(1)	(2)	(3)
DDay× Size Dummy	-0.046***	-0.037***	-0.014
	(-3.467)	(-3.062)	(-1.414)
DDay	0.010	0.009***	0.003
	(1.410)	(3.347)	(1.097)
Ln BM	0.199***	0.199***	0.199***
	(17.201)	(17.212)	(17.210)
ROA	-0.046	-0.046	-0.046
	(-0.732)	(-0.732)	(-0.732)
Asst Grwth	-0.061***	-0.061***	-0.061***
	(-3.320)	(-3.317)	(-3.319)
ILLIQ	-106.778	-105.949	-106.002
	(-0.126)	(-0.125)	(-0.125)
Constant	0.145***	0.145***	0.145***
	(14.279)	(14.283)	(14.288)
Observations	792,984	792,984	792,984

Table 5: **Judge Characteristics Variables and BHARs**
This table presents firm-level regressions examining whether the stock market reaction to the Supreme Court's reversal of *Chevron* deference varies with the characteristics of the federal courts that newly gained interpretive authority. The dependent variables are buy-and-hold abnormal returns (BHARs) over short ($[-1, +3]$) and extended ($[-2, +30]$) event windows. *DDay* is an indicator equal to one on the *Chevron* reversal decision day and zero otherwise. *Avg. Total Filings per Judgeship* measures the average number of new civil and criminal case filings per authorized judgeship in each federal district court. *Ln Cases Pending* is the natural logarithm of the number of cases pending in the district court at the end of the prior year. *Ln Three-Year Civil Cases* is the natural logarithm of the total number of civil cases filed in the court during the previous three years. *Judges' Democratic Affiliation* is the ratio of senior district judges appointed by Democratic to Republican presidents, constructed from Ballotpedia judicial biographies. *Ln MCap*, *Ln BM*, *ROA*, *Asst Grwth*, and *ILLIQ* are defined as in previous tables. Judicial and court characteristics are matched to firms by district jurisdiction. Fixed effects are applied at the firm and month levels, and standard errors are clustered by two-digit SIC industry and month. The ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	Panel A: BHAR (-1,+3)			
	(1)	(2)	(3)	(4)
DDay	0.011***	0.023***	0.019***	0.011***
	(8.468)	(4.283)	(6.747)	(8.427)
DDay x Avg. Total Filings per Judgeship	-0.000**			
	(-2.540)			
DDay x Ln Cases Pending		-0.002**		
		(-2.486)		
DDay x Ln Three-Year Civil Cases (#)			-0.002***	
			(-4.518)	
DDay x Judges' Democratic Affiliation				-0.001***
				(-6.077)
Ln MCAP	-0.048***	-0.048***	-0.048***	-0.048***
	(-17.122)	(-17.121)	(-17.121)	(-17.155)
Ln BM	0.013***	0.013***	0.013***	0.013***
	(4.360)	(4.360)	(4.359)	(4.369)
ROA	0.022***	0.022***	0.022***	0.022***
	(4.123)	(4.112)	(4.121)	(4.123)
Asst Grwth	0.006***	0.006***	0.006***	0.006***
	(3.206)	(2.975)	(3.148)	(3.211)
ILLIQ	-541.629	-541.650	-541.677	-541.395
	(-1.184)	(-1.184)	(-1.184)	(-1.182)
Constant	0.339***	0.339***	0.339***	0.339***
	(18.228)	(18.226)	(18.227)	(18.250)
Observations	776148	776148	776148	771199

Panel B: BHAR (-2,+30)

	(1)	(2)	(3)	(4)
DDay	-0.001	0.041*	0.005	0.002
	(-0.764)	(1.681)	(0.656)	(0.489)
DDay x Avg. Total Filings per Judgeship	-0.000			
	(-0.051)			
DDay x Ln Cases Pending		-0.005		
		(-1.598)		
DDay x Ln Three-Year Civil Cases (#)			-0.001	
			(-0.661)	
DDay x Judges' Democratic Affiliation				-0.003***
				(-2.731)
Ln MCAP	-0.281***	-0.281***	-0.281***	-0.282***
	(-24.637)	(-24.637)	(-24.637)	(-24.628)
Ln BM	0.081***	0.081***	0.081***	0.081***
	(6.106)	(6.105)	(6.106)	(6.129)
ROA	0.088*	0.088*	0.088*	0.088*
	(1.711)	(1.709)	(1.711)	(1.712)
Asst Grwth	0.039***	0.039***	0.039***	0.039***
	(4.353)	(4.347)	(4.349)	(4.369)
ILLIQ	-3.4e+03	-3.4e+03	-3.4e+03	-3.4e+03
	(-1.399)	(-1.399)	(-1.399)	(-1.397)
Constant	1.984***	1.984***	1.984***	1.985***
	(24.767)	(24.767)	(24.767)	(24.750)
Observations	776,093	776,093	776,093	771,147

Table 6: **BHAR(-1,+3) Among SIC2 Industries - Top Ten Winners and Losers**
This table reports the ten two-digit SIC industries with the largest positive ("winners") and negative ("losers") average buy-and-hold abnormal returns (BHARs) over the short event window $[-1, +3]$ trading days surrounding the Supreme Court's reversal of *Chevron* deference. Abnormal returns are computed using both the market-adjusted (Madj) and Fama–French four-factor (FF4) models. The results highlight substantial cross-industry heterogeneity in market reactions. Upstream, resource-intensive industries such as coal and metal mining, oil and gas extraction, and engineering services experience the strongest positive abnormal returns, consistent with expectations of lower future regulatory burdens. In contrast, downstream and service-oriented industries—such as wholesale trade, apparel, construction, and healthcare—exhibit large negative abnormal returns, consistent with heightened judicial uncertainty and enforcement costs. Fixed effects are applied at the firm and month levels, and standard errors are clustered by two-digit SIC industry and month. The ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

		Dependent Varaible: BHR(-1,+3			
Indusry Description	SIC2 (1)	Madj (2)	t-stat (3)	FF4 (4)	t-stat (5)
Biggest Gainers					
Coal Mining	12	0.084***	(13.984)	0.082***	(30.115)
Engineering, Accounting, Research, Management	87	0.075***	(10.899)	0.075***	(28.765)
Tobacco Products	21	0.048***	(7.516)	0.055***	(18.062)
Metal Mining	10	0.039***	(6.549)	0.041***	(15.516)
Water Transportation	44	0.034***	(5.448)	0.032***	(10.656)
Local and Suburban Passenger Transportation	41	0.036***	(5.946)	0.031***	(10.692)
Transportation Services	47	0.026***	(4.558)	0.028***	(9.904)
Railroad Transportation	40	0.026***	(4.418)	0.024***	(8.380)
Legal Services	81	0.023***	(3.891)	0.022***	(7.878)
Oil and Gas Extraction	13	0.023***	(4.432)	0.021***	(7.762)
Biggest Losers					
Agricultural Production - Crops	1	-0.031***	(-4.408)	-0.028***	(-9.946)
Auto Dealers and Gasoline Service Stations	55	-0.027***	(-4.825)	-0.029***	(-10.514)
Rubber and Miscellaneous Plastics Products	30	-0.033***	(-6.301)	-0.034***	(-13.078)
Leather and Leather Products	31	-0.037***	(-6.235)	-0.037***	(-13.087)
Heavy Construction ex. Buldings Contractors	16	-0.033***	(-6.269)	-0.038***	(-14.129)
Home Furniture, and Equipment Stores	57	-0.044***	(-8.328)	-0.044***	(-17.660)
Agricultural Services	7	-0.044***	(-7.649)	-0.054***	(-19.215)
Paper and Allied Products	26	-0.056***	(-10.894)	-0.057***	(-21.080)
Apparel, Finished Products from Fabrics	23	-0.061***	(-10.889)	-0.061***	(-21.295)
Wholesale Trade - Nondurable Goods	51	-0.084***	(-14.696)	-0.085***	(-31.600)

Table 7: **Firm Size Interacted with Judge Characteristics Variables and BHARs** This table presents firm-level regressions testing whether the effect of the Supreme Court's reversal of *Chevron* deference on stock returns varies jointly with firm size and court characteristics. The dependent variables are buy-and-hold abnormal returns (BHARs) over short ($[-1, +3]$) and extended ($[-2, +30]$) event windows. Each column includes a triple interaction between the *Chevron* decision-day indicator (*DDay*), a size dummy, and one of four court-level variables: *Avg. Total Filings per Judgeship*, *Ln Cases Pending*, *Ln Three-Year Civil Cases*, and *Judges' Democratic Affiliation*. The size dummy equals one for small firms and zero for medium and large firms. The court variables are defined as in Table 4 and capture judicial workload, congestion, and ideological composition. Control variables include *Ln BM*, *ROA*, *Asst Grwth*, and *ILLIQ*. Fixed effects are applied at the firm and month levels, and standard errors are clustered by two-digit SIC industry and month. The ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: BHAR (-1,+3)

	Avg. Total Filings per Judgeship	Ln Cases Pending (#)	Ln Three-Year Civil Cases (#)	Judges' Democratic Affliation
	(1)	(2)	(3)	(4)
DDay x Size Dummy x Court Var	0.000	-0.004**	-0.004**	-0.002
	(0.785)	(-2.163)	(-2.338)	(-1.489)
DDay x Size Dummy	-0.019***	0.022	0.009	-0.016***
	(-6.640)	(1.127)	(0.713)	(-6.043)
DDay x Court Var	-0.000***	0.000	-0.000	-0.001***
	(-2.947)	(0.177)	(-0.686)	(-3.210)
DDay	0.015***	0.012**	0.015***	0.014***
	(11.024)	(2.250)	(5.108)	(15.790)
Ln BM	0.033***	0.033***	0.033***	0.033***
	(15.386)	(15.344)	(15.385)	(15.397)
ROA	-0.001	-0.001	-0.001	-0.001
	(-0.124)	(-0.117)	(-0.121)	(-0.124)
Asst Grwth	-0.011***	-0.011***	-0.011***	-0.011***
	(-5.601)	(-5.509)	(-5.485)	(-5.605)
ILLIQ	25.749	25.729	25.614	26.671
	(0.195)	(0.195)	(0.194)	(0.203)
Constant	0.025***	0.025***	0.025***	0.025***
	(11.137)	(11.133)	(11.137)	(11.145)
Observations	777,087	777,087	777,087	772,138

Panel B: BHAR (-2,+30)

	Avg. Total Filings per Judgeship	Ln Cases Pending (#)	Ln Three-Year Civil Cases (#)	Judges' Democratic Affliation
	(1)	(2)	(3)	(4)
DDay x Size Dummy x Court Var	0.000	0.001	-0.004	-0.001
	(0.245)	(0.069)	(-0.647)	(-0.673)
DDay x Size Dummy	-0.047**	-0.049	-0.020	-0.044***
	(-2.132)	(-0.634)	(-0.400)	(-3.503)
DDay x Court Var	0.000	-0.003*	0.001	-0.002*
	(0.089)	(-1.857)	(1.192)	(-1.926)
DDay	0.009	0.039***	0.003	0.012*
	(1.236)	(3.849)	(0.736)	(1.669)
Ln BM	0.200***	0.200***	0.200***	0.200***
	(16.532)	(16.531)	(16.532)	(16.576)
ROA	-0.046	-0.046	-0.046	-0.046
	(-0.744)	(-0.740)	(-0.744)	(-0.744)
Asst Grwth	-0.064***	-0.064***	-0.064***	-0.064***
	(-4.153)	(-4.069)	(-4.052)	(-4.160)
ILLIQ	-111.777	-111.751	-111.841	-109.189
	(-0.127)	(-0.127)	(-0.127)	(-0.124)
Constant	0.147***	0.147***	0.147***	0.147***
	(13.937)	(13.934)	(13.937)	(13.973)
Observations	777,032	777,032	777,032	772,086

Table 8: **Firm Size, Firm Complexity and Court Characteristics**

This table presents firm-level regressions testing whether the effect of the Supreme Court's reversal of *Chevron* deference on stock returns varies jointly with firm size and firm complexity, and firm complexity and court characteristics. The size dummy equals one for small firms and zero for medium and large firms. *Complexity* if a firm complexity measure as defined by Loughran and McDonald (2024). *Scope* is the number of industry-level markets that each firm likely operates in based on NLP processing and clustering techniques using the doc2vec embedding model as defined by Hoberg and Phillips (2025). *Segments (#)* is the natural logarithm of number of business segments. Three court characteristics are *Avg. Total Filings per Judgeship*, *Ln Cases Pending*, and *Ln Three-Year Civil Cases*. The court variables are defined as in Table 4 and capture judicial workload and congestion. Control variables include *Ln BM*, *ROA*, *Asst Grwth*, and *ILLIQ*. Fixed effects are applied at the firm and month levels, and standard errors are clustered by two-digit SIC industry and month. The ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Firm Size and Firm Complexity

Dependent Var	BHR(-1,+3)			BHR(-2,+30)		
	(1)	(2)	(3)	(4)	(5)	(6)
DDay x Size Dummy x Complexity	-0.030**			0.072		
	(-2.395)			(1.275)		
DDay x Size Dummy x Scope		-0.012***			0.013	
		(-7.076)			(1.586)	
DDay x Size Dummy x Segments (#)			-0.019***			0.049
			(-3.375)			(1.664)
DDay x Complexity	-0.004			-0.111***		
	(-1.257)			(-6.497)		
DDay x Scope		0.005***			0.011***	
		(3.697)			(3.047)	
DDay x Segments (#)			-0.007***			-0.008
			(-2.790)			(-0.608)
DDay x Size Dummy	-0.004	0.006	-0.017***	-0.069***	-0.067***	-0.040***
	(-0.651)	(1.644)	(-6.855)	(-3.944)	(-3.792)	(-2.758)
DDay	0.013***	0.002	0.012***	0.056***	-0.018	0.012
	(7.941)	(0.535)	(7.450)	(4.416)	(-1.312)	(1.383)
Constant	0.021***	0.024***	0.028***	0.127***	0.144***	0.170***
	(8.586)	(10.298)	(8.363)	(9.804)	(13.220)	(10.382)
Observations	647,403	737,149	566,861	647,424	737,166	566,857

Panel B: Firm Complexity and Court Characteristics (Dep Var: BHR(-1,+3))

Firm Size	Small	Big	Small	Big	Small	Big
	(1)	(2)	(3)	(4)	(5)	(6)
DDay x Complexity x Ln Cases Pending	-0.108***	0.005**				
	(-6.037)	(2.084)				
DDay x Complexity x Ln Three-Year Civil Cases (#)			-0.116***	0.000		
			(-4.823)	(0.083)		
DDay x Complexity x Avg. Total Filings per Judgeship					-0.000	0.000*
					(-1.509)	(1.932)
DDay x Ln Cases Pending	0.037***	-0.002				
	(5.375)	(-1.365)				
DDay x Ln Three-Year Civil Cases (#)			0.037***	-0.000		
			(4.493)	(-0.096)		
DDay x Avg. Total Filings per Judgeship					0.000	-0.000**
					(1.638)	(-2.454)
DDay x Complexity	0.920***	-0.049**	0.711***	-0.005	0.001	-0.009*
	(5.707)	(-2.236)	(4.583)	(-0.299)	(0.039)	(-1.787)
DDay	-0.309***	0.030**	-0.224***	0.012	0.002	0.015***
	(-5.155)	(2.191)	(-4.257)	(1.366)	(0.301)	(7.286)
Constant	0.002	0.026***	0.002	0.026***	0.002	0.026***
	(1.011)	(9.902)	(1.013)	(9.903)	(1.060)	(9.909)
Observations	143,496	493,394	143,496	493,394	143,496	493,394

Table 9: **Firm Size Groups and Option-Implied and Realized Volatility**
This table reports OLS regression results examining whether there was a change in overall volatility in the market before and after the *Chevron* deference reversal and whether the change varies by firm size. The dependent variables option-implied volatility and realized volatility. Option-implied volatility and corresponding realized volatility are calculated using option expiring at least ninety-days after the time t. Post equals 1 for the 30-day period starting on June 28, 2024 (inclusive of June 28), and equals 0 for the 30-day period preceding that date. The variable *Size Dummy* equals one for small firms and zero for medium and large firms. Controls include *Ln BM*, *ROA*, *Ln BM*, *Asst Grwth*, and *ILLIQ*. *Ln BM* is the natural logarithm of the book-to-market ratio, *ROA* is return on assets, *Asst Grwth* is year-over-year asset growth, and *ILLIQ* is the Amihud (2002) illiquidity measure. The ***, **, * denote 1%, 5%, and 10% statistical significance, respectively.

	Option Implied Volatility				Realized Volatility			
	Fixed-Effects Model			First-Diff	Fixed-Effects Model			First-Diff
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Post x Size Dummy	0.013**	0.011*	0.011*	0.013***	0.001*	0.002***	0.002***	0.001***
	(2.619)	(1.817)	(1.790)	(3.492)	(1.800)	(3.300)	(3.284)	(5.442)
Post	0.025***	0.019***	-0.001	0.025***	0.001***	0.000***	-0.000	0.001***
	(9.249)	(5.622)	(-0.641)	(23.822)	(5.648)	(3.083)	(-0.099)	(9.928)
Size Dummy	0.294***	0.017**	0.016**	0.294***	0.015***	-0.001**	-0.001**	0.015***
	(5.766)	(2.444)	(2.282)	(76.480)	(6.813)	(-2.155)	(-2.129)	(62.459)
Firm Fixed Effects	NO	YES	YES	NA	NO	YES	YES	NA
Month Fixed Effects	NO	NO	YES	NA	NO	NO	YES	NA
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Observations	128,391	128,370	128,370	128,391	125,031	125,010	125,010	125,031

Table 10: **Firm Size and Returns Skewness Pre and Post Chevron Reversal**
This table presents firm-level regressions relating returns skewness and firm size before and after the reversal of Chevron Deference. Post equals 1 for the 30-day period starting on June 28, 2024 (inclusive of June 28), and equals 0 for the 30-day period preceding that date. Size Dummy is equal 1 for all the firms that fall in the lower tercile and 0 for medium and higher terciles firms. Controls include *Ln MCap*, *Ln BM*, *ROA*, *Asst Grwth*, and *ILLIQ*. *Ln MCap* is the natural logarithm of market capitalization, *Ln BM* is the natural logarithm of the book-to-market ratio, *ROA* is return on assets, *Asst Grwth* is year-over-year asset growth, and *ILLIQ* is the Amihud (2002) illiquidity measure. Regulatory fragmentation and regulatory quantity are averages of the past three years and are therefore absorbed by firm fixed effects. Fixed effects are applied at the firm and month levels, and standard errors are clustered by two-digit SIC industry and month. The ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	Fixed-Effects Model			First-Diff
	(1)	(2)	(3)	(4)
Post x Size Dummy	-0.072	-0.191**	-0.204**	-0.072*
	(-0.654)	(-2.166)	(-2.360)	(-1.829)
Post	0.147	0.147	0.697***	0.147***
	(1.172)	(1.189)	(5.798)	(11.924)
Size Dummy	0.140	0.018	0.195	0.140***
	(1.414)	(0.079)	(1.265)	(4.753)
Firm Fixed Effects	NO	YES	YES	NA
Month Fixed Effects	NO	NO	YES	NA
Controls	YES	YES	YES	YES
Observations	127,717	127,696	127,696	127,717

Appendix A. Variable Definitions

In this appendix, we provide a comprehensive explanation of how we calculate our variables.

MAdj_BHAR(-1,+3), MAdj_BHAR(-2,+30): Buy-and-hold abnormal returns (BHARs) over the indicated event windows, computed using a market-adjusted model based on CRSP daily returns and the CRSP value-weighted market index.

FF4_BHAR(-1,+3), FF4_BHAR(-2,+30): Buy-and-hold abnormal returns (BHARs) over the indicated event windows, computed using the Fama–French four-factor model that includes market, size, value, and momentum factors.

DDay: An indicator variable equal to one for the Supreme Court's 2024 decision overturning *Chevron* deference and zero otherwise.

Regulatory Quantity: A firm-level measure of the total volume of rulemaking activity relevant to each firm, constructed by Kalmenovitz et al. (2025) using the total word count in the *Federal Register* across 100 topics, weighted by each firm's 10-K topic exposure.

Regulatory Fragmentation: A firm-level measure of the dispersion of rulemaking authority across agencies, also from Kalmenovitz et al. (2025), computed as one minus the Herfindahl index of agency shares within each regulatory topic and aggregated using firm-specific 10-K topic weights.

Ln MCap: The natural logarithm of a firm's market capitalization (market value of equity) measured in U.S. dollars.

Ln BM: The natural logarithm of the book-to-market ratio, defined as the ratio of book value of equity to market capitalization.

ROA: Return on assets, defined as net income divided by total assets.

Asst Grwth: Year-over-year percentage change in total assets, capturing firm-level growth

in asset base.

ILLIQ: Amihud (2002) illiquidity measure, defined as the average ratio of the absolute daily stock return to daily dollar trading volume over the previous year.

Size Dummy: An indicator variable equal to one for firms classified as small (bottom tercile of market capitalization, total assets, or employment) and zero for medium and large firms.

Avg. Total Filings per Judgeship: The average number of new civil and criminal case filings per authorized judgeship in a federal district court, capturing judicial workload and resource constraints.

Ln Cases Pending: The natural logarithm of the total number of cases pending in a district court at the end of the prior year, used as a proxy for court congestion and backlog.

Ln Three-Year Civil Cases: The natural logarithm of the total number of civil cases filed in a district court over the previous three years, measuring court size and the breadth of its docket.

Judges' Democratic Affiliation: The ratio of senior district judges appointed by Democratic to Republican presidents, constructed from Ballotpedia judicial biographies to capture ideological composition of the judiciary.

MCAP: Total market capitalization of the firm in millions of U.S. dollars.

Total Assets: Book value of total assets in millions of U.S. dollars, drawn from Compustat.

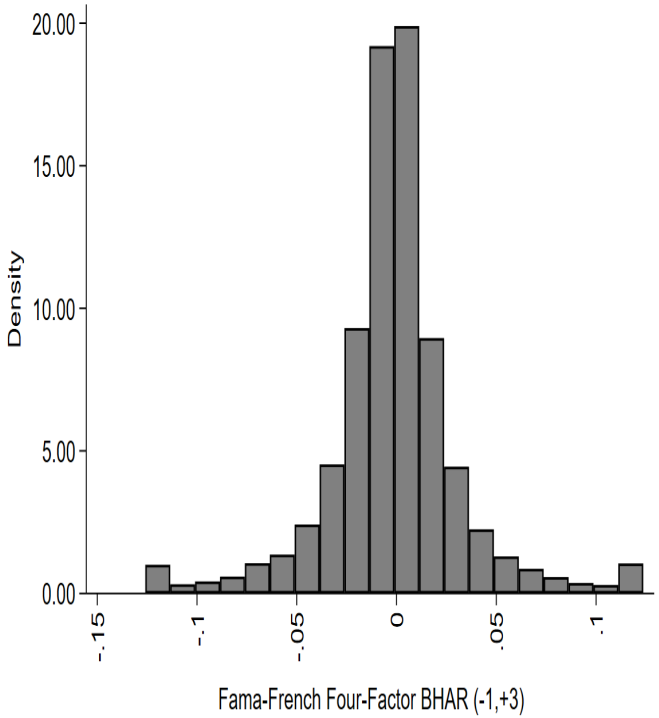
Total Employees: Number of employees reported by the firm in thousands, drawn from Compustat.

Industry BHARs (SIC2): Average buy-and-hold abnormal returns aggregated at the two-digit SIC industry level, computed over the short event window $[-1, +3]$ for both market-adjusted and Fama–French four-factor models.

A Additional Plots & Tables

The Distribution of BHAR

Panel A: Short-window



Panel B:Long-window

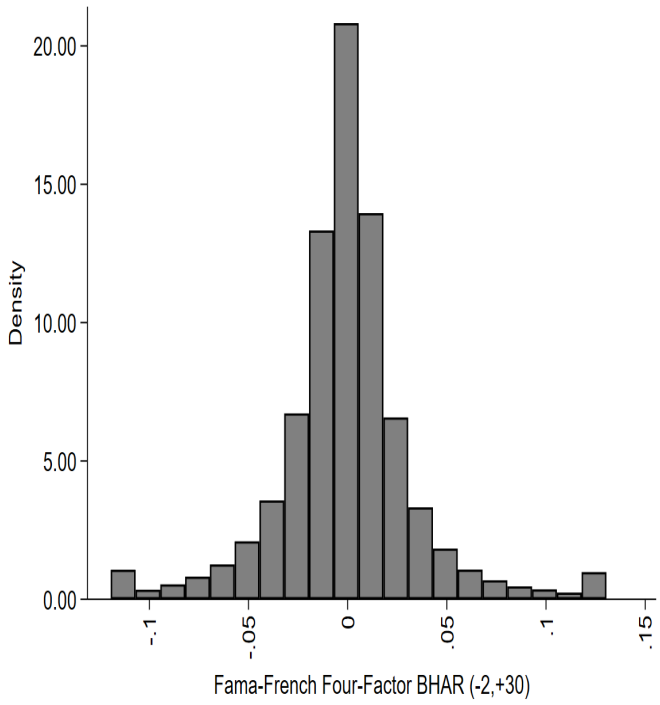
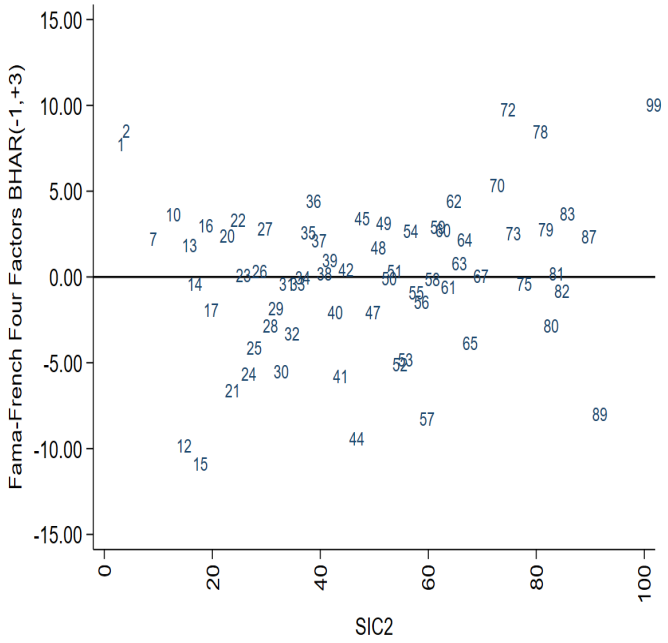


Figure A.I: This figure plots the distribution of firm-level buy-and-hold abnormal returns (BHARs) surrounding the Supreme Court's reversal of *Chevron* deference. Panel A shows BHARs calculated over short-window $[-1, +3]$ and Panel B shows BHARs calculated over the extended event window $[-2, +30]$ trading days, both using the Fama-French Four Factors model. The distributions are centered near zero but display substantial dispersion, with both large positive and negative outliers. The widespread abnormal returns indicate that investors reacted heterogeneously to the decision, consistent with the view that the transfer of interpretive authority from administrative agencies to the judiciary generated both perceived winners and losers across firms.

Fama-French Four Factors BHAR among SIC2 Industry Classification

Panel A: Short Window (-1,+3)



Panel B: Long Window (-2,+30)

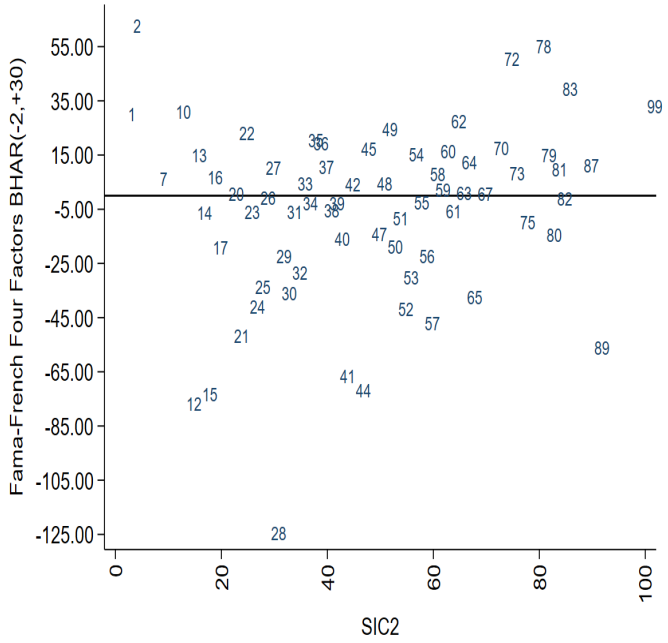


Figure A.II: This figure plots average buy-and-hold abnormal returns (BHARs) across two-digit SIC industries over the short event window $[-1, +3]$ and long event window $[-2, +30]$ trading days surrounding the Supreme Court's reversal of *Chevron* deference. Both panels show BHARs computed using the Fama-French Four Factors model. Each point represents the average industry-level abnormal return, with the industry's two-digit SIC code labeled on the horizontal axis. The wide dispersion of BHARs across industries indicates substantial heterogeneity in market reactions: some sectors experienced large positive abnormal returns, while others faced significant losses. Consistent with the results in Table 6, the figure illustrates that the effects of the *Chevron* reversal were far from uniform, reflecting differences in industries' regulatory exposure and reliance on administrative enforcement.

Table A.I: **Abnormal Returns by SIC2 Industry Classification**
This table reports average buy-and-hold abnormal returns (BHARs) for all two-digit SIC industries around the Supreme Court's reversal of *Chevron* deference. Abnormal returns are calculated over the short event window $[-1, +3]$ trading days using both the market-adjusted (Madj) and Fama–French four-factor (FF4) models, with corresponding t-statistics shown in parentheses. Panel A lists industries with positive abnormal returns ("gainers"), and Panel B lists industries with negative abnormal returns ("losers"). Consistent with the main-text results in Table 6, industries historically subject to heavy federal oversight—such as energy, mining, transportation, and insurance—experience significant positive returns, while service-oriented and consumer-facing sectors—including retail, construction, and healthcare—show negative returns. The table confirms that cross-industry heterogeneity in market reactions to the *Chevron* reversal is broad-based rather than concentrated among a few sectors. Fixed effects are applied at the firm and month levels, and standard errors are clustered by two-digit SIC industry and month. The ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Gainers Among SIC2 Industries

		Dependent Variable: BHR(-1,+3)			
Indusry Description	SIC2 (1)	Madj (2)	t-stat (3)	FF4 (4)	t-stat (5)
Insurance Carriers	63	0.020***	(3.420)	0.021***	(8.172)
Educational Services	82	0.023***	(3.449)	0.021***	(8.366)
Miscellaneous Retail	59	0.022***	(5.547)	0.020***	(8.051)
Primary Metal Industries	33	0.018***	(3.216)	0.014***	(5.429)
Agr Production - Livestock, Animal Specialties	2	0.008	(1.261)	0.012***	(4.666)
Electronic and Other Electrical Equipments	36	0.014***	(3.168)	0.011***	(4.160)
Personal Services	72	0.012***	(3.120)	0.010***	(4.537)
Nondepository Credit Institutions	61	0.012**	(2.344)	0.009***	(3.431)
Mining and Quarrying of Nonmetallic Minerals	14	0.008	(1.444)	0.008***	(2.913)
Insurance Agents, Brokers and Service	64	0.008	(1.485)	0.008***	(2.999)
Real Estate	65	0.007	(1.301)	0.008***	(3.145)
Pipelines, Except Natural Gas	46	0.006	(1.009)	0.007**	(2.303)
Furniture and Fixtures	25	0.006	(1.142)	0.005*	(1.942)
Depository Institutions	60	0.009*	(1.743)	0.005*	(1.913)
Industrial Machinery and Computer Equipment	35	0.005	(1.142)	0.003	(1.118)
Motor Freight Transportation and Warehousing	42	0.005	(0.904)	0.003	(1.215)
Business Services	73	0.004	(0.729)	0.003	(1.437)
Services, Not Elsewhere Classified	89	0.006	(1.266)	0.003	(1.251)
Nonclassifiable Establishments	99	0.005	(0.729)	0.002	(0.293)
Printing, Publishing and Allied Industries	27	0.003	(0.574)	0.001	(0.341)
Petroleum Refining and Related Industries	29	0.001	(0.198)	-0.001	(-0.596)

Panel B: Gainers Among SIC2 Industries

		Dependent Variable: BHR(-1,+3)			
Indusry Description	SIC2 (1)	Madj (2)	t-stat (3)	FF4 (4)	t-stat (5)
Security and Commodity Brokers, Dealers etc.	62	-0.001	(-0.304)	-0.000	(-0.071)
Transportation by Air	45	-0.002	(-0.311)	-0.003	(-1.484)
Communications	48	-0.008	(-1.519)	-0.003	(-1.119)
Transportation Equipment	37	-0.002	(-0.375)	-0.004	(-1.356)
Food and Kindred Products	20	-0.010*	(-1.839)	-0.005*	(-1.686)
Measuring, Photographic, Medical, etc.	38	-0.008*	(-1.909)	-0.005**	(-2.165)
General Merchandise Stores	53	-0.010*	(-1.832)	-0.006**	(-2.314)
Social Services	83	-0.006	(-1.188)	-0.006**	(-2.322)
Motion Pictures	78	-0.008	(-1.394)	-0.008***	(-2.981)
Automotive Repair, Services and Parking	75	-0.013**	(-2.287)	-0.009***	(-3.621)
Amusement and Recreation Services	79	-0.013**	(-2.441)	-0.009***	(-3.450)
Holding and Other Investment Offices	67	-0.009	(-1.662)	-0.010***	(-4.794)
Fabricated Metal Products	34	-0.010*	(-1.962)	-0.011***	(-4.374)
Electric, Gas and Sanitary Services	49	-0.011**	(-2.176)	-0.012***	(-4.929)
Apparel and Accessory Stores	56	-0.015***	(-2.812)	-0.012***	(-4.383)
Chemicals and Allied Products	28	-0.017***	(-10.435)	-0.013***	(-7.101)
Lumber and Wood Products, Except Furniture	24	-0.008	(-1.653)	-0.014***	(-5.817)
Stone, Clay, Glass, and Concrete Products	32	-0.013**	(-2.021)	-0.014***	(-4.708)
Textile Mill Products	22	-0.016***	(-2.674)	-0.016***	(-5.608)
Building Materials, Hardware, Garden Supply, etc.	52	-0.017***	(-2.792)	-0.016***	(-6.073)
Miscellaneous Manufacturing Industries	39	-0.017***	(-3.087)	-0.017***	(-6.334)
Eating and Drinking Places	58	-0.019***	(-3.520)	-0.019***	(-6.752)
Construction - Special Trade Contractors	17	-0.015***	(-2.743)	-0.021***	(-8.270)
Wholesale Trade - Durable Goods	50	-0.022***	(-5.119)	-0.022***	(-9.004)
Food Stores	54	-0.021***	(-3.707)	-0.023***	(-9.014)
Health Services	80	-0.018***	(-2.979)	-0.024***	(-7.995)
Hotels, Rooming Houses, Lodging Places	70	-0.025***	(-4.432)	-0.026***	(-11.283)
Building Construction	15	-0.022***	(-4.061)	-0.027***	(-11.040)