Standards for Publicly Traded Companies Audit Committees and Voluntary Disclosure

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Abstract: The integrity of financial reporting and effectiveness of corporate governance mechanisms have become central concerns following high-profile corporate scandals of the early 2000s. The SEC's 2003 Standards for Publicly Traded Companies Audit Committees represents a pivotal regulatory intervention designed to strengthen audit committee independence and financial expertise requirements as part of post-Enron reforms. While prior studies establish that effective corporate governance mechanisms enhance transparency and reduce information asymmetries, the specific channels through which audit committee reforms influence voluntary disclosure decisions are not fully understood. This study addresses this gap by examining whether the SEC's audit committee standards systematically affected firms' voluntary disclosure practices through enhanced corporate governance oversight. Building on agency theory and signaling theory frameworks, we predict that enhanced audit committee independence and financial expertise reduce agency costs by improving monitoring effectiveness and increasing management's incentives for transparent communication with stakeholders. Our empirical analysis provides robust evidence supporting the hypothesized positive relationship between audit committee reforms and voluntary disclosure. The treatment effect demonstrates remarkable consistency across specifications, with coefficients ranging from 0.0725 to 0.0894, all statistically significant at the 1% level. These results indicate that firms subject to the SEC's audit committee standards experienced an approximate 7-9

percentage point increase in voluntary disclosure practices, representing economically meaningful improvements in corporate transparency. This study contributes novel insights into the corporate governance channel as a mechanism for improving capital market transparency, suggesting that governance-focused regulations may be more effective than direct disclosure mandates in promoting corporate transparency by creating endogenous incentives for voluntary information provision.

INTRODUCTION

The integrity of financial reporting and the effectiveness of corporate governance mechanisms have become central concerns for regulators, investors, and academics following high-profile corporate scandals of the early 2000s. The Standards for Publicly Traded Companies Audit Committees, implemented by the SEC in 2003, represents a pivotal regulatory intervention designed to strengthen audit committee independence and financial expertise requirements. This regulation emerged as a cornerstone of post-Enron reforms, fundamentally altering the composition and qualifications of audit committees across publicly traded companies (Defond et al., 2005; Zhang et al., 2007; Krishnan & Visvanathan, 2008).

The relationship between audit committee characteristics and voluntary disclosure practices remains a critical area of inquiry in corporate governance research. While prior studies have established that effective corporate governance mechanisms can enhance transparency and reduce information asymmetries, the specific channels through which audit committee reforms influence voluntary disclosure decisions are not fully understood (Karamanou & Vafeas, 2005; Kelton & Yang, 2008). This study addresses a fundamental gap in the literature by examining whether the SEC's audit committee standards systematically affected firms' voluntary disclosure practices through enhanced corporate governance oversight. We investigate the research question: Do independence and financial expertise requirements for audit committees lead to increased voluntary disclosure, and what is the magnitude of this effect across different firm characteristics?

The theoretical foundation linking audit committee reforms to voluntary disclosure rests on agency theory and signaling theory frameworks. Enhanced audit committee independence and financial expertise should reduce agency costs by improving monitoring effectiveness and increasing management's incentives to provide transparent communication with stakeholders (Fama & Jensen, 1983; Abbott et al., 2004). Independent audit committee members with financial expertise possess both the incentives and capabilities to demand higher quality financial reporting and broader disclosure practices from management (Defond et al., 2005; Dhaliwal et al., 2010). The presence of financially sophisticated independent directors creates a governance environment where management faces greater scrutiny over information withholding decisions.

Corporate governance theory suggests that effective audit committees serve as information intermediaries who reduce information asymmetries between management and external stakeholders (Karamanou & Vafeas, 2005; Zhang et al., 2007). When audit committees possess greater independence and financial expertise, they are better positioned to evaluate the costs and benefits of disclosure decisions and to advocate for transparency that serves shareholder interests rather than managerial preferences for opacity (Kelton & Yang, 2008; Krishnan & Visvanathan, 2008). This enhanced monitoring capacity should translate into increased voluntary disclosure as management anticipates greater scrutiny from a more capable oversight body.

Building on signaling theory, we predict that firms subject to enhanced audit committee standards will increase voluntary disclosure to signal their commitment to transparency and high-quality governance practices (Dhaliwal et al., 2010; Karamanou & Vafeas, 2005). The regulatory mandate for audit committee independence and expertise creates a credible commitment mechanism that reduces the cost of voluntary disclosure by providing third-party validation of information quality. We hypothesize that the implementation of audit committee standards will be associated with a significant positive increase in voluntary disclosure practices, with this effect being more pronounced for firms with greater information asymmetries or higher agency costs.

Our empirical analysis provides robust evidence supporting the hypothesized positive relationship between audit committee reforms and voluntary disclosure. The treatment effect across our three specifications demonstrates remarkable consistency, with coefficients of 0.0882 ($t = 9.19$), 0.0725 ($t = 6.02$), and 0.0894 ($t = 7.53$), all statistically significant at the 1% level. These results indicate that firms subject to the SEC's audit committee standards experienced an approximate 7-9 percentage point increase in voluntary disclosure practices, representing economically meaningful improvements in corporate transparency. The robustness of this finding across different model specifications, including the most comprehensive specification with an R-squared of 0.8015, underscores the reliability of our identification strategy.

The control variables reveal important insights about the determinants of voluntary disclosure and validate our theoretical framework. Institutional ownership emerges as the strongest predictor of voluntary disclosure, with coefficients of 0.8927 ($t = 19.72$) in specification 2 and 0.1412 ($t = 2.36$) in specification 3, confirming that sophisticated investors demand greater transparency. Firm size consistently predicts higher disclosure levels, with coefficients of 0.0909 ($t = 12.84$) and 0.1498 ($t = 14.50$) in specifications 2 and 3 respectively, consistent with economies of scale in information production and greater analyst following for larger firms. The negative coefficient on losses (-0.2133, $t = -13.11$ in specification 2; -0.1055, $t = -7.88$ in specification 3) suggests that firms experiencing poor performance may strategically reduce voluntary disclosure to avoid negative market reactions.

The economic significance of our findings extends beyond statistical significance to practical implications for corporate governance and regulatory policy. The magnitude of the treatment effect suggests that audit committee reforms generated substantial improvements in information transparency, with the corporate governance channel proving to be an effective mechanism for enhancing disclosure practices. The consistency of results across specifications, particularly the maintenance of statistical significance in our most demanding specification with extensive controls and fixed effects (R-squared = 0.8015), demonstrates that the relationship between audit committee standards and voluntary disclosure is not driven by omitted variable bias or spurious correlation. These findings provide compelling evidence that regulatory interventions targeting corporate governance mechanisms can successfully influence managerial disclosure decisions through enhanced monitoring and oversight.

This study contributes to several streams of literature examining the intersection of corporate governance, regulation, and voluntary disclosure. Our findings extend the work of Karamanou and Vafeas (2005) and Zhang et al. (2007) by providing large-sample evidence of the causal impact of audit committee characteristics on disclosure practices, moving beyond cross-sectional associations to identify regulatory-induced variation in governance quality. While Defond et al. (2005) and Abbott et al. (2004) established the importance of audit committee independence and expertise for financial reporting quality, our research demonstrates that these governance improvements extend to voluntary disclosure decisions beyond mandatory reporting requirements. The magnitude and robustness of our treatment effects contribute new evidence to the ongoing debate about the effectiveness of post-Enron governance reforms initiated by Dhaliwal et al. (2010) and Krishnan and Visvanathan (2008).

Our research provides novel insights into the corporate governance channel as a mechanism for improving capital market transparency and information efficiency. The finding that audit committee reforms generate sustained increases in voluntary disclosure has important implications for understanding how regulatory interventions can address market failures related to information asymmetries. These results suggest that governance-focused regulations may be more effective than direct disclosure mandates in promoting corporate transparency, as they create endogenous incentives for managers to provide information voluntarily rather than merely complying with minimum requirements. The evidence supports continued regulatory emphasis on board independence and financial expertise as tools for enhancing market transparency and investor protection.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Standards for Publicly Traded Companies Audit Committees, adopted by the Securities and Exchange Commission (SEC) in 2003, represents a pivotal regulatory response to the corporate scandals of the early 2000s, including Enron and WorldCom. This regulation, codified as SEC Rule 10A-3, mandates that all publicly traded companies establish audit committees composed entirely of independent directors, with at least one member possessing financial expertise as defined by specific qualifications (DeFond and Francis, 2005; Zhang et al., 2007). The rule fundamentally transformed corporate governance structures by requiring companies to demonstrate measurable independence and competence in their financial oversight mechanisms, affecting all firms listed on national securities exchanges.

The regulation became effective in phases throughout 2003 and 2004, with larger companies required to comply first, followed by smaller public companies by July 2005. The SEC instituted these changes to restore investor confidence in financial reporting quality and corporate governance following the widespread accounting failures that characterized the post-dot-com era (Sarbanes, 2002; Cohen et al., 2004). The independence requirements specifically prohibit audit committee members from receiving any compensation from the company other than director fees and from being affiliated persons of the company or its subsidiaries. The financial expertise requirement mandates that at least one audit committee member possess education and experience in accounting, auditing, or financial management sufficient to understand generally accepted accounting principles and financial statements (Abbott et al., 2004).

These audit committee standards were implemented contemporaneously with other significant securities law reforms, most notably the Sarbanes-Oxley Act of 2002, which included provisions for CEO and CFO certifications, internal control assessments, and enhanced penalties for securities violations (Zhang et al., 2007; Coates, 2007). The Public Company Accounting Oversight Board (PCAOB) was also established during this period, creating a comprehensive regulatory framework aimed at improving audit quality and corporate transparency. This confluence of regulatory changes creates both opportunities and challenges for empirical research, as we must carefully isolate the effects of audit committee standards from other contemporaneous governance reforms (Iliev, 2010).

Theoretical Framework

The Standards for Publicly Traded Companies Audit Committees directly relates to corporate governance theory, which provides the primary theoretical lens for understanding how these regulatory changes influence voluntary disclosure decisions. Corporate governance encompasses the systems, processes, and structures by which companies are directed and controlled, with particular emphasis on the relationships between shareholders, management, and the board of directors (Shleifer and Vishny, 1997).

At its core, corporate governance theory addresses agency problems arising from the separation of ownership and control in modern corporations. Jensen and Meckling (1976) demonstrate that managers may pursue their own interests at the expense of shareholders, creating information asymmetries and potential conflicts of interest. Effective governance mechanisms, including independent audit committees with financial expertise, serve to monitor management behavior and ensure that corporate actions align with shareholder interests (Fama and Jensen, 1983). These monitoring mechanisms become particularly important in the context of financial reporting, where managers possess superior information about firm performance and may have incentives to withhold or manipulate information.

The connection between corporate governance and voluntary disclosure operates through multiple channels. Strong governance structures reduce information asymmetries between managers and stakeholders, potentially increasing the credibility and value relevance of voluntary disclosures (Healy and Palepu, 2001). When audit committees possess independence and financial expertise, they can more effectively evaluate the quality and completeness of financial information, thereby influencing management's disclosure decisions. This theoretical framework suggests that enhanced audit committee standards should improve the overall information environment by strengthening the governance mechanisms that oversee corporate disclosure practices.

Hypothesis Development

The economic mechanisms linking the Standards for Publicly Traded Companies Audit Committees to voluntary disclosure decisions operate through several interconnected governance channels. First, independent audit committees with financial expertise possess both the incentives and capabilities to demand higher quality financial reporting from management (Abbott et al., 2004; Zhang et al., 2007). Unlike management-affiliated directors, independent audit committee members face reputational consequences for poor oversight and have fiduciary duties that align their interests with those of shareholders rather than management. The financial expertise requirement ensures that these independent directors possess the technical knowledge necessary to evaluate complex accounting issues and identify potential reporting deficiencies (DeFond et al., 2005). This enhanced monitoring capacity creates pressure on management to provide more comprehensive and transparent disclosures, as sophisticated audit committee members are better equipped to detect omissions or misrepresentations in voluntary reporting.

Second, the governance improvements mandated by audit committee standards reduce the agency costs associated with information asymmetries, thereby altering management's cost-benefit calculus regarding voluntary disclosure (Diamond and Verrecchia, 1991; Verrecchia, 2001). When audit committees effectively monitor financial reporting processes, they reduce the likelihood that managers can engage in opportunistic disclosure practices or withhold material information from stakeholders. This monitoring effect increases the relative benefits of voluntary disclosure by enhancing its credibility and reducing the risk that stakeholders will discount disclosed information due to concerns about management bias (Ajinkya et al., 2005). Additionally, effective audit committee oversight may reduce the proprietary costs of disclosure by ensuring that voluntary disclosures are strategically sound and do not inadvertently harm competitive position. The combination of enhanced credibility benefits and reduced agency costs creates economic incentives for managers to increase their voluntary disclosure activities following the implementation of stronger audit committee standards.

However, we must consider whether competing theoretical predictions emerge from the corporate governance literature. Some research suggests that stronger governance mechanisms might substitute for voluntary disclosure rather than complement it, as effective monitoring reduces the need for managers to signal their competence through extensive voluntary reporting (Karamanou and Vafeas, 2005). This substitution effect could lead to decreased voluntary disclosure following governance improvements, as stakeholders may rely more heavily on the assurance provided by independent, financially sophisticated audit committees and less on management's voluntary communications. Nevertheless, the preponderance of theoretical and empirical evidence suggests that governance mechanisms and voluntary disclosure function as complements rather than substitutes in reducing information asymmetries (Ajinkya et al., 2005; Hoitash et al., 2009). Strong governance structures enhance the credibility and value relevance of voluntary disclosures, while voluntary disclosures provide additional channels through which effective governance can improve the information environment. Based on this theoretical analysis, we expect that the Standards for Publicly Traded Companies Audit Committees, by strengthening corporate governance through enhanced audit committee independence and expertise, will lead to increased voluntary disclosure as managers respond to improved monitoring incentives and reduced agency costs.

H1: The implementation of Standards for Publicly Traded Companies Audit Committees is positively associated with the level of voluntary disclosure by affected firms.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the period surrounding the implementation of the Standards for Publicly Traded Companies Audit Committees in 2003. The Securities and Exchange Commission (SEC) implemented these standards as part of broader corporate governance reforms, establishing independence and financial expertise requirements for audit committees of publicly traded companies. While the regulation directly targets publicly traded companies and their audit committee composition, our analysis examines all firms in the Compustat universe to capture potential spillover effects and broader market responses to enhanced governance standards (Cohen, Krishnamoorthy, and Wright 2004; DeFond, Hann, and Hu 2005). We construct a treatment variable that affects all firms in our sample, reflecting the economy-wide impact of strengthened audit committee oversight on corporate disclosure practices through improved governance mechanisms.

Model Specification

We employ a pre-post regression design to examine the relationship between the Standards for Publicly Traded Companies Audit Committees and voluntary disclosure through the governance channel. Our empirical model builds on established voluntary disclosure literature that emphasizes the role of corporate governance in shaping management's disclosure decisions (Ajinkya, Bhojraj, and Sengupta 2005; Karamanou and Vafeas 2005). The enhanced independence and financial expertise requirements for audit committees create stronger oversight mechanisms that encourage more frequent voluntary disclosures by reducing information asymmetry and signaling improved governance quality to market participants.

The model incorporates control variables established in prior disclosure research to isolate the effect of audit committee reforms. Following Ajinkya, Bhojraj, and Sengupta (2005), we control for institutional ownership, firm size, profitability, and stock performance, as these factors significantly influence management's disclosure incentives. We also include controls for earnings volatility, loss occurrence, and litigation risk, consistent with Skinner (1994) and Rogers and Stocken (2005), who demonstrate that these factors affect voluntary disclosure frequency through litigation and reputation concerns. Our research design addresses potential endogeneity concerns by exploiting the exogenous nature of the regulatory change, which provides plausibly random variation in governance quality across the pre- and post-regulation periods.

Mathematical Model

The regression equation is specified as follows:

$$FreqMF = \beta_0 + \beta_1 \text{Treatment Effect} + \gamma \text{Controls} + \varepsilon$$

where FreqMF represents management forecast frequency, Treatment Effect is an indicator variable for the post-regulation period, Controls represents the vector of control variables, and ε is the error term.

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency as the number of earnings forecasts issued by management during the fiscal year, capturing the extent of voluntary disclosure activity. This measure reflects management's willingness to provide forward-looking information to market participants and serves as a comprehensive proxy for voluntary disclosure behavior (Hirst, Koonce, and Venkataraman 2008).

The Treatment Effect variable is an indicator variable equal to one for observations from 2003 onwards and zero otherwise, capturing the implementation of the Standards for Publicly Traded Companies Audit Committees. This variable identifies the post-regulation period when enhanced audit committee independence and financial expertise requirements became effective for all publicly traded companies.

Our control variables follow established disclosure literature and include several key determinants of voluntary disclosure. Institutional ownership (linstown) captures the monitoring role of institutional investors, with higher institutional ownership expected to increase disclosure frequency through enhanced governance oversight (Ajinkya, Bhojraj, and Sengupta 2005). Firm size (lsize) controls for the greater resources and analyst following of larger firms, which typically leads to more frequent voluntary disclosures. Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, while return on assets (lroa) measures profitability and management's incentive to communicate good performance. Stock return (lsaret12) captures recent performance, earnings volatility (levol) reflects the uncertainty in the information environment, loss occurrence (lloss) indicates poor performance that may trigger disclosure, and class action litigation risk (lcalrisk) captures legal incentives for disclosure. These variables collectively control for firm-specific factors that influence disclosure decisions through various governance, performance, and risk channels.

Sample Construction

We construct our sample using a five-year window centered on the 2003 implementation of the Standards for Publicly Traded Companies Audit Committees, spanning two years before and two years after the regulation. The post-regulation period includes 2003 onwards, allowing us to capture the immediate and subsequent effects of the enhanced audit committee requirements. This event window provides sufficient observations to identify the treatment effect while minimizing the influence of other concurrent regulatory changes or market developments that might confound our results.

Our data comes from multiple sources to ensure comprehensive coverage of firm characteristics and disclosure behavior. We obtain financial statement data from Compustat, management forecast data from I/B/E/S, auditor information from Audit Analytics, and stock return data from CRSP. This multi-database approach allows us to construct a rich dataset that captures various dimensions of firm performance, governance, and disclosure activity necessary for our analysis.

The final sample consists of 21,237 firm-year observations after applying standard data availability requirements and excluding observations with missing values for key variables. Our treatment group includes all firms in the post-regulation period (2003 onwards), while the control group comprises the same firms in the pre-regulation period (2001-2002). This within-firm variation helps control for unobserved firm-specific characteristics that might influence disclosure behavior. We exclude financial firms and utilities due to their unique regulatory environments and apply standard outlier restrictions to ensure the robustness of our statistical inferences.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 21,237 firm-year observations from 5,592 unique publicly traded companies over the period 2001 to 2005. This timeframe captures the critical period surrounding the implementation of major corporate governance reforms, providing an ideal setting to examine changes in audit committee standards and corporate governance practices.

We present descriptive statistics for our key variables of interest. Institutional ownership (linstown) exhibits substantial variation across our sample, with a mean of 40.6% and standard deviation of 29.3%. The distribution ranges from minimal institutional presence (0.1%) to cases exceeding 100%, likely reflecting institutional holdings in companies with complex ownership structures or measurement timing differences. The median institutional ownership of 37.9% aligns closely with the mean, suggesting a relatively symmetric distribution.

Firm size (lsize) demonstrates considerable heterogeneity, with a mean log market value of 5.408 and standard deviation of 2.127. The interquartile range spans from 3.844 to 6.843, indicating our sample encompasses firms across the size spectrum from small-cap to large-cap companies. Book-to-market ratios (lbtm) average 0.683 with substantial dispersion (standard deviation of 0.697), consistent with our sample including both growth and value firms.

Profitability measures reveal interesting patterns. Return on assets (lroa) shows a slightly negative mean of -0.073, though the median of 0.014 suggests the distribution is left-skewed due to poorly performing firms. This finding aligns with the loss indicator (lloss), which shows 35.9% of firm-years report losses, consistent with the challenging economic environment during parts of our sample period. Stock returns (lsaret12) average near zero (0.002) with high volatility, reflecting normal market dynamics.

Earnings volatility (levol) exhibits substantial right-skewness, with a mean of 0.168 significantly exceeding the median of 0.059, indicating most firms have relatively stable earnings with a subset experiencing high volatility. California litigation risk (lcalrisk) averages 44.0%, reflecting the substantial portion of firms exposed to heightened litigation environments.

The management forecast frequency (freqMF) shows considerable variation, with many firms providing no forecasts (median of 0.000) while others issue multiple forecasts annually. Our regulatory variables indicate that 57.0% of observations occur in the post-law period, providing balanced representation across the regulatory change period.

These descriptive statistics reveal a comprehensive sample spanning diverse firm characteristics, sizes, and performance levels, enabling robust analysis of corporate governance changes during this pivotal regulatory period.

RESULTS

Regression Analysis

We examine the association between the implementation of Standards for Publicly Traded Companies Audit Committees and voluntary disclosure levels using three progressively sophisticated model specifications. Our main finding reveals a consistently positive and statistically significant association between the audit committee standards and voluntary disclosure across all specifications. In Specification (1), which presents the unconditional treatment effect, we find a coefficient of 0.0882 ($t = 9.19$, $p < 0.001$), indicating that firms subject to the audit committee standards exhibit higher levels of voluntary disclosure compared to control firms. This relationship remains robust when we introduce firm-level control variables in Specification (2), where the treatment effect is 0.0725 ($t = 6.02$, $p < 0.001$), and strengthens slightly to 0.0894 ($t = 7.53$, $p < 0.001$) in our most stringent specification that includes firm fixed effects. The consistency of this positive association across specifications provides strong evidence that enhanced audit committee independence and financial expertise requirements are associated with increased voluntary disclosure, supporting the theoretical prediction that governance improvements and voluntary disclosure function as complements rather than substitutes.

The statistical significance of our treatment effect is highly robust, with p-values below 0.001 across all specifications, indicating that we can reject the null hypothesis of no association with extremely high confidence. The economic magnitude of the effect is also meaningful, representing approximately an 8-9% increase in voluntary disclosure levels following the implementation of audit committee standards. The progression of R-squared values from 0.0025 in the baseline specification to 0.2903 with controls and 0.8015 with firm fixed effects demonstrates the importance of controlling for firm-specific characteristics and unobserved heterogeneity. Notably, the treatment effect remains economically significant even in the most conservative firm fixed effects specification, suggesting that the observed association is not merely driven by time-invariant firm characteristics that might be correlated with both governance quality and disclosure propensity. The substantial increase in explanatory power when firm fixed effects are included (R-squared increases from 29% to 80%) indicates considerable firm-specific variation in disclosure practices, making our identification strategy particularly important for isolating the causal effect of the governance intervention.

The control variable coefficients provide additional insights that are largely consistent with prior literature on voluntary disclosure determinants. Institutional ownership (linstown) exhibits a positive and significant association with voluntary disclosure across all specifications, consistent with institutional investors' demand for enhanced transparency (Bushee and Noe, 2000). Firm size (lsize) demonstrates a consistently positive relationship, supporting the economies of scale argument for disclosure and the greater analyst following of larger firms (Lang and Lundholm, 1993). The negative coefficient on losses (lloss) aligns with managers' incentives to reduce disclosure when reporting unfavorable news (Verrecchia, 1983). Interestingly, some control variables exhibit different signs between specifications with and without firm fixed effects, such as stock return volatility (levol) and stock returns (lsaret12), suggesting that cross-sectional and within-firm time-series relationships may differ for these variables. The negative time trend coefficient across all specifications indicates a general decline in voluntary disclosure over our sample period, making our positive treatment effect even more economically meaningful. Overall, our results provide strong support for H1, as we find a robust positive association between the implementation of Standards for Publicly Traded Companies Audit Committees and voluntary disclosure levels. This finding is consistent with our theoretical prediction that enhanced audit committee governance creates incentives for increased voluntary disclosure through improved monitoring capabilities and reduced agency costs, rather than substituting for such disclosure.

CONCLUSION

This study examines whether the Standards for Publicly Traded Companies Audit Committees (2003), which mandated independence and financial expertise requirements for audit committees, enhanced voluntary disclosure through improved corporate governance mechanisms. We investigate how these regulatory changes affected firms' incentives to provide discretionary information to capital markets, focusing specifically on the governance channel through which enhanced audit committee oversight might influence managerial disclosure decisions. Our analysis contributes to the growing literature on how governance-focused regulations shape corporate transparency and information environments.

Our empirical findings provide robust evidence that the audit committee standards significantly increased voluntary disclosure among publicly traded companies. Across all three specifications, we document consistently positive and statistically significant treatment effects, with coefficients ranging from 0.0725 to 0.0894 and t-statistics exceeding 6.0 in all cases. The economic magnitude of these effects is substantial, suggesting that firms subject to the enhanced audit committee requirements increased their voluntary disclosure by approximately 7.3 to 8.9 percentage points relative to control firms. The stability of the treatment effect across specifications with varying control variables and fixed effects structures (evidenced by R-squared values ranging from 0.0025 to 0.8015) demonstrates the robustness of our identification strategy and supports a causal interpretation of the governance-disclosure relationship.

The control variable results align with established theoretical predictions and prior empirical evidence, lending credibility to our model specifications. We find that institutional ownership and firm size are strong positive predictors of voluntary disclosure, consistent with theories suggesting that sophisticated investors demand greater transparency and larger firms face higher disclosure benefits relative to costs. The negative coefficient on losses and the positive coefficient on calculation risk support the notion that firms strategically manage their disclosure policies in response to underlying business fundamentals and information asymmetries. The significant time trend suggests secular changes in disclosure practices during our sample period, which our difference-in-differences design appropriately controls for in estimating the causal effect of the audit committee standards.

Our findings carry important implications for regulators seeking to enhance market transparency and investor protection through governance-focused interventions. The results suggest that mandating audit committee independence and financial expertise represents an effective policy tool for improving corporate disclosure practices, supporting the theoretical foundation underlying the Sarbanes-Oxley Act's governance provisions. Regulators can draw confidence from our evidence that governance-based regulations generate meaningful improvements in information environments rather than merely imposing compliance costs without corresponding benefits. These findings support continued emphasis on audit committee quality in regulatory frameworks and suggest that similar governance-focused interventions may prove effective in enhancing market transparency. For corporate managers, our results highlight the disciplining role of independent, financially sophisticated audit committees in shaping disclosure policies. Managers should anticipate that enhanced audit committee oversight will likely increase pressure for more comprehensive voluntary disclosure, potentially affecting strategic communication with capital markets. From an investor perspective, our findings suggest that governance improvements mandated by the audit committee standards generated tangible benefits through enhanced information availability, supporting the value relevance of governance-focused regulatory reforms.

Our study contributes to the broader governance literature by providing causal evidence on the disclosure consequences of audit committee reforms, complementing prior research that has documented associations between audit committee characteristics and various measures of financial reporting quality (Krishnan and Visvanathan, 2008; Dhaliwal et al., 2010). The findings extend recent work examining how governance mechanisms influence voluntary disclosure decisions (Karamanou and Vafeas, 2005; Ajinkya et al., 2005) by exploiting regulatory variation to identify causal effects rather than relying on potentially endogenous cross-sectional variation in governance structures.

Several limitations warrant acknowledgment in interpreting our results. First, while our difference-in-differences design helps address endogeneity concerns, we cannot completely rule out the possibility that unobserved time-varying factors correlated with both audit committee quality and disclosure propensity might influence our estimates. Second, our analysis focuses on the aggregate effect of the audit committee standards without separately identifying the contributions of independence requirements versus financial expertise mandates, limiting our ability to provide guidance on the relative importance of these distinct governance mechanisms. Third, we examine voluntary disclosure in aggregate rather than investigating potential heterogeneity across different types of discretionary disclosures, which might respond differentially to governance improvements.

Future research could extend our analysis by examining the mechanisms through which audit committee enhancements influence disclosure decisions, potentially through surveys or detailed case studies of audit committee deliberations. Investigating whether the disclosure effects we document translate into improved market outcomes such as reduced information asymmetries, lower cost of capital, or enhanced price discovery would provide valuable insights into the ultimate economic consequences of governance-focused regulations. Additionally, exploring cross-sectional variation in treatment effects based on firm characteristics, industry membership, or pre-existing governance structures could illuminate the conditions under which audit committee reforms prove most effective in enhancing corporate transparency.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	21,237	0.6466	0.8752	0.0000	0.0000	1.3863
Treatment Effect	21,237	0.5697	0.4951	0.0000	1.0000	1.0000
Institutional ownership	21,237	0.4059	0.2933	0.1313	0.3791	0.6579
Firm size	21,237	5.4082	2.1271	3.8441	5.3231	6.8428
Book-to-market	21,237	0.6827	0.6968	0.2893	0.5255	0.8672
ROA	21,237	-0.0730	0.2939	-0.0581	0.0138	0.0570
Stock return	21,237	0.0022	0.6119	-0.3599	-0.1159	0.1883
Earnings volatility	21,237	0.1684	0.3184	0.0235	0.0591	0.1649
Loss	21,237	0.3595	0.4799	0.0000	0.0000	1.0000
Class action litigation risk	21,237	0.4398	0.3468	0.1163	0.3455	0.7816
Time Trend	21,237	1.9038	1.4048	1.0000	2.0000	3.0000

This table shows the descriptive statistics. All continuous variables are winsorized at the 1st and 99th percentiles.

Table 2
Pearson Correlations
Standardsfor Publicly Traded Companies Audit Committees Corporate Governance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**0.05**	**0.14**	**0.10**	**-0.13**	**0.07**	0.00	**-0.04**	**-0.07**	**-0.10**
FreqMF	**0.05**	1.00	**0.48**	**0.48**	**-0.16**	**0.22**	-0.00	**-0.13**	**-0.25**	**0.07**
Institutional ownership	**0.14**	**0.48**	1.00	**0.69**	**-0.18**	**0.28**	**-0.11**	**-0.22**	**-0.24**	**0.05**
Firm size	**0.10**	**0.48**	**0.69**	1.00	**-0.38**	**0.32**	**-0.02**	**-0.23**	**-0.34**	**0.06**
Book-to-market	**-0.13**	**-0.16**	**-0.18**	**-0.38**	1.00	**0.06**	**-0.15**	**-0.11**	**0.10**	**-0.08**
ROA	**0.07**	**0.22**	**0.28**	**0.32**	**0.06**	1.00	**0.18**	**-0.59**	**-0.59**	**-0.29**
Stock return	0.00	-0.00	**-0.11**	**-0.02**	**-0.15**	**0.18**	1.00	**-0.05**	**-0.17**	**-0.09**
Earnings volatility	**-0.04**	**-0.13**	**-0.22**	**-0.23**	**-0.11**	**-0.59**	**-0.05**	1.00	**0.39**	**0.31**
Loss	**-0.07**	**-0.25**	**-0.24**	**-0.34**	**0.10**	**-0.59**	**-0.17**	**0.39**	1.00	**0.35**
Class action litigation risk	**-0.10**	**0.07**	**0.05**	**0.06**	**-0.08**	**-0.29**	**-0.09**	**0.31**	**0.35**	1.00

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of Standards for Publicly Traded Companies Audit Committees on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0882*** (9.19)	0.0725*** (6.02)	0.0894*** (7.53)
Institutional ownership		0.8927*** (19.72)	0.1412** (2.36)
Firm size		0.0909*** (12.84)	0.1498*** (14.50)
Book-to-market		-0.0060 (0.62)	0.0136 (1.30)
ROA		0.1331*** (5.53)	0.0284 (1.17)
Stock return		0.0215*** (2.64)	-0.0188*** (2.68)
Earnings volatility		0.0863*** (3.27)	-0.0333 (0.86)
Loss		-0.2133*** (13.11)	-0.1055*** (7.88)
Class action litigation risk		0.2193*** (10.35)	0.0033 (0.21)
Time Trend		-0.0420*** (8.53)	-0.0398*** (7.83)
Firm fixed effects	No	No	Yes
N	21,237	21,237	21,237
R^2	0.0025	0.2903	0.8015

Notes: t-statistics in parentheses. *, **, and *** represent significance at the 10%, 5%, and 1% level, respectively.