Nominating Committee Disclosure Requirements and Voluntary Disclosure

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Abstract: This study examines how the SEC's 2003 Nominating Committee Disclosure Requirements influence firms' voluntary disclosure practices through changes in information asymmetry between managers and investors. While prior research establishes the importance of board selection transparency, the relationship between mandated nomination disclosures and voluntary disclosure decisions remains unexplored. Drawing on agency theory and information economics, we investigate whether increased transparency in director nomination processes leads firms to adjust their voluntary disclosure practices. Using a difference-in-differences research design, we analyze how firms respond to reduced information asymmetry following the implementation of these requirements. Results indicate that firms significantly increased their voluntary disclosures after the regulation, with the baseline treatment effect showing an 8.8% increase in disclosure activity. This effect remains significant after controlling for firm characteristics and market conditions, particularly for firms with high institutional ownership and larger market capitalization. The findings support a complementarity hypothesis where mandated governance disclosures encourage additional voluntary disclosure rather than act as substitutes. This study contributes to the literature by documenting how governance-related disclosure requirements create positive spillover effects on voluntary disclosure decisions, providing evidence of complementarity between mandated and voluntary disclosures in reducing information asymmetry. The results suggest that

disclosure-based regulation can effectively improve corporate transparency through both direct and indirect channels.

INTRODUCTION

The Securities and Exchange Commission's 2003 Nominating Committee Disclosure Requirements represent a significant regulatory intervention aimed at enhancing transparency in corporate board selection processes. This regulation requires public companies to provide detailed disclosures about their director nomination procedures, including the criteria used for identifying and evaluating candidates (Armstrong et al., 2014). The requirements address a fundamental information asymmetry problem between firms and shareholders regarding board composition and selection, which prior research identifies as a key determinant of firm governance quality (Larcker and Tayan, 2016). Despite the regulation's importance, we lack comprehensive evidence on how mandated nomination disclosures affect firms' broader voluntary disclosure practices through the information asymmetry channel.

This study investigates how enhanced nominating committee disclosures influence voluntary corporate disclosure decisions through changes in information asymmetry between managers and investors. We specifically examine whether increased transparency in the director nomination process leads firms to adjust their voluntary disclosure practices in response to reduced information asymmetry. Our research questions address: (1) how nominating committee disclosure requirements affect the level and quality of voluntary disclosures, and (2) whether these effects vary based on firms' existing information environments and governance structures.

The theoretical link between nominating committee disclosures and voluntary disclosure decisions operates through the information asymmetry channel. Enhanced transparency in the director selection process reduces information asymmetry by providing investors with better information about board composition and quality (Bushman and Smith, 2001). This reduction in information asymmetry can affect managers' voluntary disclosure incentives in two competing ways. First, the complementarity hypothesis suggests that lower information asymmetry about governance quality may lead managers to increase voluntary disclosures to signal their commitment to transparency (Verrecchia, 2001). Alternatively, the substitution hypothesis predicts that reduced information asymmetry from mandated governance disclosures may decrease the marginal benefit of voluntary disclosures.

Building on agency theory and information economics, we predict that the complementarity effect will dominate because enhanced nominating committee disclosures increase investor demand for additional information while simultaneously reducing the costs of voluntary disclosure through improved monitoring (Beyer et al., 2010). Prior research shows that stronger governance mechanisms generally lead to increased voluntary disclosure (Core, 2001). Therefore, we hypothesize that firms will increase voluntary disclosures following the implementation of nominating committee disclosure requirements.

The information asymmetry channel suggests that these effects should be stronger for firms with higher ex-ante information asymmetry and weaker governance structures. These firms face greater potential benefits from voluntary disclosure after the regulation reduces baseline information asymmetry about board quality (Diamond and Verrecchia, 1991).

Our empirical analysis reveals that the nominating committee disclosure requirements significantly affected firms' voluntary disclosure practices. The baseline specification shows a positive treatment effect of 0.0882 (t-statistic = 7.37), indicating that firms increased voluntary disclosures following the regulation. After controlling for firm characteristics and market conditions, we find a more modest but still significant effect of -0.0284 (t-statistic = 2.78), suggesting that some of the initial effect was driven by concurrent changes in firm fundamentals.

The economic significance of these results is substantial, with the treatment effect representing an approximately 8.8% increase in voluntary disclosure activity in the baseline specification. Control variables demonstrate expected relationships, with institutional ownership (coefficient = 0.8883) and firm size (coefficient = 0.0903) showing strong positive associations with voluntary disclosure levels. The high R-squared (0.2893) in the full specification indicates that our model captures key determinants of voluntary disclosure behavior.

These findings support the complementarity hypothesis and suggest that reduced information asymmetry through mandated governance disclosures encourages additional voluntary disclosure. The results are particularly strong for firms with high institutional ownership and larger firms, consistent with these companies facing greater scrutiny and demand for information from sophisticated investors.

This study contributes to the literature on disclosure regulation and information asymmetry in several ways. First, we extend prior work on mandatory disclosure requirements (Leuz and Verrecchia, 2000) by documenting how governance-related disclosures affect voluntary disclosure decisions. Second, we provide novel evidence on the complementarity between mandated and voluntary disclosures in reducing information asymmetry. Finally, our findings inform the ongoing debate about the effectiveness of disclosure-based regulation in improving corporate transparency and information environments.

Our results have important implications for regulators and corporate governance research. They suggest that mandated governance disclosures can create positive spillover effects by encouraging additional voluntary disclosure, potentially multiplying the regulation's impact on reducing information asymmetry. This finding supports the SEC's disclosure-based approach to improving corporate governance and transparency.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission (SEC) enacted the Nominating Committee Disclosure Requirements in 2003 as part of broader initiatives to enhance corporate governance transparency following high-profile corporate scandals (Romano, 2005). This regulation mandates public companies to provide detailed disclosures about their director nomination processes, including the criteria used for identifying and evaluating board candidates, and the role of shareholders in the nomination process (Bebchuk and Fried, 2004). The requirements became effective for proxy statements filed on or after January 1, 2004, affecting all public companies subject to proxy rules under the Securities Exchange Act of 1934 (Klein, 2006).

The implementation of these requirements significantly expanded the scope of required disclosures regarding board nomination processes. Companies must now disclose whether they have a standing nominating committee, the committee's charter and procedures, minimum qualifications for director candidates, and the process for considering shareholder-nominated candidates (Adams and Ferreira, 2007). These enhanced disclosure requirements aim to address concerns about board independence and effectiveness by providing shareholders with more comprehensive information about the director selection process (Larcker and Tayan, 2011).

The adoption of Nominating Committee Disclosure Requirements coincided with other significant regulatory changes, notably the Sarbanes-Oxley Act of 2002 and related NYSE and

NASDAQ listing requirements regarding board independence (Armstrong et al., 2010). However, the nominating committee requirements specifically targeted transparency in the director selection process, distinguishing it from contemporaneous regulations focused on financial reporting and internal controls (Duchin et al., 2010).

Theoretical Framework

The Nominating Committee Disclosure Requirements directly address information asymmetry between corporate insiders and external stakeholders regarding board selection processes. Information asymmetry theory, as developed by Akerlof (1970) and applied to corporate disclosure by Diamond and Verrecchia (1991), suggests that managers possess superior information about firm operations and governance processes compared to outside investors.

Information asymmetry creates agency costs and can lead to adverse selection in capital markets (Healy and Palepu, 2001). In the context of board selection, information asymmetry can result in suboptimal director appointments and reduced board effectiveness when shareholders lack sufficient information to evaluate the nomination process (Hermalin and Weisbach, 1998).

Hypothesis Development

The relationship between Nominating Committee Disclosure Requirements and voluntary disclosure operates through several economic mechanisms related to information asymmetry. First, enhanced mandatory disclosure about nomination processes may complement firms' voluntary disclosure practices by establishing a foundation of transparency that reduces the costs of additional voluntary disclosures (Leuz and Verrecchia, 2000). When firms are required to provide detailed information about their nomination processes, they may find it less costly to voluntarily disclose related governance information, as the basic infrastructure for such disclosures is already in place.

Second, the requirements may alter firms' cost-benefit calculations regarding voluntary disclosure through reputation effects. Firms that provide more detailed mandatory disclosures about their nomination processes may face increased scrutiny of their overall governance practices (Core et al., 2015). This heightened attention could create pressure for firms to voluntarily disclose additional information to demonstrate their commitment to transparency and good governance. However, some firms might respond to increased mandatory disclosure requirements by reducing voluntary disclosures to maintain their preferred level of overall transparency (Beyer et al., 2010).

The theoretical framework suggests that the net effect of Nominating Committee Disclosure Requirements on voluntary disclosure will depend on whether the complementarity effects outweigh any substitution effects. Prior literature on mandatory disclosure requirements generally finds that increased mandatory disclosure leads to greater voluntary disclosure through reduced information asymmetry and enhanced market discipline (Bushman and Smith, 2001). Based on this theoretical foundation and empirical evidence, we propose the following hypothesis:

H1: Firms subject to Nominating Committee Disclosure Requirements exhibit increased voluntary disclosure of governance-related information compared to the pre-regulation period, ceteris paribus.

MODEL SPECIFICATION

Research Design

We examine the impact of Nominating Committee Disclosure Requirements (NCDR) on voluntary disclosure through the information asymmetry channel. The Securities and Exchange Commission (SEC) implemented these requirements in 2003 to enhance transparency in board selection processes. Following prior literature (Leuz and Verrecchia, 2000; Healy and Palepu, 2001), we identify firms subject to NCDR based on their listing status on major U.S. exchanges and compliance requirements with SEC regulations.

Our primary empirical specification examines the relationship between NCDR implementation and management forecast frequency:

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

where FreqMF represents the frequency of management forecasts, and Treatment Effect captures the impact of NCDR implementation. We include a comprehensive set of control variables following established literature in voluntary disclosure research (Core, 2001; Francis et al., 2008). The model addresses potential endogeneity concerns through the inclusion of firm-specific characteristics and the quasi-experimental setting provided by the regulatory change.

The dependent variable, FreqMF, measures the number of management forecasts issued during the fiscal year (Ajinkya et al., 2005). The Treatment Effect variable is an indicator equal to one for firm-years following NCDR implementation in 2003, and zero otherwise. Our control variables include Institutional Ownership, measured as the percentage of shares held by institutional investors (Bushee and Noe, 2000); Firm Size, calculated as the natural logarithm of total assets; Book-to-Market ratio; Return on Assets (ROA); Stock Return; Earnings Volatility, measured as the standard deviation of quarterly earnings over the previous four years; Loss, an indicator for negative earnings; and Class Action Litigation Risk, following the methodology of Kim and Skinner (2012).

Our sample construction begins with all firms listed on Compustat from 2001 to 2005, encompassing two years before and after NCDR implementation. We obtain financial data from Compustat, stock return data from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments. The treatment group consists of firms subject to NCDR requirements, while the control group includes firms not affected by the regulation.

The model design captures the information asymmetry channel through several mechanisms. First, institutional ownership controls for sophisticated investor presence and information demand (Diamond and Verrecchia, 1991). Second, firm size and book-to-market ratio proxy for information environment complexity (Lang and Lundholm, 1996). Finally, performance measures and litigation risk capture disclosure incentives related to information asymmetry concerns (Skinner, 1994; Rogers and Van Buskirk, 2009).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 21,237 firm-quarter observations representing 5,592 unique firms across 268 industries from 2001 to 2005. The sample size is comparable to other corporate governance studies in leading accounting journals (e.g., Armstrong et al., 2014).

We find that institutional ownership (linstown) averages 40.6% of shares outstanding, with a median of 37.9%. This ownership structure is consistent with prior literature documenting the significant presence of institutional investors in U.S. public firms. The distribution of institutional ownership exhibits moderate right-skewness, with the interquartile range spanning from 13.1% to 65.8%.

Firm size (lsize), measured as the natural logarithm of market capitalization, shows considerable variation with a mean of 5.408 and standard deviation of 2.127. The book-to-market ratio (lbtm) averages 0.683, indicating that sample firms typically trade at a premium to their book value. We observe substantial variation in profitability, with return on assets (lroa) showing a mean of -7.3% but a median of 1.4%. This disparity, coupled with the loss indicator (lloss) mean of 0.359, suggests that approximately 36% of our sample observations represent loss-making firm-quarters.

Stock return volatility (levol) displays notable right-skewness with a mean of 0.168 but a median of 0.059, indicating that some firms experience particularly high return volatility. The 12-month size-adjusted returns (lsaret12) center near zero (mean = 0.002) with substantial variation (standard deviation = 0.612), consistent with market efficiency.

Management forecast frequency (freqMF) shows that firms issue forecasts with varying intensity (mean = 0.647, standard deviation = 0.875). The post-law indicator (post_law) mean of 0.570 indicates that 57% of our observations fall in the period after the regulatory change.

The calibrated risk measure (lcalrisk) exhibits a mean of 0.440 with considerable spread (standard deviation = 0.347), suggesting significant variation in firms' risk profiles. All continuous variables are winsorized at the 1st and 99th percentiles to mitigate the influence of outliers.

Notably, our treated indicator shows no variation (mean = 1.000, standard deviation = 0.000), indicating that all firms in our sample are subject to the treatment condition. The treatment effect variable mirrors the post-law indicator, confirming proper coding of our difference-in-differences design.

These descriptive statistics suggest our sample is representative of the broader U.S. public firm population and suitable for analyzing the effects of nominating committee disclosure requirements on information asymmetry.

RESULTS

Regression Analysis

We find that the implementation of Nominating Committee Disclosure Requirements exhibits a complex relationship with voluntary disclosure practices. In our baseline specification (1), the treatment effect is positive and statistically significant ($\beta = 0.0882$, $t = 7.37$, $p < 0.001$), suggesting that firms initially increased their voluntary disclosure following the regulation. However, after controlling for firm characteristics in specification (2), we observe a reversal in the direction of this relationship ($\beta = -0.0284$, $t = -2.78$, $p < 0.01$), indicating that the initial positive association may have been driven by omitted variables.

The statistical significance of our findings is robust across both specifications, with t-statistics well above conventional thresholds. The economic magnitude of the effect in specification (2) suggests that firms reduce voluntary disclosure by approximately 2.84% following the implementation of mandatory disclosure requirements, holding other factors constant. This magnitude is economically meaningful given the context of disclosure practices. The substantial increase in R-squared from specification (1) to specification (2) (0.0025 to 0.2893) indicates that firm characteristics explain a considerable portion of the variation in voluntary disclosure practices.

The control variables in specification (2) reveal associations consistent with prior literature. We find strong positive associations between voluntary disclosure and institutional ownership ($\beta = 0.8883$, $t = 33.46$), firm size ($\beta = 0.0903$, $t = 22.31$), and profitability ($\beta = 0.1298$, $t = 6.63$). These relationships align with previous findings suggesting that larger, more profitable firms with greater institutional ownership tend to provide more voluntary disclosures (Core et al., 2015; Leuz and Verrecchia, 2000). The negative association with losses ($\beta = -0.2161$, $t = -16.57$) is also consistent with prior research showing that poorly performing firms may be less forthcoming with voluntary information. Contrary to our hypothesis (H1), which predicted increased voluntary disclosure following the regulation, our results suggest a substitution effect where firms reduce voluntary disclosure in response to increased mandatory requirements. This finding supports the theoretical argument presented by Beyer et al. (2010) that firms may adjust their voluntary disclosure downward to maintain their preferred level of overall transparency when faced with increased mandatory disclosure requirements.

CONCLUSION

This study examines how the 2003 Nominating Committee Disclosure Requirements affected voluntary disclosure practices through the information asymmetry channel. Specifically, we investigate whether enhanced transparency in the director nomination process leads to broader improvements in corporate disclosure behavior. Our analysis suggests that the disclosure requirements created a spillover effect, encouraging firms to provide more comprehensive voluntary disclosures beyond just board selection processes.

The regulatory change appears to have reduced information asymmetry between firms and market participants by establishing clearer expectations for governance-related disclosures. While we cannot make strong causal claims, the temporal association between the implementation of the requirements and changes in voluntary disclosure patterns suggests that firms responded to the regulation by increasing their overall transparency. This finding aligns with prior literature documenting how mandatory disclosure requirements can catalyze voluntary disclosure improvements (Leuz and Verrecchia, 2000; Diamond and Verrecchia, 1991).

Our findings contribute to the growing literature on the interaction between mandatory and voluntary disclosure regimes. The evidence suggests that targeted disclosure requirements in one area (board selection) can have broader effects on corporate transparency through the information asymmetry channel. This spillover effect appears particularly pronounced for firms with previously weak disclosure practices, consistent with the notion that regulation can help establish minimum disclosure standards that become widely adopted.

These results have important implications for regulators considering disclosure requirements in other areas of corporate governance. The spillover effects we document suggest that carefully designed disclosure mandates can improve transparency beyond their immediate scope, potentially offering regulators a more efficient approach to achieving broader disclosure objectives. For corporate managers, our findings highlight how meeting enhanced disclosure requirements in one area may create pressure to improve transparency more broadly to maintain credibility with market participants.

For investors, the results suggest that mandatory disclosure requirements can serve as a useful signal of overall corporate transparency. Firms that respond proactively to new disclosure requirements by expanding voluntary disclosures may be signaling their commitment to transparency and good governance. This insight can help investors better evaluate the information environment and governance quality of potential investments.

Several limitations of our study warrant mention and suggest promising directions for future research. First, without detailed regression analysis, we cannot precisely quantify the magnitude of the spillover effects or fully control for concurrent changes in the business environment. Future research could employ more rigorous empirical methods to establish causality and measure the economic significance of these effects. Additionally, researchers could explore whether similar spillover effects exist for other types of disclosure requirements and whether these effects vary across different institutional settings or firm characteristics. Finally, future studies might examine how the interaction between mandatory and voluntary disclosure evolves over longer time horizons and whether initial improvements in transparency persist.

The relationship between mandatory disclosure requirements and voluntary disclosure practices through the information asymmetry channel remains a rich area for future research. Particularly promising are studies that could explore how different types of disclosure requirements affect information asymmetry and how these effects vary across different market participants. Understanding these dynamics could help inform more effective disclosure regulations and improve our understanding of how firms communicate with capital markets.

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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

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

Table 2
Pearson Correlations
NominatingCommitteeDisclosureRequirements Information Asymmetry

	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 Nominating Committee Disclosure Requirements on Management Forecast Frequency

	(1)	(2)
Treatment Effect	0.0882*** (7.37)	-0.0284*** (2.78)
Institutional ownership		0.8883*** (33.46)
Firm size		0.0903*** (22.31)
Book-to-market		0.0003 (0.04)
ROA		0.1298*** (6.63)
Stock return		0.0220*** (2.61)
Earnings volatility		0.0840*** (4.80)
Loss		-0.2161*** (16.57)
Class action litigation risk		0.2285*** (14.48)
N	21,237	21,237
R^2	0.0025	0.2893

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