Asset- Backed Securities Reform and Voluntary Disclosure

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Abstract: The 2010 Asset-Backed Securities (ABS) Reform fundamentally altered disclosure requirements for securitized assets, providing a unique setting to examine how regulatory intervention affects voluntary disclosure through information asymmetry. This study investigates how mandatory disclosure requirements influence firms' voluntary disclosure decisions when information asymmetry serves as the primary economic mechanism. Using the ABS Reform as a quasi-natural experiment, we examine whether enhanced mandatory disclosure requirements lead to changes in voluntary disclosure practices. Drawing on analytical models of disclosure choice, we predict that firms subject to enhanced ABS disclosure requirements will increase voluntary disclosure as information asymmetry decreases. Our empirical analysis reveals that the ABS Reform significantly increased voluntary disclosure by approximately 4.6 percentage points after controlling for firm characteristics. The effect is particularly pronounced among firms with higher pre-reform information asymmetry, supporting the information asymmetry channel as the primary mechanism. Results remain robust across various specifications and are economically significant compared to sample means. Key firm characteristics, including institutional ownership, firm size, and risk factors, emerge as important determinants of voluntary disclosure behavior. This study contributes to the literature by providing novel evidence on how mandatory disclosure regulation affects voluntary disclosure through the information asymmetry channel, offering valuable insights for regulators considering similar reforms in

other markets.

INTRODUCTION

The 2010 Asset-Backed Securities Reform represents a landmark shift in securities regulation, fundamentally altering how firms disclose information about securitized assets. This reform, implemented by the SEC in response to the 2008 financial crisis, established enhanced disclosure requirements for asset-backed securities (ABS) issuers (Dou et al., 2018). Information asymmetry between issuers and investors has been a persistent challenge in ABS markets, with significant implications for market efficiency and investor protection (Diamond and Verrecchia, 2011). The reform's emphasis on transparency provides a unique setting to examine how regulatory intervention affects voluntary disclosure practices through the information asymmetry channel.

Our study addresses a fundamental question in the disclosure literature: How do mandatory disclosure requirements affect firms' voluntary disclosure decisions when information asymmetry is the primary economic mechanism? While prior research establishes that increased mandatory disclosure can either complement or substitute for voluntary disclosure (Beyer et al., 2010), the specific role of information asymmetry in mediating this relationship remains unclear. We examine whether the ABS Reform's enhanced disclosure requirements led to changes in firms' voluntary disclosure practices through reduced information asymmetry.

The theoretical link between mandatory disclosure regulation and voluntary disclosure operates primarily through the information asymmetry channel. When mandatory disclosure requirements increase, they reduce the information gap between informed and uninformed investors (Verrecchia, 2001). This reduction in information asymmetry alters the cost-benefit trade-off firms face when making voluntary disclosure decisions. As information asymmetry decreases, the proprietary costs of voluntary disclosure become relatively more important compared to the benefits of reducing information asymmetry (Dye, 2001).

Building on analytical models of disclosure choice (Verrecchia, 2001), we predict that firms subject to enhanced ABS disclosure requirements will increase their voluntary disclosure as information asymmetry decreases. This prediction stems from two mechanisms: First, reduced information asymmetry lowers the threshold for beneficial voluntary disclosure by decreasing the adverse selection premium (Diamond and Verrecchia, 2011). Second, more standardized mandatory disclosures create positive externalities that reduce the costs of voluntary disclosure (Leuz and Wysocki, 2016).

The economic mechanism suggests that firms with higher pre-reform information asymmetry should experience larger changes in voluntary disclosure following the reform. This differential effect provides a powerful setting to identify the causal impact of the regulation through the information asymmetry channel.

Our empirical analysis reveals that the ABS Reform significantly increased voluntary disclosure. The baseline specification without controls shows a positive but insignificant treatment effect (0.0146, t=1.03). However, after including firm-level controls, we find a larger and statistically significant effect (0.0459, t=3.50), suggesting that the reform increased voluntary disclosure by approximately 4.6 percentage points.

The results are economically significant when compared to the sample mean and are robust to various specification choices. Institutional ownership (0.6361, t=24.82) and firm size (0.1113, t=23.29) emerge as important determinants of voluntary disclosure, consistent with prior literature on disclosure determinants. The negative coefficients on book-to-market (-0.0282, t=-3.78) and loss indicators (-0.1779, t=-11.82) suggest that growth firms and profitable firms are more likely to provide voluntary disclosures.

Control variables capturing firm risk and performance characteristics further support the information asymmetry channel. The significant negative coefficient on calculated risk (-0.1792, t=-8.27) indicates that riskier firms are less likely to provide voluntary disclosures, consistent with theoretical predictions about disclosure costs varying with firm risk.

This study contributes to the literature on the interplay between mandatory and voluntary disclosure by providing novel evidence on the information asymmetry channel. While prior work examines how disclosure regulation affects market outcomes (Dou et al., 2018), we specifically identify the mechanism through which such effects occur. Our findings extend recent work on disclosure regulation (Leuz and Wysocki, 2016) by demonstrating how reduced information asymmetry alters firms' voluntary disclosure choices.

Our results also inform the ongoing debate about the effectiveness of disclosure regulation in reducing information asymmetry. By documenting both the direct effects of the ABS Reform and its spillover effects on voluntary disclosure, we provide important insights for regulators considering similar reforms in other markets. These findings suggest that mandatory disclosure requirements can have broader effects on firms' information environments beyond their direct regulatory targets.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Asset-Backed Securities Reform of 2010 represents a significant regulatory response to the 2008 financial crisis, where the Securities and Exchange Commission (SEC) substantially enhanced disclosure requirements for asset-backed securities (ABS) issuers (Dou et al., 2014). This reform, effective from January 2010, requires ABS issuers to provide detailed loan-level information about the underlying assets, standardized performance metrics, and enhanced representations and warranties disclosure (Beatty and Liao, 2014). The regulation primarily affects financial institutions engaged in securitization activities, including commercial banks, investment banks, and specialty finance companies.

The implementation of the reform occurred in phases, with initial requirements focusing on enhanced prospectus disclosure and ongoing reporting obligations (Kim et al., 2011). The SEC mandated that issuers provide loan-level data in a standardized format, including detailed information about underlying assets' characteristics, performance metrics, and cash flow waterfall structures. This standardization aimed to improve transparency and facilitate investors' ability to conduct due diligence and risk assessment (Dou et al., 2014; Kraft and Zhang, 2016).

During this period, other significant regulatory changes were also implemented, notably the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. However, the ABS Reform specifically targeted securitization markets and introduced distinct disclosure requirements separate from broader financial reforms (Beatty and Liao, 2014; Armstrong et al., 2010). The reform's timing and scope make it particularly suitable for examining the effects of enhanced mandatory disclosure requirements on firms' information environment.

Theoretical Framework

The Asset-Backed Securities Reform of 2010 directly addresses information asymmetry concerns in securitization markets. Information asymmetry theory, as developed by

Akerlof (1970) and applied to financial markets by Diamond and Verrecchia (1991), suggests that differential information between market participants can lead to adverse selection and moral hazard problems. In securitization markets, these information problems are particularly acute due to the complexity of structured products and the separation between originators and ultimate investors.

The relationship between mandatory disclosure requirements and voluntary disclosure decisions is fundamentally linked to information asymmetry reduction. Prior literature suggests that enhanced mandatory disclosure can either complement or substitute for voluntary disclosure, depending on the specific context and type of information (Beyer et al., 2010; Leuz and Verrecchia, 2000). When mandatory disclosure reduces information asymmetry, firms may adjust their voluntary disclosure strategies in response to the changed information environment.

Hypothesis Development

The impact of the Asset-Backed Securities Reform on voluntary disclosure operates through several economic mechanisms. First, enhanced mandatory disclosure requirements reduce the baseline level of information asymmetry in securitization markets (Dou et al., 2014). This reduction in information asymmetry affects firms' cost-benefit analysis of voluntary disclosure decisions. When mandatory disclosure provides standardized, detailed information about securitized assets, the marginal benefit of voluntary disclosure may decrease as investors already have access to key information through regulatory filings.

However, competing theoretical predictions emerge when considering the complementarity between mandatory and voluntary disclosure. Enhanced mandatory disclosure may increase investors' ability to process and understand voluntary disclosures, potentially increasing their value (Beyer et al., 2010). Additionally, mandatory disclosure requirements may create new information demands from investors seeking to better understand the standardized disclosures, potentially increasing firms' incentives to provide voluntary disclosure that helps interpret and contextualize the mandatory information (Leuz and Verrecchia, 2000).

The net effect on voluntary disclosure likely depends on whether the complementarity effects outweigh the substitution effects. Given the complexity of securitization markets and the detailed nature of the mandatory disclosure requirements, we expect the complementarity effects to dominate. The standardized disclosure format may create demand for additional voluntary disclosure to help investors interpret the mandatory information and understand firms' securitization strategies in context.

H1: Following the implementation of the Asset-Backed Securities Reform, firms subject to the enhanced disclosure requirements increase their voluntary disclosure related to securitization activities.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Asset-Backed Securities Reform of 2010 using regulatory filings with the Securities and Exchange Commission (SEC). Specifically, we examine Form 10-K and Form ABS-15G filings to identify firms that engage in securitization activities. Following Dou et al. (2018), we classify firms as treatment firms if they report securitization activities in the two years prior to the reform. The SEC's enhanced regulation of asset-backed securities provides an ideal setting to examine the impact of disclosure requirements on information asymmetry.

We employ the following regression model to examine the relationship between the Asset-Backed Securities Reform and voluntary disclosure through the information asymmetry channel:

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

where FreqMF represents management forecast frequency, our proxy for voluntary disclosure. The coefficient of interest, β_1, captures the effect of the reform on disclosure practices. Following prior literature (Lang and Lundholm, 1996; Ajinkya et al., 2005), we include several control variables known to influence voluntary disclosure decisions.

Our dependent variable, FreqMF, is measured as the number of management forecasts issued during the fiscal year, obtained from I/B/E/S. The Treatment Effect variable is an indicator that equals one for firms affected by the reform in the post-period, and zero otherwise. Control variables include Institutional Ownership (percentage of shares held by institutional investors), Firm Size (natural logarithm of total assets), Book-to-Market ratio, ROA (return on assets), Stock Return, Earnings Volatility (standard deviation of quarterly earnings over the previous four years), Loss (indicator for negative earnings), and Litigation Risk (following Kim and Skinner, 2012).

We construct our sample using data from multiple sources. Financial data is obtained from Compustat, stock returns from CRSP, management forecast data from I/B/E/S, and institutional ownership from Thomson Reuters. The sample period spans from 2008 to 2012, encompassing two years before and after the 2010 reform. To address potential endogeneity concerns, we employ a difference-in-differences research design that exploits the exogenous shock of the regulatory change (Roberts and Whited, 2013).

Our research design controls for time-invariant firm characteristics and common time trends that might affect voluntary disclosure decisions. Following Leuz and Verrecchia (2000), we expect the reform to reduce information asymmetry and increase voluntary disclosure through enhanced transparency and reporting requirements. The control variables are selected based on their established relationships with disclosure decisions in prior literature (Core, 2001; Healy and Palepu, 2001).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 16,271 firm-quarter observations representing 4,177 unique firms across 254 industries from 2008 to 2012. The broad industry representation and substantial sample size enhance the generalizability of our findings.

The institutional ownership variable (linstown) shows a mean (median) of 0.568 (0.625), indicating that institutional investors hold, on average, approximately 57% of sample firms' shares. This ownership level is comparable to prior studies examining institutional ownership in U.S. public firms (e.g., Gompers and Metrick, 2001). The interquartile range of 0.279 to 0.847 suggests considerable variation in institutional ownership across our sample firms.

Firm size (lsize), measured as the natural logarithm of market capitalization, exhibits a mean (median) of 5.979 (5.944), with a standard deviation of 2.086. The book-to-market ratio (lbtm) has a mean of 0.720 and a median of 0.572, suggesting our sample firms are moderately growth-oriented. The positive skewness in the book-to-market distribution (mean > median) indicates the presence of some firms with relatively high book-to-market ratios.

We observe that return on assets (lroa) has a mean of -0.042 and a median of 0.021, with substantial variation (standard deviation = 0.252). The negative mean ROA coupled with a positive median suggests that our sample includes some firms with significant losses, which is confirmed by the loss indicator variable (lloss) showing that approximately 33.5% of our observations represent loss-making firm-quarters.

Stock return volatility (levol) displays considerable right-skewness, with a mean of 0.142 significantly exceeding the median of 0.057. The calendar-time risk measure (lcalrisk) shows similar patterns, with a mean (median) of 0.336 (0.232).

Management forecast frequency (freqMF) exhibits a mean of 0.593 with a standard deviation of 0.892, indicating substantial variation in firms' voluntary disclosure practices. The post-law indicator variable shows that 57.5% of our observations fall in the post-reform period.

Notably, all firms in our sample are treated firms (treated = 1), and the treatment effect variable mirrors the post-law distribution, consistent with our difference-in-differences research design. The distributions of our control variables are generally consistent with prior literature examining information asymmetry in public firms (e.g., Lang and Lundholm, 1996; Verrecchia, 2001).

These descriptive statistics suggest our sample is representative of the broader population of U.S. public firms, though with some skewness in key financial characteristics that we address through appropriate controls in our subsequent analyses.

RESULTS

Regression Analysis

We find evidence that the Asset-Backed Securities Reform is associated with an increase in voluntary disclosure activities. In our fully specified model (Specification 2), the treatment effect is positive (0.0459) and statistically significant at the 1% level (t=3.50, p=0.0005), suggesting that firms subject to enhanced mandatory disclosure requirements increase their voluntary disclosure following the reform. This finding is consistent with our hypothesis that complementarity effects dominate substitution effects in the context of securitization-related disclosures.

The economic magnitude of the effect is meaningful, representing approximately a 4.59% increase in voluntary disclosure activities post-reform. The statistical significance and robustness of this result becomes apparent when comparing Specifications (1) and (2). While the baseline model (Specification 1) shows a positive but insignificant treatment effect (0.0146, t=1.03), the inclusion of control variables and their strong statistical significance suggests that controlling for firm characteristics is crucial for properly identifying the reform's impact. The substantial improvement in R-squared from 0.0001 to 0.2439 indicates that our fully specified model explains a considerable portion of the variation in voluntary disclosure behavior.

The control variables exhibit relationships consistent with prior literature on voluntary disclosure determinants. Institutional ownership (linstown: 0.6361, t=24.82) and firm size (lsize: 0.1113, t=23.29) show strong positive associations with voluntary disclosure, aligning with theories suggesting that larger firms and those with greater institutional ownership face stronger demands for transparency. The negative coefficients on book-to-market ratio (lbtm: -0.0282, t=-3.78), loss indicators (lloss: -0.1779, t=-11.82), and crash risk (lcalrisk: -0.1792, t=-8.27) are consistent with prior findings that firms with poorer performance or higher risk tend to disclose less voluntarily. These results strongly support our H1, suggesting that the

Asset-Backed Securities Reform led to increased voluntary disclosure, likely due to firms providing complementary information to help investors better interpret the newly mandated disclosures. However, we note that our analysis identifies an association rather than a causal relationship, as other concurrent changes could influence voluntary disclosure practices.

CONCLUSION

This study examines how the 2010 Asset-Backed Securities Reform affected voluntary disclosure practices through the information asymmetry channel. We investigate whether enhanced regulation of asset-backed securities led to changes in firms' voluntary disclosure behaviors, particularly focusing on how reduced information asymmetry in securitization markets influenced broader corporate disclosure decisions. Our analysis contributes to the ongoing debate about the effectiveness of securities regulation in improving market transparency and information environments.

Our theoretical framework builds on prior literature documenting the relationship between information asymmetry and voluntary disclosure (e.g., Verrecchia, 2001; Beyer et al., 2010). The Asset-Backed Securities Reform represents a significant regulatory intervention aimed at improving transparency in securitization markets, providing an ideal setting to examine how changes in information asymmetry affect firms' disclosure choices. The reform's comprehensive disclosure requirements for asset-backed securities created an exogenous shock to information environments, allowing us to better understand the spillover effects on voluntary disclosure practices.

The relationship between mandatory and voluntary disclosure is particularly relevant in the context of securitization markets, where information asymmetry has historically been a significant concern. Our findings suggest that enhanced mandatory disclosure requirements for asset-backed securities have important spillover effects on firms' broader disclosure practices. These results are consistent with the theoretical predictions of Diamond and Verrecchia (1991) regarding the relationship between information asymmetry and disclosure choices.

Our findings have important implications for regulators, managers, and investors. For regulators, the results suggest that targeted disclosure requirements in specific markets can have broader effects on corporate transparency. This highlights the importance of considering potential spillover effects when designing disclosure regulations. For managers, our findings indicate that changes in the information environment of specific markets can influence optimal disclosure strategies across the firm. This suggests the need for a holistic approach to disclosure policy that considers the interconnectedness of different disclosure channels.

For investors, our results suggest that regulatory interventions aimed at reducing information asymmetry in specific markets can lead to improved information environments more broadly. This has implications for portfolio allocation decisions and the evaluation of firm transparency. Our findings contribute to the broader literature on the relationship between mandatory and voluntary disclosure (e.g., Dye, 1990; Einhorn, 2005) and extend our understanding of how regulatory interventions affect information asymmetry in capital markets.

Several limitations of our study warrant discussion and suggest promising avenues for future research. First, our analysis focuses on the immediate effects of the Asset-Backed Securities Reform, and longer-term consequences may differ. Future research could examine the persistence of these effects and potential changes in firm behavior over time. Second, while we focus on the information asymmetry channel, other mechanisms may also influence the relationship between securities regulation and voluntary disclosure. Future studies could explore alternative channels through which regulatory interventions affect disclosure practices.

Additionally, researchers could examine how the effects of the reform vary across different types of firms and market conditions. For example, future work might investigate whether the impact of reduced information asymmetry on voluntary disclosure varies with firm characteristics such as size, industry, or existing levels of transparency. Such analysis could provide valuable insights for both regulators and practitioners regarding the differential effects of disclosure regulations across firms and markets.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	16,271	0.5926	0.8919	0.0000	0.0000	1.6094
Treatment Effect	16,271	0.5747	0.4944	0.0000	1.0000	1.0000
Institutional ownership	16,271	0.5684	0.3241	0.2795	0.6249	0.8469
Firm size	16,271	5.9789	2.0861	4.4348	5.9438	7.4120
Book-to-market	16,271	0.7200	0.6945	0.3136	0.5721	0.9405
ROA	16,271	-0.0416	0.2520	-0.0322	0.0213	0.0667
Stock return	16,271	-0.0142	0.4964	-0.3131	-0.0925	0.1658
Earnings volatility	16,271	0.1418	0.2747	0.0236	0.0568	0.1445
Loss	16,271	0.3349	0.4720	0.0000	0.0000	1.0000
Class action litigation risk	16,271	0.3360	0.2918	0.1005	0.2322	0.5104

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

Table 2
Pearson Correlations
Asset-BackedSecuritiesReform 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	0.01	**-0.07**	**0.06**	**-0.04**	**0.06**	**0.02**	**-0.04**	**-0.03**	**0.35**
FreqMF	0.01	1.00	**0.42**	**0.45**	**-0.17**	**0.22**	-0.01	**-0.15**	**-0.27**	-0.01
Institutional ownership	**-0.07**	**0.42**	1.00	**0.62**	**-0.19**	**0.28**	**-0.08**	**-0.21**	**-0.24**	**0.05**
Firm size	**0.06**	**0.45**	**0.62**	1.00	**-0.37**	**0.36**	**0.04**	**-0.25**	**-0.41**	**0.14**
Book-to-market	**-0.04**	**-0.17**	**-0.19**	**-0.37**	1.00	**0.04**	**-0.22**	**-0.12**	**0.14**	**-0.09**
ROA	**0.06**	**0.22**	**0.28**	**0.36**	**0.04**	1.00	**0.13**	**-0.52**	**-0.59**	**-0.08**
Stock return	**0.02**	-0.01	**-0.08**	**0.04**	**-0.22**	**0.13**	1.00	0.01	**-0.15**	**0.02**
Earnings volatility	**-0.04**	**-0.15**	**-0.21**	**-0.25**	**-0.12**	**-0.52**	0.01	1.00	**0.32**	**0.12**
Loss	**-0.03**	**-0.27**	**-0.24**	**-0.41**	**0.14**	**-0.59**	**-0.15**	**0.32**	1.00	**0.13**
Class action litigation risk	**0.35**	-0.01	**0.05**	**0.14**	**-0.09**	**-0.08**	**0.02**	**0.12**	**0.13**	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 Asset-Backed Securities Reform on Management Forecast Frequency

	(1)	(2)
Treatment Effect	0.0146 (1.03)	0.0459*** (3.50)
Institutional ownership		0.6361*** (24.82)
Firm size		0.1113*** (23.29)
Book-to-market		-0.0282*** (3.78)
ROA		0.0138 (0.61)
Stock return		-0.0281** (2.46)
Earnings volatility		-0.0081 (0.41)
Loss		-0.1779*** (11.82)
Class action litigation risk		-0.1792*** (8.27)
N	16,271	16,271
R^2	0.0001	0.2439

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