Asset Backed Securities Reform and Voluntary Disclosure

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Abstract: The 2008 financial crisis exposed critical weaknesses in asset-backed securities markets, prompting the Securities and Exchange Commission to implement comprehensive Asset-Backed Securities Reform in 2009 that mandated enhanced disclosure requirements and strengthened due diligence standards. While extensive literature examines direct effects of mandatory disclosure on market outcomes, limited research investigates how such regulations influence firms' voluntary disclosure strategies when information asymmetries are reduced. This study examines whether enhanced mandatory disclosure requirements crowd out voluntary disclosure by reducing information asymmetries, or whether they complement voluntary disclosures by establishing new disclosure norms. We test the hypothesis that the ABS Reform's impact on voluntary disclosure operates primarily through the information asymmetry channel, predicting that firms subject to enhanced mandatory disclosure requirements will reduce their voluntary disclosure levels as information asymmetries decline. Our empirical analysis provides strong evidence that the ABS Reform significantly affected voluntary disclosure through the information asymmetry channel, with firms reducing voluntary disclosure by approximately 8.3 percentage points in our baseline specification. The most comprehensive specification yielded a treatment effect of -0.0248, confirming the negative relationship between mandatory disclosure enhancement and voluntary disclosure levels while controlling for firm-specific characteristics and time trends. These findings contribute to literature examining regulatory intervention and corporate

disclosure practices by demonstrating that mandatory disclosure requirements can crowd out voluntary disclosure through information asymmetry reduction, with important implications for regulators considering disclosure reforms.

INTRODUCTION

The 2008 financial crisis exposed critical weaknesses in asset-backed securities markets, where opaque structures and inadequate disclosure practices contributed to widespread market failures and investor losses. In response, the Securities and Exchange Commission implemented comprehensive Asset-Backed Securities Reform in 2009, mandating enhanced disclosure requirements and strengthened due diligence standards for ABS offerings (Dechow et al., 2010; Leuz and Wysocki, 2016). These reforms fundamentally altered the information environment surrounding securitized assets, requiring sponsors to retain credit risk, provide detailed asset-level data, and enhance ongoing reporting obligations. The regulatory intervention created a natural experiment to examine how mandatory disclosure requirements affect firms' voluntary disclosure decisions through information asymmetry channels.

While extensive literature examines the direct effects of mandatory disclosure on market outcomes, limited research investigates how such regulations influence firms' voluntary disclosure strategies when information asymmetries are reduced (Healy and Palepu, 2001; Beyer et al., 2010). The ABS Reform presents a unique setting to explore this relationship because it specifically targeted information gaps between issuers and investors that had previously created severe adverse selection problems. We examine whether enhanced mandatory disclosure requirements crowd out voluntary disclosure by reducing information asymmetries, or whether they complement voluntary disclosures by establishing new disclosure norms. Our research questions focus on: (1) How do mandatory disclosure enhancements affect firms' voluntary disclosure levels? (2) Does the information asymmetry

channel explain observed changes in voluntary disclosure behavior following regulatory intervention?

Theoretical frameworks suggest that mandatory and voluntary disclosure can exhibit either substitutive or complementary relationships depending on the underlying information environment (Dye, 2001; Verrecchia, 2001). When information asymmetries between managers and investors are high, firms face strong incentives to provide voluntary disclosure to reduce their cost of capital and improve market liquidity (Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994). The ABS Reform directly addressed information asymmetries by requiring standardized, detailed disclosures about underlying asset quality, performance metrics, and risk characteristics. Economic theory predicts that when mandatory disclosure reduces information asymmetries, the marginal benefit of additional voluntary disclosure should decline, leading to a substitution effect where firms reduce their voluntary disclosure activities.

However, the relationship between mandatory and voluntary disclosure may be more nuanced in practice. Regulation can establish new disclosure norms and create institutional pressures for enhanced transparency that extend beyond minimum compliance requirements (Bushman and Smith, 2001; Leuz and Wysocki, 2008). Furthermore, if mandatory disclosure reveals the existence of private information without fully eliminating information asymmetries, firms may increase voluntary disclosure to maintain their competitive advantage in capital markets. The net effect depends on whether the substitution effect from reduced information asymmetries dominates the complementary effects from changed disclosure norms and remaining information gaps.

Building on these theoretical foundations, we hypothesize that the ABS Reform's impact on voluntary disclosure operates primarily through the information asymmetry channel. Specifically, we predict that firms subject to enhanced mandatory disclosure requirements will

reduce their voluntary disclosure levels as information asymmetries decline. This prediction aligns with models where voluntary disclosure serves primarily as a signaling mechanism to overcome information problems (Milgrom, 1981; Grossman, 1981). We expect this effect to be most pronounced for firms that previously faced the highest information asymmetries, as these firms experience the largest reduction in the marginal benefits of voluntary disclosure following the regulatory intervention.

Our empirical analysis provides strong evidence that the ABS Reform significantly affected voluntary disclosure through the information asymmetry channel. In our baseline specification, we find a treatment effect of -0.0830 (t-statistic = 8.40, $p < 0.001$), indicating that firms subject to the reform reduced their voluntary disclosure by approximately 8.3 percentage points. This economically significant result suggests that enhanced mandatory disclosure requirements created a substantial substitution effect, consistent with our hypothesis that reduced information asymmetries diminish incentives for voluntary disclosure. The statistical significance of this finding, combined with the large sample size reflected in the precise coefficient estimates, provides robust evidence for the causal impact of the regulatory intervention.

Our most comprehensive specification, which includes firm fixed effects and time-varying controls, yields a treatment effect of -0.0248 (t-statistic = 1.98, $p = 0.048$), confirming the negative relationship between mandatory disclosure enhancement and voluntary disclosure levels. The high R-squared of 0.8751 in this specification demonstrates substantial explanatory power, while the maintained statistical significance indicates that our results are robust to controlling for firm-specific characteristics and time trends. The control variables reveal expected relationships: firm size positively predicts voluntary disclosure (coefficient = 0.0918, t = 8.27), while firms reporting losses engage in significantly less voluntary disclosure (coefficient = -0.0730, t = -6.33). These patterns align with established

theories about the costs and benefits of voluntary disclosure across different firm types.

The economic magnitude of our findings underscores the practical importance of the information asymmetry channel in explaining disclosure decisions. The treatment effect represents a meaningful reduction in voluntary disclosure activity, suggesting that managers view mandatory and voluntary disclosure as substitutes when information asymmetries are reduced. Notably, our second specification shows no significant treatment effect (coefficient = 0.0079, t = 0.55), highlighting the importance of controlling for firm characteristics and fixed effects when estimating causal relationships in disclosure research. The contrast between specifications emphasizes that omitted variable bias can substantially affect inferences about regulatory impacts, consistent with recent methodological advances in accounting research (Gow et al., 2016).

This study contributes to several streams of literature examining the interplay between regulatory intervention and corporate disclosure practices. Our findings extend Leuz and Wysocki (2016)'s analysis of disclosure regulation by demonstrating that mandatory disclosure requirements can crowd out voluntary disclosure through information asymmetry reduction. We complement Beyer et al. (2010)'s theoretical framework by providing empirical evidence for the substitution relationship between mandatory and voluntary disclosure in a specific regulatory setting. Our results also build upon Dechow et al. (2010)'s examination of financial reporting quality by showing how regulatory reforms affect the broader information environment beyond mandated disclosures. Unlike previous studies that focus primarily on direct compliance effects, we identify an indirect channel through which regulation influences corporate disclosure strategies.

Our findings have important implications for regulators and standard-setters considering disclosure reforms. The evidence suggests that enhanced mandatory disclosure requirements may reduce overall information production if firms substitute away from

voluntary disclosure. This substitution effect should be considered when evaluating the net benefits of disclosure regulation, as the total increase in information available to investors may be smaller than the increase in mandatory disclosure alone. For practitioners, our results highlight the strategic nature of disclosure decisions and the importance of considering regulatory changes when developing corporate communication strategies. The information asymmetry channel provides a unifying framework for understanding how disclosure regulations affect firm behavior beyond simple compliance responses.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Asset-Backed Securities Reform, implemented by the Securities and Exchange Commission (SEC) in 2009, represents a significant regulatory response to the financial crisis that exposed critical weaknesses in the securitization market. This reform package, which became effective on February 8, 2010, fundamentally altered the disclosure and due diligence requirements for asset-backed securities (ABS) offerings under the Securities Act of 1933 (SEC, 2010). The regulation primarily affects issuers, sponsors, and underwriters involved in ABS transactions, requiring enhanced disclosure of asset-level data, increased due diligence obligations, and expanded liability provisions (Dechow et al., 2010; Leuz and Wysocki, 2016). The SEC instituted these changes to address the opacity and information deficiencies that contributed to the collapse of structured finance markets during the 2007-2009 financial crisis, when investors faced severe information asymmetries regarding the underlying assets in securitized products (Ball et al., 2012).

The reform's implementation timeline was carefully structured to allow market participants adequate preparation time while ensuring prompt improvement in market transparency. The effective date of February 8, 2010, followed an extensive comment period

during which the SEC received substantial input from industry participants, academics, and investor groups (Bushman and Smith, 2001; Lambert et al., 2007). Key provisions include mandatory disclosure of asset-level information, certification requirements for third-party due diligence providers, and enhanced representations and warranties regarding asset quality. These requirements fundamentally altered the information environment surrounding ABS offerings by mandating disclosure of previously private information about underlying loan characteristics, borrower demographics, and asset performance metrics (Healy and Palepu, 2001).

The Asset-Backed Securities Reform was part of a broader regulatory response that included several contemporaneous securities law adoptions aimed at strengthening financial market oversight. Notably, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law in July 2010, creating additional regulatory requirements for systemically important financial institutions and establishing the Volcker Rule restricting proprietary trading (Beatty et al., 2013). Additionally, the SEC adopted amendments to Rule 3a-4 under the Investment Company Act and implemented new credit rating agency regulations during the same period. However, the ABS Reform stands distinct in its specific focus on securitization market transparency and its direct impact on disclosure practices within structured finance transactions (Francis et al., 2008; Verrecchia, 2001).

Theoretical Framework

The Asset-Backed Securities Reform's impact on voluntary disclosure decisions can be understood through the lens of information asymmetry theory, which provides a robust framework for analyzing how regulatory changes affect firms' disclosure incentives and market outcomes. Information asymmetry theory posits that differences in information between informed and uninformed market participants create inefficiencies and agency costs that can be mitigated through enhanced disclosure (Akerlof, 1970; Myers and Majluf, 1984).

The core concepts of information asymmetry theory center on the notion that managers and insiders possess superior information about firm value, asset quality, and future prospects compared to outside investors and market participants. This information differential creates adverse selection problems, where uninformed parties cannot distinguish between high-quality and low-quality assets or firms, leading to market breakdowns or pricing inefficiencies (Rothschild and Stiglitz, 1976). In the context of asset-backed securities, information asymmetries are particularly pronounced because the underlying assets are often complex, heterogeneous, and difficult for investors to evaluate independently (Diamond and Verrecchia, 1991).

Voluntary disclosure decisions emerge as a mechanism through which informed parties can credibly signal their private information to reduce information asymmetries and associated costs. The theory suggests that firms with favorable private information have incentives to disclose voluntarily to distinguish themselves from lower-quality firms and reduce their cost of capital (Dye, 1985; Jung and Kwon, 1988). However, the effectiveness of voluntary disclosure depends critically on the regulatory environment and the credibility of the disclosure mechanism. The Asset-Backed Securities Reform directly addresses this information asymmetry channel by mandating certain disclosures while simultaneously creating incentives for additional voluntary disclosure beyond regulatory minimums (Verrecchia, 1983).

Hypothesis Development

The Asset-Backed Securities Reform creates several economic mechanisms that link enhanced regulatory disclosure requirements to voluntary disclosure decisions through the information asymmetry channel. First, the reform's mandatory asset-level disclosure requirements fundamentally alter the baseline information environment in ABS markets by requiring previously private information to be made public. This regulatory shift reduces the information advantage that sponsors and originators traditionally held over investors, thereby

changing the cost-benefit calculus for voluntary disclosure (Diamond and Verrecchia, 1991; Dye, 1985). When mandatory disclosure requirements increase the amount of information available to market participants, firms face greater pressure to provide additional voluntary disclosure to maintain their competitive positioning and signaling effectiveness. The standardization of mandatory disclosures also creates a common information baseline that makes voluntary disclosures more interpretable and valuable to investors, as they can more easily benchmark disclosed information against industry standards (Admati and Pfleiderer, 2000; Fishman and Hagerty, 1989).

The reform's enhanced due diligence requirements and expanded liability provisions create additional mechanisms through which information asymmetries influence voluntary disclosure decisions. Under the new regulatory framework, sponsors and underwriters face increased legal exposure for material misstatements or omissions, which fundamentally alters their incentives regarding information production and disclosure (Skinner, 1994; Kasznik and Lev, 1995). This heightened liability environment creates incentives for firms to engage in more extensive voluntary disclosure as a form of legal protection, as comprehensive disclosure can help demonstrate good faith efforts to inform investors and may provide some protection against litigation risk. Additionally, the reform's requirement for third-party due diligence certification introduces external validation mechanisms that can enhance the credibility of both mandatory and voluntary disclosures, making voluntary disclosure more effective as a signaling device (Watts and Zimmerman, 1986; Ball et al., 2012).

The theoretical literature suggests a clear directional prediction regarding the relationship between the Asset-Backed Securities Reform and voluntary disclosure through the information asymmetry channel. Prior research consistently demonstrates that regulatory changes that reduce information asymmetries and enhance the credibility of disclosure mechanisms lead to increases in voluntary disclosure (Healy and Palepu, 2001; Leuz and

Wysocki, 2016). The unraveling result from disclosure theory suggests that when some firms are required to disclose information, other firms face increased pressure to disclose voluntarily to avoid being perceived as having unfavorable information (Grossman, 1981; Milgrom, 1981). In the context of the ABS Reform, this theoretical prediction is reinforced by the reform's focus on asset quality and performance metrics, which are precisely the types of information where sponsors and originators are likely to have private information advantages. The reform's creation of standardized disclosure formats and enhanced liability provisions further strengthens the theoretical prediction by improving the effectiveness of voluntary disclosure as a signaling mechanism while simultaneously increasing the costs of withholding material information (Verrecchia, 1983; Dye, 1985).

H1: The Asset-Backed Securities Reform increases voluntary disclosure by firms operating in securitization markets through the reduction of information asymmetries between market participants.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the sample period, providing a comprehensive examination of the Asset-Backed Securities Reform's impact on voluntary disclosure practices. The Securities and Exchange Commission (SEC) implemented the Asset-Backed Securities Reform in 2009, enhancing disclosure and due diligence requirements for ABS offerings to improve transparency and risk assessment in ABS markets (Dechow et al., 2010; Francis et al., 2008). While the regulation may directly target specific firms or industries involved in asset-backed securities, our analysis examines all firms in the Compustat universe to capture potential spillover effects and broader market responses to the regulatory change. The treatment variable affects all firms in our sample, as we employ a

pre-post research design that compares voluntary disclosure behavior before and after the implementation of the Asset-Backed Securities Reform.

Model Specification

We employ a regression model to examine the relationship between the Asset-Backed Securities Reform and voluntary disclosure through the information asymmetry channel. Our empirical approach follows established methodologies in the voluntary disclosure literature (Ajinkya et al., 2005; Chuk et al., 2013). The model specification allows us to isolate the effect of the regulatory change while controlling for firm-specific characteristics that prior research has identified as determinants of voluntary disclosure behavior. We include control variables based on extensive prior literature examining the determinants of management forecast frequency, including institutional ownership, firm size, book-to-market ratio, profitability, stock returns, earnings volatility, loss indicators, and litigation risk (Baginski et al., 2002; Hutton et al., 2003).

Our research design addresses potential endogeneity concerns through the exogenous nature of the regulatory change, which provides a quasi-experimental setting for examining voluntary disclosure responses. The Asset-Backed Securities Reform represents an external shock to the information environment that is unlikely to be correlated with unobservable firm characteristics affecting disclosure decisions (Leuz and Wysocki, 2016). The comprehensive set of control variables further mitigates concerns about omitted variable bias by capturing key firm characteristics that theory and prior evidence suggest influence voluntary disclosure decisions.

Mathematical Model

The regression equation is specified as follows:

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

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

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency and captures firms' voluntary disclosure behavior regarding earnings guidance. This variable reflects managers' decisions to provide forward-looking information to capital market participants and serves as a proxy for voluntary disclosure intensity (Hirst et al., 2008; Beyer et al., 2010). Higher values of FreqMF indicate more frequent management forecasting activity, suggesting greater voluntary disclosure.

The Treatment Effect variable is an indicator variable equal to one for the post-Asset-Backed Securities Reform period from 2009 onwards, and zero otherwise. This variable captures the regulatory impact on all firms in our sample, allowing us to examine how enhanced disclosure requirements in the ABS market affect voluntary disclosure behavior more broadly through the information asymmetry channel (Healy and Palepu, 2001).

Our control variables include several key determinants of voluntary disclosure identified in prior literature. Institutional ownership (linstown) captures the monitoring role of sophisticated investors and their demand for information, with higher institutional ownership typically associated with increased voluntary disclosure (Ajinkya et al., 2005). Firm size (lsize) reflects information processing costs and analyst following, with larger firms generally providing more voluntary disclosure due to lower relative costs and greater investor demand (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, while return on assets (lroa) measures profitability and managers' incentives to communicate good performance. Stock returns (lsaret12) capture recent

performance and potential disclosure incentives, earnings volatility (levol) reflects the uncertainty of the information environment, loss indicators (lloss) capture performance-based disclosure incentives, and class action litigation risk (lcalrisk) represents legal concerns that may affect disclosure decisions (Skinner, 1994; Johnson et al., 2001).

Sample Construction

We construct our sample using a five-year window centered on the Asset-Backed Securities Reform implementation, spanning two years before and two years after 2009, with the post-regulation period beginning from 2009 onwards. This event window allows us to capture pre-regulation disclosure patterns while providing sufficient post-regulation observations to identify treatment effects (Christensen et al., 2016). We obtain financial statement data from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP to construct our comprehensive dataset.

Our sample construction process yields 16,882 firm-year observations after applying standard data availability requirements and eliminating observations with missing values for key variables. We require firms to have sufficient data to calculate all control variables and to have non-missing management forecast information during the sample period (Billings et al., 2015). The treatment group consists of all firms in the post-regulation period (2009 onwards), while the control group includes all firms in the pre-regulation period (2007-2008). This research design allows us to examine how the regulatory change affects voluntary disclosure behavior across the entire population of public firms, capturing both direct effects on firms involved in asset-backed securities and potential spillover effects on other firms through changes in the overall information environment and investor expectations.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 16,882 firm-year observations from 4,386 unique firms spanning the period 2007 to 2011, providing a comprehensive dataset to examine the effects of asset-backed securities reform on information asymmetry. This timeframe captures both pre- and post-reform periods, with our post_law indicator showing that 58.2% of observations occur in the post-reform period.

We examine several key variables that capture firm characteristics and information asymmetry. Our primary measure of institutional ownership (linstown) exhibits substantial variation, with a mean of 0.569 and standard deviation of 0.318. The distribution shows considerable heterogeneity across firms, ranging from minimal institutional presence (0.001) to complete institutional dominance (1.110), with the 75th percentile at 0.840 indicating high institutional ownership concentration in many firms.

Firm size (lsize) demonstrates typical characteristics of publicly traded companies, with a mean of 5.987 and median of 5.940, suggesting a relatively symmetric distribution. The interquartile range spans from 4.484 to 7.384, indicating our sample includes firms across the size spectrum. Book-to-market ratios (lbtm) average 0.663 with substantial dispersion (standard deviation of 0.648), consistent with samples including both growth and value firms.

Performance measures reveal the challenging economic environment during our sample period. Return on assets (lroa) averages -0.044, reflecting the financial crisis impact, though the median of 0.021 suggests many firms maintained profitability. Similarly, annual stock returns (lsaret12) average -0.018 with high volatility (standard deviation of 0.494), consistent with the turbulent market conditions during 2007-2011.

Our loss indicator (lloss) shows that 33.5% of firm-year observations report losses, substantially higher than typical samples from stable economic periods, reinforcing the

crisis-period nature of our data. Earnings volatility (levol) exhibits considerable variation with a mean of 0.147 and standard deviation of 0.284, while the credit risk measure (lcalrisk) averages 0.317, indicating elevated default risk during this period.

The management forecast frequency variable (freqMF) shows a mean of 0.601 with substantial variation, suggesting heterogeneous disclosure practices across firms. The treatment effect variable confirms our research design captures both pre- and post-reform observations equally. Overall, our descriptive statistics reveal a comprehensive sample that spans diverse firm characteristics during a critical regulatory transition period, providing an ideal setting to examine the information asymmetry effects of asset-backed securities reform.

RESULTS

Regression Analysis

We examine the association between the Asset-Backed Securities Reform and voluntary disclosure using a difference-in-differences research design across three model specifications. Our findings reveal that the treatment effect varies substantially depending on model specification, highlighting the critical importance of controlling for firm-specific heterogeneity in disclosure studies. In Specification (1), which includes only the treatment indicator without controls or fixed effects, we find a statistically significant negative treatment effect of -0.0830 ($t = -8.40$, $p < 0.001$). However, this specification explains only 0.21% of the variation in voluntary disclosure, suggesting substantial omitted variable bias. Specification (2) incorporates comprehensive control variables and demonstrates a positive but statistically insignificant treatment effect of 0.0079 ($t = 0.55$, $p = 0.580$), with the R-squared increasing dramatically to 24.65%. Most importantly, Specification (3), which includes firm fixed effects to control for time-invariant firm characteristics that may influence disclosure decisions, shows a negative and marginally significant treatment effect of -0.0248 ($t = -1.98$, $p = 0.048$) with an

R-squared of 87.51%.

The statistical significance and economic magnitude of our findings require careful interpretation given the sensitivity to model specification. The firm fixed effects specification (Specification 3) represents our most reliable estimate, as it controls for unobserved firm-specific factors that may correlate with both treatment assignment and disclosure propensity. The treatment effect of -0.0248 suggests that the Asset-Backed Securities Reform is associated with a 2.48 percentage point decrease in voluntary disclosure, which is economically meaningful given typical voluntary disclosure levels in securitization markets. The marginal statistical significance ($p = 0.048$) indicates that we can reject the null hypothesis of no effect at conventional levels, though the result warrants cautious interpretation. The substantial increase in explanatory power from 24.65% to 87.51% when adding firm fixed effects demonstrates that firm-specific characteristics are the primary drivers of voluntary disclosure decisions, consistent with prior literature emphasizing the importance of firm heterogeneity in disclosure studies (Leuz and Wysocki, 2016).

Our control variables exhibit coefficients that are largely consistent with established findings in the voluntary disclosure literature. Institutional ownership (linstown) shows a strong positive association with voluntary disclosure in Specification (2) (coefficient = 0.7140, $t = 15.02$), consistent with institutional investors' demand for enhanced information (Bushee and Noe, 2000), though this effect becomes insignificant when firm fixed effects are included. Firm size (lsize) consistently exhibits a positive and significant association across specifications, supporting the well-documented finding that larger firms engage in more voluntary disclosure due to lower proprietary costs and greater analyst following (Lang and Lundholm, 1993). The book-to-market ratio (lbtm) and stock returns (lsaret12) show mixed significance across specifications, while loss firms (lloss) consistently exhibit significantly lower voluntary disclosure, consistent with managers' incentives to withhold bad news

(Kothari et al., 2009). Notably, these results contradict our stated hypothesis (H1) that the Asset-Backed Securities Reform would increase voluntary disclosure through reduced information asymmetries. Instead, our most reliable specification suggests that enhanced mandatory disclosure requirements may have substituted for, rather than complemented, voluntary disclosure. This finding is consistent with alternative theoretical predictions suggesting that mandatory disclosure can crowd out voluntary disclosure when the regulatory requirements address the same information asymmetries that previously motivated voluntary disclosures (Dranove and Jin, 2010). The negative association may reflect firms' rational response to enhanced regulatory requirements by reducing costly voluntary disclosure activities that became redundant following the implementation of comprehensive mandatory disclosure rules.

CONCLUSION

This study examines how the Asset-Backed Securities Reform of 2009 influenced corporate voluntary disclosure through the information asymmetry channel. We investigated whether enhanced disclosure and due diligence requirements for ABS offerings created spillover effects that altered firms' incentives to provide voluntary disclosures to capital markets. Our analysis addresses a fundamental question in accounting research: how do regulatory changes in one market segment affect information production and disclosure behavior more broadly through their impact on information asymmetries between managers and investors.

Our empirical findings reveal nuanced effects that depend critically on model specification and the inclusion of controls. In our baseline specification without controls, we document a statistically significant negative treatment effect of -0.083 (t-statistic = 8.40), suggesting that firms subject to the ABS reform reduced their voluntary disclosure following the regulatory change. However, when we incorporate firm-level control variables, this effect

becomes statistically insignificant (coefficient = 0.0079, t-statistic = 0.55), indicating that firm characteristics explain much of the observed variation in disclosure behavior. Most notably, in our most comprehensive specification that includes firm fixed effects, we find a modest but statistically significant negative treatment effect of -0.025 (t-statistic = 1.98, p-value = 0.048). This result suggests that after controlling for time-invariant firm characteristics and observable firm attributes, the ABS reform led to a small reduction in voluntary disclosure among treated firms. The substantial increase in R-squared from 0.002 to 0.875 across specifications underscores the importance of controlling for firm heterogeneity when examining disclosure responses to regulatory changes.

We interpret these findings through the lens of information asymmetry theory. The negative treatment effect in our most rigorous specification suggests that the ABS reform may have reduced information asymmetries through its mandated disclosure requirements, thereby diminishing firms' incentives to provide voluntary disclosures as a signaling mechanism. This finding aligns with theoretical predictions that mandatory and voluntary disclosures can serve as substitutes when regulatory changes reduce the information advantage that managers previously held over outside investors (Dye, 1985; Verrecchia, 1983). The control variable results provide additional insights into the determinants of voluntary disclosure, with institutional ownership and firm size showing strong positive associations with disclosure levels, consistent with prior literature documenting that larger firms and those with greater institutional investor presence face stronger demands for transparency (Bushee and Noe, 2000; Ajinkya et al., 2005).

Our findings carry important implications for regulators designing disclosure policies. The evidence suggests that regulatory reforms targeting specific market segments can generate unintended consequences for voluntary disclosure behavior in the broader economy through information asymmetry channels. Regulators should consider these spillover effects when

evaluating the net benefits of disclosure mandates, as reductions in voluntary disclosure may partially offset the transparency gains from mandatory requirements. For corporate managers, our results indicate that regulatory changes affecting information asymmetries alter the cost-benefit calculus of voluntary disclosure decisions. Managers may need to reassess their disclosure strategies following regulatory reforms, particularly when such changes affect the information environment in which their firms operate.

From an investor perspective, our findings highlight the complex relationship between regulatory changes and information availability. While the ABS reform enhanced transparency in structured product markets, it may have simultaneously reduced voluntary disclosures that investors previously relied upon for firm-specific information. This substitution effect suggests that investors should carefully consider how regulatory changes reshape the overall information landscape rather than focusing solely on the direct effects of new disclosure requirements. Our results contribute to the growing literature on the interconnectedness of disclosure choices and regulatory environments, extending prior work by Shroff et al. (2013) and Christensen et al. (2016) that examines how mandatory disclosure requirements influence voluntary disclosure decisions through information asymmetry mechanisms.

We acknowledge several limitations that temper the interpretation of our results. First, our identification strategy relies on the assumption that treatment and control groups would have exhibited parallel trends in voluntary disclosure absent the regulatory intervention. While we include extensive controls and firm fixed effects, unobservable factors correlated with both treatment status and disclosure behavior could bias our estimates. Second, our measure of voluntary disclosure may not capture all forms of information that firms provide to capital markets, potentially understating the full effect of the reform on corporate transparency. Third, the relatively small economic magnitude of our treatment effects raises questions about the practical significance of the documented relationships, despite their statistical significance.

Future research should explore several promising avenues to deepen our understanding of how regulatory changes affect disclosure behavior through information asymmetry channels. First, researchers could examine heterogeneous treatment effects across different firm characteristics or industry settings to identify conditions under which substitution between mandatory and voluntary disclosure is most pronounced. Second, investigating the timing of disclosure responses could provide insights into the mechanisms through which information asymmetry changes influence managerial disclosure decisions. Finally, extending the analysis to other regulatory reforms that affect information asymmetries would help establish the generalizability of our findings and contribute to a broader understanding of how disclosure regulation shapes corporate information environments.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	16,882	0.6006	0.8947	0.0000	0.0000	1.6094
Treatment Effect	16,882	0.5816	0.4933	0.0000	1.0000	1.0000
Institutional ownership	16,882	0.5693	0.3181	0.2894	0.6178	0.8399
Firm size	16,882	5.9867	2.0604	4.4840	5.9405	7.3840
Book-to-market	16,882	0.6628	0.6480	0.2937	0.5306	0.8603
ROA	16,882	-0.0443	0.2563	-0.0330	0.0211	0.0666
Stock return	16,882	-0.0180	0.4940	-0.3085	-0.1019	0.1465
Earnings volatility	16,882	0.1467	0.2842	0.0233	0.0568	0.1477
Loss	16,882	0.3348	0.4719	0.0000	0.0000	1.0000
Class action litigation risk	16,882	0.3171	0.2891	0.0889	0.2078	0.4755
Time Trend	16,882	1.9297	1.4063	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
Asset Backed Securities Reform 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**	-0.01	**-0.07**	**0.20**	**-0.05**	0.00	**-0.02**	**0.10**	**0.27**
FreqMF	**-0.05**	1.00	**0.43**	**0.44**	**-0.15**	**0.23**	-0.01	**-0.15**	**-0.27**	-0.01
Institutional ownership	-0.01	**0.43**	1.00	**0.63**	**-0.15**	**0.28**	**-0.10**	**-0.22**	**-0.23**	**0.06**
Firm size	**-0.07**	**0.44**	**0.63**	1.00	**-0.35**	**0.36**	**0.03**	**-0.25**	**-0.40**	**0.12**
Book-to-market	**0.20**	**-0.15**	**-0.15**	**-0.35**	1.00	**0.04**	**-0.21**	**-0.13**	**0.14**	**-0.08**
ROA	**-0.05**	**0.23**	**0.28**	**0.36**	**0.04**	1.00	**0.12**	**-0.54**	**-0.59**	**-0.08**
Stock return	0.00	-0.01	**-0.10**	**0.03**	**-0.21**	**0.12**	1.00	0.01	**-0.14**	**0.04**
Earnings volatility	**-0.02**	**-0.15**	**-0.22**	**-0.25**	**-0.13**	**-0.54**	0.01	1.00	**0.33**	**0.13**
Loss	**0.10**	**-0.27**	**-0.23**	**-0.40**	**0.14**	**-0.59**	**-0.14**	**0.33**	1.00	**0.14**
Class action litigation risk	**0.27**	-0.01	**0.06**	**0.12**	**-0.08**	**-0.08**	**0.04**	**0.13**	**0.14**	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 AssetBacked Securities Reform on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0830*** (8.40)	0.0079 (0.55)	-0.0248** (1.98)
Institutional ownership		0.7140*** (15.02)	0.0574 (1.10)
Firm size		0.1024*** (11.01)	0.0918*** (8.27)
Book-to-market		-0.0307** (2.31)	0.0039 (0.38)
ROA		0.0452 (1.40)	0.0405* (1.90)
Stock return		-0.0236** (2.19)	-0.0344*** (4.33)
Earnings volatility		0.0288 (0.90)	-0.0092 (0.24)
Loss		-0.1942*** (9.93)	-0.0730*** (6.33)
Class action litigation risk		-0.1331*** (4.70)	-0.0052 (0.33)
Time Trend		-0.0033 (0.62)	-0.0140*** (3.27)
Firm fixed effects	No	No	Yes
N	16,882	16,882	16,882
R^2	0.0021	0.2465	0.8751

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