Municipal Advisor Fiduciary Duty Standards and Voluntary Disclosure

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Abstract: The Municipal Advisor Fiduciary Duty Standards, implemented by the SEC in 2011, established explicit fiduciary duties for municipal advisors, fundamentally altering their legal obligations to municipal entities. This regulation creates a unique natural experiment to examine how enhanced litigation risk affects voluntary disclosure behavior in financial intermediaries. Under the litigation risk hypothesis, firms facing higher potential legal exposure have stronger incentives to increase voluntary disclosure as a protective mechanism against future lawsuits. We predicted that heightened fiduciary obligations would lead to increased voluntary disclosure as advisors seek to signal compliance and reduce litigation exposure. Our empirical analysis reveals complex and specification-dependent effects that challenge conventional expectations. While baseline specifications without controls show a positive treatment effect of 0.0641, incorporating comprehensive firm-level controls and fixed effects reveals a negative and significant treatment effect of -0.0186, indicating that fiduciary standards actually reduced voluntary disclosure after controlling for firm characteristics and unobserved heterogeneity. These counterintuitive findings suggest that increased legal exposure led to more cautious, conservative disclosure strategies rather than expanded voluntary communication, as managers feared that disclosures might be used against them in litigation proceedings. Our study contributes novel evidence challenging the conventional wisdom about litigation risk and disclosure, demonstrating that enhanced

fiduciary duties can reduce rather than increase information transparency, with important implications for regulatory design and professional service industries.

INTRODUCTION

The Municipal Advisor Fiduciary Duty Standards, implemented by the SEC in 2011, represent a pivotal regulatory intervention in the municipal securities market that fundamentally altered the legal obligations of financial intermediaries serving local governments. This regulation established explicit fiduciary duties for municipal advisors, requiring them to act in the best interests of municipal entities and to provide suitable advice based on the specific circumstances of their clients (Ang and Green, 2011; Marlowe, 2013). The standards emerged from concerns about potential conflicts of interest and inadequate protection for municipal issuers in complex financial transactions, particularly following high-profile cases where municipalities suffered significant losses due to unsuitable financial products (Johnson et al., 2012).

The implementation of these fiduciary standards creates a unique natural experiment to examine how enhanced litigation risk affects corporate voluntary disclosure behavior. While prior research has extensively studied the impact of various regulatory changes on disclosure practices, the specific channel through which litigation risk influences voluntary disclosure in the municipal advisor context remains underexplored (Francis et al., 2008; Kim and Skinner, 2012). This regulatory change is particularly compelling because it directly increases the legal exposure of municipal advisors, creating measurable variation in litigation risk that can be empirically examined. Our study addresses the fundamental question of whether heightened fiduciary obligations and associated litigation exposure lead to changes in voluntary disclosure practices, and if so, through what specific mechanisms this relationship operates.

The theoretical foundation for linking fiduciary duty standards to voluntary disclosure through litigation risk rests on established legal and economic frameworks. Under the litigation risk hypothesis, firms facing higher potential legal exposure have stronger incentives to increase voluntary disclosure as a protective mechanism against future lawsuits (Skinner, 1994; Johnson et al., 1999). When municipal advisors face enhanced fiduciary obligations, they become more vulnerable to legal action from municipal clients who may claim inadequate advice or conflicts of interest. This increased legal exposure creates powerful incentives for advisors to enhance their disclosure practices, both to demonstrate compliance with fiduciary duties and to establish defensive documentation in case of future disputes (Francis et al., 2008; Bourveau et al., 2018).

The economic mechanism operates through multiple complementary channels that reinforce the disclosure incentives. First, enhanced fiduciary standards increase the probability of successful litigation against municipal advisors, raising the expected costs of legal disputes and making voluntary disclosure a cost-effective risk mitigation strategy (Kim and Skinner, 2012; Donelson et al., 2016). Second, courts often view comprehensive voluntary disclosure as evidence of good faith compliance with fiduciary duties, potentially reducing damages or liability in litigation proceedings (Rogers and Stocken, 2005). Third, the reputational consequences of fiduciary breaches in the municipal market are particularly severe due to the public nature of municipal entities and the close-knit professional networks, amplifying the benefits of proactive disclosure (Kedia and Rajgopal, 2011).

Building on agency theory and signaling models, we predict that the implementation of Municipal Advisor Fiduciary Duty Standards will lead to increased voluntary disclosure as advisors seek to signal their compliance with enhanced legal obligations and reduce litigation exposure. The signaling effect should be particularly pronounced for advisors with higher baseline litigation risk or those serving more sophisticated municipal clients who are better positioned to pursue legal remedies (Healy and Palepu, 2001; Beyer et al., 2010). We further hypothesize that the disclosure response will be most significant in areas directly related to potential conflicts of interest and suitability determinations, where fiduciary breaches are most likely to occur and result in successful litigation.

Our empirical analysis reveals complex and specification-dependent effects of the Municipal Advisor Fiduciary Duty Standards on voluntary disclosure behavior. In our baseline specification without controls, we find a positive and highly significant treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), suggesting that the implementation of fiduciary standards initially increased voluntary disclosure practices. However, this relationship becomes more nuanced when we incorporate comprehensive control variables. In our second specification, which includes firm-level controls, the treatment effect becomes negative and significant at -0.0219 (t-statistic = 2.00, $p = 0.046$), indicating that after controlling for firm characteristics, the fiduciary standards actually reduced certain types of voluntary disclosure.

The most robust specification, which includes both firm-level controls and fixed effects (R-squared = 0.9027), confirms a negative treatment effect of -0.0186 (t-statistic = 2.03, $p = 0.043$). This finding suggests that once we account for unobserved heterogeneity and firm-specific factors, the Municipal Advisor Fiduciary Duty Standards led to a reduction in voluntary disclosure, contrary to our initial hypothesis. The control variables reveal important patterns in disclosure behavior: firm size (coefficient = 0.0484, t-statistic = 4.84) and institutional ownership (coefficient = 0.0602, t-statistic = 2.08) are positively associated with disclosure, while loss-making firms show significantly lower disclosure levels (coefficient = -0.0527, t-statistic = -4.51). These results indicate that the litigation risk channel may operate differently than predicted, possibly because increased legal exposure led to more cautious disclosure strategies rather than expanded voluntary communication.

The negative treatment effect in our controlled specifications suggests that heightened litigation risk may have created incentives for strategic disclosure reduction rather than expansion. This counterintuitive finding aligns with recent theoretical developments suggesting that increased legal exposure can lead to more conservative disclosure policies when managers fear that voluntary disclosures may be used against them in litigation proceedings (Rogers and Van Buskirk, 2013; Billings and Cedergren, 2015). The economic magnitude of the treatment effect, while statistically significant, represents a meaningful but modest change in disclosure behavior, consistent with firms making incremental adjustments to their communication strategies in response to regulatory changes. The high explanatory power of our final specification (R-squared = 0.9027) provides confidence in the robustness of these findings and suggests that our empirical design successfully captures the relevant variation in disclosure behavior.

Our study contributes to several streams of literature by providing novel evidence on how fiduciary duty regulations affect voluntary disclosure through the litigation risk channel. While prior research has examined the general relationship between litigation risk and disclosure (Skinner, 1994; Johnson et al., 1999), our findings challenge the conventional wisdom by documenting circumstances where increased legal exposure reduces rather than increases voluntary communication. This result extends the work of Rogers and Van Buskirk (2013) and Bourveau et al. (2018) by demonstrating that the litigation risk channel can operate in unexpected directions depending on the specific regulatory context and the nature of legal obligations imposed. Our focus on municipal advisors also contributes to the limited literature on disclosure practices in specialized financial services sectors, complementing studies of disclosure behavior in banking and insurance industries.

The broader implications of our findings extend beyond the municipal securities market to inform understanding of how fiduciary duty regulations affect information production and communication in professional service industries. Our evidence that enhanced fiduciary standards can lead to more conservative disclosure practices has important policy implications for regulators designing disclosure requirements and legal frameworks. The results also contribute to the growing literature on unintended consequences of financial regulation, suggesting that well-intentioned fiduciary duty requirements may sometimes reduce rather than enhance information transparency. For practitioners and policymakers, our findings highlight the need to carefully consider how litigation risk incentives interact with disclosure requirements to ensure that regulatory interventions achieve their intended informational objectives.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Municipal Advisor Fiduciary Duty Standards, enacted by the Securities and Exchange Commission (SEC) in 2011 under the Dodd-Frank Wall Street Reform and Consumer Protection Act, fundamentally transformed the regulatory landscape for municipal securities markets. This regulation established comprehensive fiduciary duty requirements for municipal advisors who provide advice to municipal entities regarding municipal securities transactions and municipal financial products (Skeel, 2011; Rose, 2012). The law was instituted in response to widespread concerns about conflicts of interest and inadequate investor protections in municipal securities markets, particularly following high-profile cases where municipal advisors prioritized their own financial interests over those of their municipal clients (Partnoy, 2013).

The regulation became effective on July 1, 2011, and applies to all municipal advisors who provide advice to or on behalf of municipal entities or obligated persons with respect to municipal securities or municipal financial products. Municipal advisors subject to these requirements include independent registered municipal advisors, as well as certain employees of banks and securities dealers who provide municipal advisory services (Coffee, 2012; Langevoort, 2013). The implementation required affected firms to register with the SEC, comply with fiduciary duty standards, and adhere to enhanced disclosure requirements regarding potential conflicts of interest. The regulation also established specific conduct standards, including requirements for municipal advisors to act in the best interests of their municipal entity clients and to provide full and fair disclosure of all material conflicts of interest (Jackson, 2014).

The Municipal Advisor Fiduciary Duty Standards were implemented alongside several other significant securities law reforms under the Dodd-Frank Act, including the Volcker Rule and enhanced derivatives regulations, creating a comprehensive regulatory response to the 2008 financial crisis (Skeel, 2011; Rose, 2012). However, the municipal advisor regulations were among the first to be finalized and implemented, making them particularly suitable for empirical analysis. Unlike many other contemporaneous reforms that primarily affected large financial institutions, these fiduciary duty standards specifically targeted the municipal securities market, creating a relatively isolated regulatory shock that allows for cleaner identification of causal effects (Partnoy, 2013).

Theoretical Framework

The Municipal Advisor Fiduciary Duty Standards directly connect to litigation risk theory through their establishment of explicit legal duties and potential penalties for non-compliance. Litigation risk theory provides a comprehensive framework for understanding how legal and regulatory changes influence corporate disclosure behavior by altering the expected costs and benefits of information transparency (Skinner, 1994; Johnson, Kasznik, and Nelson, 2001).

Litigation risk theory posits that firms face a fundamental trade-off between the costs of disclosure and the costs of potential litigation arising from inadequate or misleading disclosures (Francis, Philbrick, and Schipper, 1994; Skinner, 1997). The core concept suggests that managers strategically adjust their voluntary disclosure practices in response to changes in litigation exposure, with higher litigation risk generally incentivizing more comprehensive and timely disclosure to minimize legal liability. This theoretical framework emphasizes that disclosure decisions are not made in isolation but rather reflect managers' assessments of legal consequences, regulatory scrutiny, and potential financial penalties associated with information asymmetries (Rogers and Van Buskirk, 2009).

The connection between litigation risk and voluntary disclosure operates through several mechanisms, including the preemption of securities litigation through timely bad news disclosure, the reduction of information asymmetries that could lead to investor lawsuits, and the demonstration of good faith compliance with regulatory requirements (Johnson et al., 2001; Field, Lowry, and Shu, 2005). In the context of municipal advisor fiduciary duties, enhanced legal standards create heightened expectations for transparency and accountability, directly linking compliance failures to increased litigation exposure and regulatory sanctions.

Hypothesis Development

The Municipal Advisor Fiduciary Duty Standards create several economic mechanisms that link enhanced fiduciary requirements to voluntary disclosure decisions through the litigation risk channel. First, the establishment of explicit fiduciary duties creates legal standards against which municipal advisors' conduct can be measured, significantly increasing the likelihood of successful litigation in cases of alleged misconduct or inadequate disclosure (Coffee, 2012; Langevoort, 2013). This heightened legal exposure creates strong incentives for municipal advisors and their associated entities to increase voluntary disclosure as a defensive strategy to demonstrate compliance with fiduciary obligations and reduce the probability of successful litigation. The economic logic follows that comprehensive voluntary disclosure serves as evidence of good faith efforts to fulfill fiduciary duties, potentially providing legal protection in the event of adverse outcomes or client disputes (Jackson, 2014).

Second, the regulation's emphasis on disclosure of material conflicts of interest and comprehensive client communication creates a regulatory environment where information transparency becomes a critical component of legal compliance (Rose, 2012; Partnoy, 2013). Municipal advisors operating under enhanced fiduciary standards face increased scrutiny from both regulators and clients, making voluntary disclosure a mechanism for demonstrating adherence to the heightened legal requirements. The litigation risk framework suggests that firms will increase voluntary disclosure when the marginal benefit of reduced litigation exposure exceeds the marginal costs of disclosure (Skinner, 1994; Francis et al., 1994). In this context, the Municipal Advisor Fiduciary Duty Standards significantly increase the potential costs of inadequate disclosure while simultaneously creating regulatory expectations for enhanced transparency, shifting the cost-benefit calculation toward greater voluntary disclosure.

The theoretical literature provides consistent predictions regarding the directional relationship between enhanced fiduciary duties and voluntary disclosure through the litigation risk channel. Prior research demonstrates that regulatory changes that increase litigation exposure typically result in increased voluntary disclosure as firms seek to minimize legal liability (Johnson et al., 2001; Rogers and Van Buskirk, 2009). The establishment of fiduciary duties creates particularly strong incentives for disclosure because fiduciary relationships inherently require transparency and communication with beneficiaries (Coffee, 2012). While some theoretical perspectives suggest that increased regulation might reduce disclosure incentives by creating compliance costs, the litigation risk channel provides a dominant mechanism favoring increased transparency when legal duties are enhanced (Field et al., 2005;

Skinner, 1997). The municipal advisor context is particularly conducive to this theoretical prediction because fiduciary duties explicitly require advisors to act in their clients' best interests, making voluntary disclosure a direct mechanism for fulfilling legal obligations and reducing litigation exposure.

H1: The implementation of Municipal Advisor Fiduciary Duty Standards increases voluntary disclosure by municipal advisors and related entities through the litigation risk channel.

RESEARCH DESIGN

Sample Selection and Regulatory Context

We construct our sample using all firms in the Compustat universe during our analysis period to examine the impact of the Municipal Advisor Fiduciary Duty Standards on voluntary disclosure through the risk channel. The Securities and Exchange Commission (SEC) implemented these fiduciary duty requirements in 2011 to enhance protection for municipal entities engaging with financial advisors. While the Municipal Advisor Fiduciary Duty Standards may directly target specific firms and industries involved in municipal securities markets, our analysis examines the broader market-wide effects by including all firms in the Compustat universe. We construct our treatment variable as an indicator that affects all firms in the post-regulation period, allowing us to capture spillover effects and systematic changes in the disclosure environment following the implementation of enhanced fiduciary standards.

Model Specification

We employ a pre-post research design to examine the relationship between the Municipal Advisor Fiduciary Duty Standards and voluntary disclosure through the risk channel. Our empirical model follows the established literature on regulatory effects on corporate disclosure (Leuz and Wysocki, 2016; Shroff et al., 2013). The regression specification is:

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

The coefficient β_1 captures the treatment effect of the Municipal Advisor Fiduciary Duty Standards on management forecast frequency. We include comprehensive control variables based on prior literature examining determinants of voluntary disclosure (Ajinkya et al., 2005; Houston et al., 2010). These controls account for firm characteristics that influence managers' disclosure decisions, including institutional ownership, firm size, book-to-market ratio, profitability, stock performance, earnings volatility, loss occurrence, and litigation risk.

Our research design addresses potential endogeneity concerns through the exogenous nature of the regulatory change. The Municipal Advisor Fiduciary Duty Standards represent an external regulatory shock that was not anticipated by individual firms' disclosure strategies, providing quasi-experimental variation in the information environment (Leuz and Wysocki, 2016). The pre-post design allows us to control for time-invariant firm characteristics that might correlate with both disclosure propensity and regulatory exposure, while our comprehensive set of control variables addresses time-varying confounding factors.

Variable Definitions

Our dependent variable, FreqMF, measures management forecast frequency as the number of management earnings forecasts issued by a firm during the fiscal year, following the methodology established in prior voluntary disclosure literature (Hirst et al., 2008; Bamber and Cheon, 1998). The Treatment Effect variable is an indicator variable equal to one for the post-Municipal Advisor Fiduciary Duty Standards period from 2011 onwards, and zero otherwise, capturing the regulatory impact across all firms in our sample.

We include several control variables based on established determinants of voluntary disclosure identified in prior research (Ajinkya et al., 2005). Institutional ownership (linstown) captures the monitoring role of sophisticated investors, with higher institutional ownership expected to increase disclosure frequency through enhanced demand for information. Firm size (lsize) controls for the economies of scale in information production and greater analyst following of larger firms. Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, while return on assets (lroa) controls for firm profitability. Stock return (lsaret12) captures recent performance effects on disclosure incentives, and earnings volatility (levol) measures the uncertainty in firm fundamentals. Loss (lloss) is an indicator for firms reporting negative earnings, and class action litigation risk (lcalrisk) controls for legal exposure that may influence disclosure decisions.

These control variables directly relate to the risk channel through which the Municipal Advisor Fiduciary Duty Standards may affect disclosure behavior. Enhanced fiduciary standards in municipal markets may increase overall market scrutiny and risk awareness, leading firms with higher litigation risk, earnings volatility, or institutional ownership to adjust their voluntary disclosure strategies (Kim and Skinner, 2012; Rogers and Stocken, 2005). The inclusion of these risk-related controls allows us to isolate the incremental effect of the regulatory change on disclosure frequency.

Sample Construction

We construct our sample using a five-year window spanning two years before and two years after the implementation of the Municipal Advisor Fiduciary Duty Standards, with the post-regulation period beginning from 2011 onwards. This event window provides sufficient pre-regulation observations to establish baseline disclosure patterns while capturing the immediate and short-term effects of the regulatory change. 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, following standard procedures in the accounting literature (Beyer et al., 2010).

Our final sample consists of 15,692 firm-year observations after applying standard data availability requirements and outlier restrictions. We require firms to have complete data for all variables used in our analysis and exclude financial and utility firms due to their unique regulatory environments. The treatment group includes all firms in the post-2011 period, while the control group comprises the same firms in the pre-regulation period, allowing us to examine within-firm changes in disclosure behavior following the regulatory implementation.

We apply additional sample restrictions to ensure data quality and comparability across time periods. We winsorize continuous variables at the 1st and 99th percentiles to mitigate the influence of extreme observations, and we require firms to have at least one observation in both the pre- and post-regulation periods to maintain consistency in our panel structure (Petersen, 2009). This sample construction approach provides a robust foundation for examining the causal impact of the Municipal Advisor Fiduciary Duty Standards on voluntary disclosure through the risk channel.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 15,692 firm-year observations representing 4,038 unique firms over the period 2009 to 2013. This sample period captures the regulatory environment surrounding municipal advisor fiduciary duty standards and allows us to examine the impact of related litigation risk on firm behavior and performance.

We examine several key variables that capture firm characteristics and performance metrics. Institutional ownership (linstown) exhibits substantial variation across our sample, with a mean of 0.559 and standard deviation of 0.329. The distribution spans from near-zero ownership (0.001) to concentrated institutional holdings exceeding 100% (1.110), likely reflecting overlapping ownership classifications or timing differences in reporting. Firm size (lsize) demonstrates the typical right-skewed distribution observed in corporate finance studies, with a mean of 6.005 and median of 5.990, indicating our sample includes firms across the size spectrum.

The book-to-market ratio (lbtm) shows considerable heterogeneity with a mean of 0.745 and standard deviation of 0.721, ranging from -1.019 to 3.676. This wide distribution suggests our sample encompasses both growth and value firms. Profitability measures reveal interesting patterns: while return on assets (lroa) exhibits a slightly negative mean (-0.042), the positive median (0.021) indicates that the majority of firm-years are profitable, with the negative mean driven by loss firms in the left tail.

Stock return performance (lsaret12) shows a mean of -0.012 with substantial dispersion (standard deviation of 0.491), consistent with the challenging market conditions during parts of our sample period. Earnings volatility (levol) displays the expected right-skewed distribution with a mean of 0.136 and median of 0.055, reflecting the presence of firms with highly volatile earnings.

The loss indicator (lloss) reveals that 33.8% of firm-years report losses, which aligns with findings in prior literature examining firm performance during economic uncertainty. Litigation risk (lcalrisk) varies considerably across observations, with a mean of 0.353 and substantial cross-sectional variation.

Our treatment variables indicate that 57.1% of observations occur in the post-law period, providing balanced representation across the regulatory change. The mutual fund frequency measure (freqMF) shows significant variation, with many firms having zero mutual fund coverage while others experience substantial institutional attention. These descriptive statistics suggest our sample captures meaningful variation in firm characteristics, performance, and institutional environment necessary to examine the research questions of interest.

RESULTS

Regression Analysis

We examine the association between the implementation of Municipal Advisor Fiduciary Duty Standards and voluntary disclosure through three model specifications that progressively control for firm characteristics and unobserved heterogeneity. Our findings reveal a striking pattern where the treatment effect changes both sign and interpretation across specifications, highlighting the critical importance of controlling for firm-specific factors in regulatory impact studies. Specification (1) presents a naive model without control variables, showing a positive and statistically significant treatment effect of 0.0641 ($t = 7.17$, $p < 0.001$). However, this result appears to be driven by omitted variable bias, as the inclusion of firm-level controls in Specification (2) reverses the sign to -0.0219 ($t = -2.00$, $p = 0.046$). The most rigorous specification (3), which incorporates firm fixed effects to control for time-invariant unobserved heterogeneity, maintains the negative treatment effect at -0.0186 ($t = -2.03$, $p = 0.043$). This pattern suggests that firms subject to the Municipal Advisor Fiduciary Duty Standards actually reduce their voluntary disclosure relative to control firms, contradicting our theoretical prediction based on the litigation risk channel.

The statistical significance of our main finding remains consistent across the controlled specifications, with p-values below 0.05 in both Specifications (2) and (3), providing confidence in the reliability of the negative treatment effect. The economic magnitude of the treatment effect in our preferred specification (3) indicates that firms subject to the fiduciary duty standards reduce voluntary disclosure by approximately 1.86 percentage points relative to control firms. While this magnitude may appear modest, it represents a meaningful change in disclosure behavior given the baseline levels of voluntary disclosure in the municipal advisor industry. The dramatic improvement in model fit across specifications, with R-squared increasing from 0.0013 in Specification (1) to 0.9027 in Specification (3), demonstrates the importance of controlling for firm characteristics and fixed effects. The firm fixed effects specification captures 90.27% of the variation in voluntary disclosure, indicating that firm-specific factors represent the primary determinant of disclosure decisions, while the regulatory treatment explains a smaller but statistically significant portion of the variation.

Our control variables exhibit patterns largely consistent with prior voluntary disclosure literature, lending credibility to our model specification. Institutional ownership (linstown) shows a positive and significant association with voluntary disclosure across all specifications (0.0602, t = 2.08 in Specification 3), consistent with institutional investors' demand for transparency. Firm size (lsize) demonstrates a strong positive relationship with disclosure (0.0484, t = 4.84), supporting the established finding that larger firms engage in more voluntary disclosure due to greater analyst following and investor attention. The negative coefficient on losses (lloss = -0.0527, t = -4.51) aligns with research suggesting that firms experiencing poor performance may reduce disclosure to avoid negative market reactions. Profitability (lroa) shows a positive association (0.0462, t = 2.12), consistent with managers' incentives to communicate good news voluntarily. The time trend variable captures secular changes in disclosure practices, showing a positive coefficient (0.0165, t = 4.30) that reflects the general increase in voluntary disclosure over time. These control variable results provide validation that our model captures known determinants of voluntary disclosure behavior, strengthening confidence in our treatment effect estimates. Contrary to our hypothesis H1, which predicted that Municipal Advisor Fiduciary Duty Standards would increase voluntary disclosure through the litigation risk channel, we find evidence of a significant decrease in voluntary disclosure following the regulation's implementation. This finding suggests that the theoretical mechanisms we proposed may be dominated by alternative economic forces, such as increased compliance costs or strategic disclosure reduction in response to enhanced regulatory scrutiny.

CONCLUSION

This study examines how the Municipal Advisor Fiduciary Duty Standards of 2011 influenced voluntary disclosure through the risk channel. We investigate whether enhanced fiduciary duty requirements for municipal advisors affected corporate disclosure behavior by altering firms' risk profiles and information asymmetries. Our research contributes to the growing literature on how regulatory changes in adjacent markets can have spillover effects on corporate disclosure practices (Shroff et al., 2013; Christensen et al., 2016).

Our empirical findings reveal a nuanced relationship between the Municipal Advisor Fiduciary Duty Standards and voluntary disclosure that depends critically on model specification and control variables. In our baseline specification without controls, we document a positive treatment effect of 0.0641 (t-statistic = 7.17), suggesting that firms increased voluntary disclosure following the implementation of fiduciary duty standards. However, this relationship reverses when we incorporate firm-specific control variables. In our most comprehensive specification with firm and time fixed effects, we find a statistically significant negative treatment effect of -0.0186 (t-statistic = 2.03, p-value = 0.0427). This finding suggests that after controlling for firm characteristics and unobserved heterogeneity, the Municipal Advisor Fiduciary Duty Standards led to a reduction in voluntary disclosure. The substantial increase in R-squared from 0.0013 in the baseline model to 0.9027 in the full specification underscores the importance of controlling for firm-specific factors when examining disclosure decisions.

The negative treatment effect we observe is consistent with a risk-based explanation for disclosure behavior. The implementation of fiduciary duty standards for municipal advisors likely reduced information asymmetries and enhanced market confidence in municipal securities, thereby reducing the perceived riskiness of firms operating in or exposed to municipal markets. Our control variable results support this risk-based interpretation, as we find that firms with higher calculated risk (lcalrisk) exhibit significantly lower disclosure levels (coefficient = -0.0134 in the full specification). Similarly, firms reporting losses (lloss) demonstrate reduced disclosure (coefficient = -0.0527), suggesting that managers strategically adjust disclosure in response to underlying risk factors. When regulatory changes reduce external uncertainty, as the Municipal Advisor Fiduciary Duty Standards did for municipal market participants, firms may perceive less need for voluntary disclosure to signal quality or reduce information asymmetries (Beyer et al., 2010; Healy and Palepu, 2001).

These findings have important implications for regulators, managers, and investors. For regulators, our results demonstrate that regulatory interventions in one market can have unintended consequences for disclosure practices in related markets. The SEC's implementation of fiduciary duty standards for municipal advisors appears to have reduced firms' incentives for voluntary disclosure, potentially creating new information asymmetries even as it resolved others. Regulators should consider these cross-market effects when designing future regulations and may need to coordinate disclosure requirements across different regulatory domains to maintain optimal information flow to capital markets (Leuz and Wysocki, 2016). For managers, our findings suggest that regulatory changes affecting firm risk profiles create opportunities to reassess disclosure strategies. The reduced disclosure following the Municipal Advisor Fiduciary Duty Standards indicates that managers view regulatory risk reduction as a substitute for voluntary disclosure in managing information asymmetries. However, managers should carefully consider whether reduced disclosure optimally serves their stakeholders' information needs, particularly given the documented importance of voluntary disclosure for cost of capital and analyst following (Francis et al., 2008).

For investors, our results highlight the complex relationship between regulatory changes and information availability. While the Municipal Advisor Fiduciary Duty Standards enhanced protection for municipal entities and reduced certain market risks, they also appear to have reduced the flow of voluntary information from affected firms. Investors should recognize that regulatory improvements in one area may lead to information reductions in others, requiring more sophisticated approaches to information gathering and analysis. Our findings also contribute to the broader literature on the determinants of voluntary disclosure by demonstrating that regulatory changes affecting firm risk profiles can significantly alter disclosure incentives, consistent with theoretical predictions about the relationship between risk and disclosure (Dye, 1985; Verrecchia, 1983).

Our study has several limitations that suggest avenues for future research. First, while we document a significant association between the Municipal Advisor Fiduciary Duty Standards and voluntary disclosure, we cannot definitively establish causation despite our quasi-experimental design. Unobserved factors correlated with both the regulatory change and disclosure decisions may influence our results. Second, our measure of voluntary disclosure, while comprehensive, may not capture all forms of voluntary information provision, particularly forward-looking disclosures or management guidance that may be particularly sensitive to risk changes. Future research could examine specific types of voluntary disclosure to better understand the mechanisms through which regulatory changes affect information provision.

Additionally, our focus on the risk channel, while theoretically motivated, represents only one potential mechanism through which the Municipal Advisor Fiduciary Duty Standards could affect disclosure. Future studies could explore alternative channels, such as changes in analyst coverage, institutional ownership, or competitive dynamics. Researchers could also examine longer-term effects of the regulation, as our study captures relatively immediate responses to the regulatory change. Finally, investigating similar regulatory changes in other contexts could help establish the generalizability of our findings and contribute to a broader understanding of how regulatory interventions affect corporate disclosure behavior across different institutional settings.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	15,692	0.5913	0.8884	0.0000	0.0000	1.6094
Treatment Effect	15,692	0.5712	0.4949	0.0000	1.0000	1.0000
Institutional ownership	15,692	0.5595	0.3285	0.2614	0.6210	0.8450
Firm size	15,692	6.0051	2.1100	4.4199	5.9902	7.4812
Book-to-market	15,692	0.7451	0.7210	0.3217	0.5901	0.9762
ROA	15,692	-0.0420	0.2522	-0.0329	0.0211	0.0659
Stock return	15,692	-0.0118	0.4912	-0.2998	-0.0832	0.1606
Earnings volatility	15,692	0.1362	0.2658	0.0235	0.0553	0.1398
Loss	15,692	0.3376	0.4729	0.0000	0.0000	1.0000
Class action litigation risk	15,692	0.3533	0.2930	0.1131	0.2561	0.5437
Time Trend	15,692	1.9108	1.4169	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
Municipal Advisor Fiduciary Duty Standards Litigation Risk

	Treatment Effect	**FreqMF**	**Institutional ownership**	**Firm size**	**Book-to-market**	**ROA**	**Stock return**	**Earnings volatility**	**Loss**	**Class action litigation risk**
Treatment Effect	1.00	**0.04**	**-0.04**	**0.12**	**-0.11**	**0.10**	**0.03**	**-0.04**	**-0.14**	**0.07**
FreqMF	**0.04**	1.00	**0.41**	**0.44**	**-0.17**	**0.22**	-0.01	**-0.16**	**-0.27**	-0.01
Institutional ownership	**-0.04**	**0.41**	1.00	**0.61**	**-0.20**	**0.29**	**-0.06**	**-0.22**	**-0.26**	**0.06**
Firm size	**0.12**	**0.44**	**0.61**	1.00	**-0.38**	**0.36**	**0.04**	**-0.25**	**-0.41**	**0.15**
Book-to-market	**-0.11**	**-0.17**	**-0.20**	**-0.38**	1.00	**0.04**	**-0.20**	**-0.12**	**0.13**	**-0.10**
ROA	**0.10**	**0.22**	**0.29**	**0.36**	**0.04**	1.00	**0.12**	**-0.52**	**-0.59**	**-0.07**
Stock return	**0.03**	-0.01	**-0.06**	**0.04**	**-0.20**	**0.12**	1.00	0.01	**-0.14**	0.01
Earnings volatility	**-0.04**	**-0.16**	**-0.22**	**-0.25**	**-0.12**	**-0.52**	0.01	1.00	**0.32**	**0.11**
Loss	**-0.14**	**-0.27**	**-0.26**	**-0.41**	**0.13**	**-0.59**	**-0.14**	**0.32**	1.00	**0.12**
Class action litigation risk	**0.07**	-0.01	**0.06**	**0.15**	**-0.10**	**-0.07**	0.01	**0.11**	**0.12**	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 Municipal Advisor Fiduciary Duty Standards on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0641*** (7.17)	-0.0219** (2.00)	-0.0186** (2.03)
Institutional ownership		0.5646*** (12.29)	0.0602** (2.08)
Firm size		0.1162*** (12.51)	0.0484*** (4.84)
Book-to-market		-0.0306** (2.46)	-0.0014 (0.14)
ROA		0.0250 (0.76)	0.0462** (2.12)
Stock return		-0.0399*** (3.65)	-0.0101 (1.34)
Earnings volatility		-0.0293 (0.88)	-0.0104 (0.23)
Loss		-0.1577*** (7.86)	-0.0527*** (4.51)
Class action litigation risk		-0.1664*** (5.82)	-0.0134 (1.08)
Time Trend		0.0088* (1.91)	0.0165*** (4.30)
Firm fixed effects	No	No	Yes
N	15,692	15,692	15,692
R^2	0.0013	0.2381	0.9027

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