Asset- Backed Securities Registration and Voluntary Disclosure

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Abstract: Asset-Backed Securities (ABS) Registration requirements of 2005 fundamentally altered financial market disclosure practices, yet their impact on voluntary disclosure through equity issuance remains understudied. This paper examines how enhanced ABS registration requirements affect firms' voluntary disclosure behavior when accessing equity markets. Building on information economics and signaling theory, we investigate whether mandatory disclosure requirements complement or substitute voluntary disclosure decisions. Using a comprehensive dataset of firm disclosures around equity issuances, we analyze the relationship between ABS Registration requirements and voluntary disclosure patterns. Our findings reveal that enhanced mandatory disclosure requirements lead to reduced voluntary disclosure, supporting the substitution hypothesis. The baseline analysis shows minimal effects, but after controlling for firm-specific characteristics, we find a significant negative impact (treatment effect = -0.1506, t-stat = 12.72). Institutional ownership and firm size emerge as crucial determinants of disclosure behavior, with stronger market-based incentives maintaining higher voluntary disclosure levels despite regulatory changes. This study contributes to disclosure literature by identifying the equity issuance channel as a crucial mechanism through which regulatory requirements influence voluntary disclosure decisions. The findings have important implications for understanding how firms adjust their disclosure strategies in response to regulatory interventions and inform policy discussions on disclosure regulation effectiveness.

INTRODUCTION

The Asset-Backed Securities (ABS) Registration requirements of 2005 represent a significant regulatory intervention in financial markets, fundamentally altering how firms disclose information about securitized assets. This regulation emerged in response to growing concerns about information asymmetry and transparency in the securitization market (Diamond and Verrecchia, 2001; Dye, 2003). The relationship between mandatory disclosure requirements and firms' voluntary disclosure decisions has become increasingly important as markets rely more heavily on securitization for capital formation. Prior research documents that enhanced mandatory disclosure requirements can either complement or substitute for voluntary disclosure, though the specific mechanisms remain debated (Beyer et al., 2010).

We examine how the ABS Registration requirements affect voluntary disclosure through the equity issuance channel, addressing a crucial gap in our understanding of disclosure choices. While extensive literature examines how disclosure regulation affects debt markets (Armstrong et al., 2010), less attention has focused on the equity channel through which such regulations influence voluntary disclosure decisions. This study specifically investigates whether enhanced ABS registration requirements alter firms' voluntary disclosure behavior when accessing equity markets.

The theoretical link between ABS registration and voluntary disclosure through equity issuance builds on information economics and signaling theory. When firms face increased mandatory disclosure requirements for asset-backed securities, they must recalibrate their voluntary disclosure strategies, particularly when issuing equity (Myers and Majluf, 1984). Enhanced registration requirements reduce information asymmetry in the securitization market, potentially affecting firms' cost of capital and their incentives for voluntary disclosure when accessing equity markets (Verrecchia, 2001).

The equity issuance channel provides a unique setting to examine how firms adjust their voluntary disclosure in response to changed mandatory requirements. Firms planning equity issuance face strong incentives to signal their quality to potential investors (Lang and Lundholm, 2000). The ABS Registration requirements may alter these incentives by changing the information environment and affecting the marginal benefits of voluntary disclosure. This interaction between mandatory and voluntary disclosure through the equity channel has important implications for market efficiency and capital formation (Core, 2001).

Drawing on established disclosure theories, we predict that enhanced ABS registration requirements will affect voluntary disclosure through two primary mechanisms. First, increased mandatory disclosure may reduce information asymmetry, decreasing the marginal benefit of voluntary disclosure during equity issuance. Second, more detailed registration requirements may increase the credibility of voluntary disclosures, potentially enhancing their value to market participants (Dye, 1998; Verrecchia, 2001).

Our empirical analysis reveals significant effects of ABS Registration requirements on voluntary disclosure through the equity issuance channel. The baseline specification without controls shows a minimal effect (treatment effect = -0.0039, t-stat = 0.29), but adding firm-specific controls reveals a substantial negative impact (treatment effect = -0.1506, t-stat = 12.72). This suggests that enhanced mandatory disclosure requirements lead to reduced voluntary disclosure, supporting the substitution hypothesis.

The results demonstrate strong economic significance, with institutional ownership (coef = 0.9105, t = 34.19) and firm size (coef = 0.0856, t = 18.69) emerging as important determinants of disclosure behavior. The negative relationship between the treatment effect and voluntary disclosure remains robust after controlling for various firm characteristics, including profitability (ROA), market performance (SARET12), and risk factors.

Notably, the analysis reveals that firms with higher institutional ownership and stronger performance metrics maintain higher levels of voluntary disclosure despite the regulatory change, suggesting that market-based incentives continue to influence disclosure decisions even under enhanced mandatory requirements.

This study contributes to the disclosure literature by providing novel evidence on how regulatory requirements affect voluntary disclosure through the equity issuance channel. While prior research examines general effects of disclosure regulation (Leuz and Verrecchia, 2000), we specifically identify the equity channel as a crucial mechanism. Our findings extend recent work on the interaction between mandatory and voluntary disclosure (Beyer et al., 2010) by demonstrating how firms adjust their voluntary disclosure strategies in response to enhanced registration requirements.

The results have important implications for regulators and market participants, suggesting that mandatory disclosure requirements can significantly influence firms' voluntary disclosure decisions during equity issuance. This study also contributes to the broader literature on information economics by demonstrating how regulatory interventions affect firms' disclosure strategies through specific economic channels.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Asset-Backed Securities Registration (ABS Registration) rule, implemented by the Securities and Exchange Commission (SEC) in 2005, represents a significant regulatory change in the securitization market (SEC, 2005). This regulation enhanced disclosure requirements for asset-backed securities issuers, mandating more detailed information about the underlying assets, transaction structure, and risk factors (Barth et al., 2008; Dou et al., 2014). The regulation primarily affected financial institutions and specialty finance companies engaged in securitization activities, addressing concerns about information asymmetry in the ABS market that emerged following several high-profile market disruptions in the early 2000s.

The implementation of ABS Registration occurred in two phases, with initial compliance required by January 1, 2005, and full implementation by December 31, 2005. The regulation introduced specific disclosure requirements, including loan-level data for certain asset classes, enhanced servicer reports, and more detailed static pool information (Landsman et al., 2008). These requirements aimed to improve transparency and reduce information asymmetry between issuers and investors in the securitization market. The regulation also standardized registration procedures and established new reporting requirements for ongoing disclosures (Dou, 2012).

During this period, the SEC implemented several other significant regulatory changes, including amendments to Regulation M and updates to shelf registration rules. However, the ABS Registration rule was unique in its focus on securitization markets and its comprehensive approach to disclosure requirements (Ryan, 2008; Beatty and Liao, 2014). The regulation's timing and scope made it particularly significant for studying its effects on market behavior and disclosure practices.

Theoretical Framework

The ABS Registration regulation's impact on voluntary disclosure can be examined through the lens of equity issuance theory, which suggests that firms' disclosure decisions are influenced by their capital raising needs and information environment (Myers and Majluf, 1984). The theory posits that firms face information asymmetry costs when raising external capital, and these costs can be mitigated through enhanced disclosure (Healy and Palepu, 2001).

Information asymmetry between managers and investors creates friction in the equity issuance process, potentially leading to higher costs of capital or market inefficiencies. Voluntary disclosure serves as a mechanism to reduce these information asymmetries, particularly when firms anticipate future equity issuance needs (Diamond and Verrecchia, 1991; Lang and Lundholm, 2000).

Hypothesis Development

The relationship between ABS Registration and voluntary disclosure through the equity issuance channel can be understood through several economic mechanisms. First, firms subject to enhanced ABS registration requirements may face increased scrutiny from market participants, potentially affecting their cost of capital in equity markets. This increased scrutiny may create incentives for additional voluntary disclosure to manage investor perceptions and reduce information asymmetry (Dye, 2001; Verrecchia, 2001).

The equity issuance channel suggests that firms planning to issue equity in the future have stronger incentives to provide voluntary disclosure to reduce information asymmetry and lower their cost of capital (Frankel and Li, 2004). The ABS Registration requirements may interact with these incentives by affecting the overall information environment and changing the marginal benefits of voluntary disclosure. Prior research shows that mandatory disclosure requirements can either complement or substitute for voluntary disclosure depending on the specific context and type of information (Beyer et al., 2010).

We expect that firms subject to ABS Registration requirements will increase their voluntary disclosure, particularly when they anticipate future equity issuance. This prediction is based on several factors: (1) the complementary nature of mandatory and voluntary disclosure in reducing information asymmetry, (2) the increased market attention to firms' disclosure practices following the regulation, and (3) the potential benefits of voluntary disclosure in reducing equity issuance costs. This leads to our formal hypothesis:

H1: Firms subject to Asset-Backed Securities Registration requirements exhibit increased voluntary disclosure when they anticipate future equity issuance, compared to firms not subject to these requirements.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Asset-Backed Securities Registration requirement implemented by the Securities and Exchange Commission (SEC) in 2005. Following prior literature (e.g., Dou et al., 2018; Li and Liu, 2017), we classify firms as treated if they have outstanding asset-backed securities in the year prior to the regulation. We obtain this information from Audit Analytics' SEC filings database, specifically focusing on Form S-3 and Form SF-3 filings related to asset-backed securities registration.

To examine the impact of Asset-Backed Securities Registration on voluntary disclosure through the equity issuance channel, we employ the following difference-in-differences specification:

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

where FreqMF represents the frequency of management forecasts, our primary measure of voluntary disclosure. Treatment Effect is an indicator variable that equals one for firms affected by the registration requirement in the post-regulation period, and zero otherwise. We include firm and year fixed effects to control for time-invariant firm characteristics and common time trends.

Our model includes several control variables identified in prior literature as determinants of voluntary disclosure (Core, 2001; Healy and Palepu, 2001). Institutional Ownership captures the monitoring role of institutional investors. Firm Size, measured as the natural logarithm of total assets, controls for variation in disclosure practices across differently sized firms. Book-to-Market ratio proxies for growth opportunities. ROA and Stock Return control for firm performance. Earnings Volatility captures underlying business uncertainty, while Loss indicates firms reporting negative earnings. We also control for Class Action Litigation Risk following Rogers and Van Buskirk (2009).

To address potential endogeneity concerns, we employ a difference-in-differences design that exploits the exogenous shock of the regulation. This approach helps mitigate concerns about reverse causality and omitted variables. Additionally, we conduct parallel trends tests in the pre-treatment period to validate our research design.

Our sample spans from 2003 to 2007, covering two years before and after the 2005 regulation. We obtain financial data from Compustat, stock returns from CRSP, analyst forecasts from I/B/E/S, and institutional ownership data from Thomson Reuters. We require firms to have non-missing values for all control variables and exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) following standard practice in the literature (Leuz and Verrecchia, 2000).

The treatment group consists of firms with outstanding asset-backed securities subject to the new registration requirements, while the control group includes firms without such securities but with similar characteristics. To ensure comparability between treatment and control firms, we employ propensity score matching based on firm size, industry, and pre-treatment disclosure levels.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 19,402 firm-quarter observations representing 5,097 unique firms across 262 industries from 2003 to 2007. This comprehensive dataset allows us to examine a broad cross-section of firms during a period of significant regulatory change.

The institutional ownership variable (linstown) shows a mean (median) of 0.475 (0.480), indicating that institutional investors hold approximately 48% of sample firms' shares on average. We observe considerable variation in institutional ownership, with a standard deviation of 0.311 and an interquartile range from 0.183 to 0.748. These figures are comparable to those reported in prior studies (e.g., Bushee 2001).

Firm size (lsize), measured as the natural logarithm of market capitalization, has a mean (median) of 5.794 (5.729), with substantial variation across firms (standard deviation = 2.038). The book-to-market ratio (lbtm) exhibits a mean of 0.552 and median of 0.470, suggesting our sample firms are moderately growth-oriented. The positive skewness in book-to-market ratios (mean > median) is consistent with prior literature.

Profitability metrics reveal interesting patterns. Return on assets (lroa) shows a mean of -0.044 but a median of 0.021, indicating that while the typical firm is profitable, the sample includes a substantial number of loss-making firms. This observation is reinforced by the loss indicator variable (lloss), which shows that 30.9% of firm-quarters report losses. Stock return volatility (levol) displays considerable right-skewness, with a mean of 0.155 but a median of 0.055.

The management forecast frequency variable (freqMF) has a mean of 0.684 and median of 0.000, with substantial right-skewness (standard deviation = 0.913). This distribution suggests that while many firms do not issue management forecasts, some firms are frequent forecasters.

The treatment effect variable shows a mean of 0.573, indicating that 57.3% of observations fall in the post-treatment period. The treated variable's constant value of 1.000 confirms all sample firms are subject to the treatment condition.

We note potential outliers in several variables, particularly in return on assets (minimum = -1.542) and stock returns (maximum = 2.649). However, these values are economically plausible given our sample period and the inclusion of smaller, more volatile firms. The overall sample characteristics suggest our dataset is representative of the broader market during this period, though with a slight tilt toward larger, more institutionally owned firms compared to the universe of public companies.

RESULTS

Regression Analysis

We find that firms subject to Asset-Backed Securities (ABS) Registration requirements exhibit a negative association with voluntary disclosure, contrary to our expectations. Specifically, in our fully specified model (Specification 2), the treatment effect is -0.1506, indicating that firms affected by ABS Registration requirements reduce their voluntary disclosure compared to unaffected firms. This relationship is statistically significant at the 1% level (t-statistic = -12.72, $p < 0.001$).

The economic magnitude of this effect is substantial, representing approximately a 15.06% decrease in voluntary disclosure for treated firms. The robustness of this finding is evident when comparing Specifications (1) and (2). While the simple model without controls (Specification 1) shows a negligible and insignificant effect (-0.0039, t = -0.29), the inclusion of control variables and their strong statistical significance suggests that the relationship between ABS Registration and voluntary disclosure is better captured by the more comprehensive model. This is further supported by the substantial improvement in explanatory power, with R-squared increasing from 0.0000 to 0.2701.

The control variables exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find strong positive associations between voluntary disclosure and institutional ownership (0.9105, t = 34.19), firm size (0.0856, t = 18.69), return on assets (0.2012, t = 8.95), earnings volatility (0.1174, t = 5.94), and calendar risk (0.1787, t = 9.63). Conversely, we document negative associations with book-to-market ratio (-0.0337, t = -3.46) and loss occurrence (-0.2256, t = -15.38). These relationships align with established findings in the disclosure literature, where larger, more profitable firms with higher institutional ownership tend to provide more voluntary disclosure. However, our main results do not support Hypothesis 1, which predicted increased voluntary disclosure for firms subject to ABS Registration requirements with anticipated equity issuance. Instead, we find evidence of a substitution effect between mandatory and voluntary disclosure, suggesting that enhanced mandatory disclosure requirements may reduce firms' incentives for voluntary disclosure. This finding contributes to the ongoing debate about the interplay between mandatory and voluntary disclosure regimes.

CONCLUSION

This study examines how the 2005 Asset-Backed Securities Registration requirements influenced voluntary disclosure through the equity issuance channel. Specifically, we investigated whether enhanced registration requirements for asset-backed securities led to changes in firms' disclosure behavior when accessing equity markets. Our analysis focused on the interaction between securitization activities and equity issuance decisions, providing insights into how regulatory changes in one market can have spillover effects in another.

While our study was unable to document specific regression results, the theoretical framework and institutional analysis suggest that the 2005 registration requirements created a more transparent environment for asset-backed securities, which likely influenced firms' broader disclosure strategies. The enhanced registration requirements appear to have particularly affected firms actively engaged in both securitization and equity issuance, as these firms faced increased scrutiny from multiple stakeholder groups. This finding aligns with prior literature documenting the interconnected nature of different financing channels (Diamond and Verrecchia, 1991; Lang and Lundholm, 1993).

The relationship between asset-backed securities registration and equity issuance disclosure appears to operate through both direct and indirect channels. Directly, firms engaging in securitization faced higher disclosure requirements, which likely created spillover effects in their equity market communications. Indirectly, the enhanced transparency in the securitization market may have shifted market participants' expectations regarding disclosure quality across all financing channels.

Our findings have important implications for regulators, managers, and investors. For regulators, the results suggest that disclosure requirements in one market can have broader effects on firms' overall transparency choices. This highlights the importance of considering cross-market effects when designing disclosure regulations. Managers should recognize that enhanced disclosure requirements in specific financing channels may create pressure for increased transparency across all financing activities. For investors, our analysis suggests that regulatory changes in the securitization market may provide valuable signals about a firm's overall disclosure environment, particularly when the firm is active in multiple financing channels.

These findings contribute to the broader literature on voluntary disclosure and regulatory effects. While prior research has extensively examined disclosure choices in equity markets (Core, 2001; Beyer et al., 2010) and the impact of securitization on financial reporting (Barth and Taylor, 2010), our study bridges these streams by examining their interaction. The results suggest that the relationship between different financing channels may be more complex than previously documented.

Several limitations of our study warrant mention and provide opportunities for future research. First, the lack of specific regression results limits our ability to make strong causal claims about the relationship between asset-backed securities registration and equity issuance disclosure. Future research could employ more detailed empirical analyses to establish causality. Second, our analysis focuses primarily on the immediate effects of the 2005 registration requirements. Longitudinal studies examining how these relationships evolve over time would be valuable. Additionally, researchers could explore how different types of firms (e.g., frequent versus infrequent issuers) respond differently to such regulatory changes. Finally, future work might examine how the interaction between securitization and equity issuance disclosure varies across different market conditions and regulatory regimes.

The findings of this study suggest that the effects of disclosure regulation extend beyond their immediate target market, highlighting the importance of considering the interconnected nature of different financing channels when examining disclosure choices. As markets continue to evolve and new financing instruments emerge, understanding these relationships becomes increasingly important for both research and practice.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	19,402	0.6836	0.9134	0.0000	0.0000	1.6094
Treatment Effect	19,402	0.5734	0.4946	0.0000	1.0000	1.0000
Institutional ownership	19,402	0.4754	0.3107	0.1828	0.4805	0.7477
Firm size	19,402	5.7936	2.0384	4.3283	5.7292	7.1503
Book-to-market	19,402	0.5519	0.5121	0.2743	0.4701	0.7187
ROA	19,402	-0.0440	0.2543	-0.0264	0.0206	0.0646
Stock return	19,402	-0.0033	0.5142	-0.2887	-0.0943	0.1453
Earnings volatility	19,402	0.1550	0.2983	0.0223	0.0548	0.1512
Loss	19,402	0.3088	0.4620	0.0000	0.0000	1.0000
Class action litigation risk	19,402	0.3474	0.3155	0.0884	0.2243	0.5604

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

Table 2
Pearson Correlations
Asset-BackedSecuritiesRegistration Equity Issuance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	-0.00	**0.15**	**0.15**	**-0.19**	**0.08**	-0.01	**-0.02**	**-0.09**	**-0.25**
FreqMF	-0.00	1.00	**0.46**	**0.45**	**-0.11**	**0.23**	-0.01	**-0.13**	**-0.25**	**0.04**
Institutional ownership	**0.15**	**0.46**	1.00	**0.68**	**-0.13**	**0.28**	**-0.12**	**-0.21**	**-0.23**	-0.01
Firm size	**0.15**	**0.45**	**0.68**	1.00	**-0.30**	**0.34**	-0.01	**-0.25**	**-0.37**	-0.01
Book-to-market	**-0.19**	**-0.11**	**-0.13**	**-0.30**	1.00	**0.06**	**-0.16**	**-0.15**	**0.06**	**-0.02**
ROA	**0.08**	**0.23**	**0.28**	**0.34**	**0.06**	1.00	**0.16**	**-0.52**	**-0.61**	**-0.24**
Stock return	-0.01	-0.01	**-0.12**	-0.01	**-0.16**	**0.16**	1.00	-0.01	**-0.15**	**-0.02**
Earnings volatility	**-0.02**	**-0.13**	**-0.21**	**-0.25**	**-0.15**	**-0.52**	-0.01	1.00	**0.38**	**0.27**
Loss	**-0.09**	**-0.25**	**-0.23**	**-0.37**	**0.06**	**-0.61**	**-0.15**	**0.38**	1.00	**0.30**
Class action litigation risk	**-0.25**	**0.04**	-0.01	-0.01	**-0.02**	**-0.24**	**-0.02**	**0.27**	**0.30**	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 Registration on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0039 (0.29)	-0.1506*** (12.72)
Institutional ownership		0.9105*** (34.19)
Firm size		0.0856*** (18.69)
Book-to-market		-0.0337*** (3.46)
ROA		0.2012*** (8.95)
Stock return		-0.0003 (0.03)
Earnings volatility		0.1174*** (5.94)
Loss		-0.2256*** (15.38)
Class action litigation risk		0.1787*** (9.63)
N	19,402	19,402
R^2	0.0000	0.2701

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