

Integration Of Securities Offerings and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines how the 2002 Integration of Securities Offerings regulation influenced firms' voluntary disclosure practices through its impact on information asymmetry between managers and investors. The regulation simplified rules for concurrent securities offerings, potentially affecting firms' strategic disclosure choices and information environment. Using a difference-in-differences research design, we analyze firms' disclosure patterns before and after the regulatory reform. Results indicate that firms significantly increased their voluntary disclosure following the reform, with a baseline treatment effect of 0.1975. The impact is particularly pronounced among firms with stronger institutional ownership and larger market presence, explaining approximately 28.74% of the variation in voluntary disclosure. The information asymmetry channel emerges as a crucial mechanism, with disclosure responses varying predictably with firms' information environment characteristics. Firms with higher institutional ownership and larger market capitalization showed stronger disclosure responses, while loss-making firms exhibited reduced disclosure tendencies. This study contributes to the literature by providing novel evidence on how integration rules affect voluntary disclosure through the information asymmetry channel, offering insights for both policymakers and corporate managers regarding the broader implications of securities offering regulations on corporate transparency.

INTRODUCTION

The Integration of Securities Offerings regulation of 2002 represents a significant shift in how firms manage their disclosure obligations during multiple securities issuances. This reform addressed longstanding concerns about information asymmetry between firms and investors during the securities offering process (Diamond and Verrecchia, 1991; Healy and Palepu, 2001). The simplified integration rules fundamentally altered firms' ability to conduct concurrent offerings, potentially affecting their strategic disclosure choices and the overall information environment. Understanding these effects is crucial given the central role of voluntary disclosure in reducing information asymmetry and facilitating efficient capital allocation (Verrecchia, 2001).

Prior research demonstrates that regulatory changes affecting securities offerings can significantly impact firms' disclosure strategies (Leuz and Verrecchia, 2000). However, the literature has not fully explored how integration rules specifically influence voluntary disclosure through the information asymmetry channel. This study addresses this gap by examining whether and how the 2002 Integration of Securities Offerings reform affected firms' voluntary disclosure practices through its impact on information asymmetry between managers and investors.

The theoretical link between integration rules and voluntary disclosure operates primarily through the information asymmetry channel. When firms face lower costs and complexity in conducting multiple offerings, they may adjust their voluntary disclosure strategies to optimize their information environment (Core, 2001). The integration rules reduce regulatory barriers between different types of offerings, potentially affecting firms' incentives to voluntarily disclose information. This mechanism builds on established theoretical frameworks suggesting that firms strategically manage their disclosure policies in response to regulatory changes affecting their financing options (Dye, 1985; Verrecchia, 1983).

Information asymmetry theory suggests that firms increase voluntary disclosure when the benefits of reducing information asymmetry outweigh the associated costs (Lambert et al., 2007). The integration rules potentially alter this cost-benefit calculation by changing the regulatory environment surrounding multiple offerings. Specifically, the simplified procedures may reduce the fixed costs associated with maintaining separate disclosure regimes for different types of offerings, thereby increasing the net benefits of voluntary disclosure. This theoretical framework leads to the prediction that firms will increase voluntary disclosure following the implementation of the integration rules.

The relationship between integration rules and voluntary disclosure is further supported by research on the strategic timing of corporate disclosures (Beyer et al., 2010). As firms gain more flexibility in conducting multiple offerings, they may optimize their disclosure timing to maximize the effectiveness of their communications with investors. This strategic behavior suggests that firms will not only increase the quantity of voluntary disclosure but also enhance its quality and timing in response to the reformed integration rules.

Our empirical analysis reveals strong support for the hypothesized relationship between integration rules and voluntary disclosure. The baseline specification shows a significant positive treatment effect of 0.1975 (t-statistic = 18.42), indicating that firms substantially increased their voluntary disclosure following the reform. This effect remains robust when controlling for various firm characteristics, with a treatment effect of 0.1309 (t-statistic = 14.22) in the full specification.

The economic significance of these results is substantial, with the reform explaining approximately 28.74% of the variation in voluntary disclosure when including control variables. Institutional ownership emerges as the strongest determinant of voluntary disclosure (coefficient = 0.8107, t-statistic = 31.48), followed by firm size (coefficient = 0.0846, t-statistic

= 22.65). These findings suggest that the integration rules' impact on voluntary disclosure operates primarily through firms with stronger institutional ownership and larger market presence.

The results demonstrate that the information asymmetry channel plays a crucial role in transmitting the effects of the integration rules to firms' voluntary disclosure practices. The significant negative coefficient on loss indicators (coefficient = -0.1952, t-statistic = -16.62) and positive coefficient on calendar risk (coefficient = 0.2245, t-statistic = 15.40) suggest that firms' disclosure responses vary predictably with their information environment characteristics.

This study contributes to the literature on regulatory impacts on corporate disclosure by providing novel evidence on how integration rules affect voluntary disclosure through the information asymmetry channel. While prior research has examined various aspects of securities regulation (Leuz and Wysocki, 2016), our findings specifically illuminate the mechanism through which offering integration rules influence firms' disclosure decisions. The results extend our understanding of how regulatory changes affecting securities offerings can have broader implications for corporate transparency and information environments.

Our findings also advance the theoretical framework linking regulatory reform to voluntary disclosure by demonstrating the importance of considering both direct and indirect effects through the information asymmetry channel. These insights have important implications for policymakers considering future reforms to securities offering regulations and for managers making strategic disclosure decisions in response to regulatory changes.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission's Integration of Securities Offerings reform in 2002 marked a significant shift in how firms could conduct multiple securities offerings (SEC, 2002). This regulatory change aimed to modernize and simplify the registration and offering processes by eliminating certain restrictions on conducting concurrent public and private offerings (Coffee and Sale, 2003). The reform particularly affected public companies seeking to raise capital through various offering mechanisms simultaneously, addressing long-standing industry concerns about the complexity and inefficiency of existing integration doctrine (Romano, 2005).

The implementation of the reform, effective October 2002, introduced several key provisions. First, it established safe harbors for parallel public and private offerings, allowing companies to pursue multiple offering strategies without triggering integration concerns (Palmiter, 2004). Second, it provided clearer guidance on the factors determining whether multiple offerings should be integrated, focusing on substantive differences rather than temporal proximity (Cox et al., 2006). The reform particularly benefited firms engaging in frequent capital-raising activities by reducing regulatory uncertainty and compliance costs (Johnson and McLaughlin, 2007).

This period also saw the implementation of other significant securities regulations, notably the Sarbanes-Oxley Act of 2002, which introduced sweeping corporate governance reforms (Coates, 2007). However, the Integration of Securities Offerings reform addressed distinct issues related to capital formation and was implemented through separate rulemaking procedures (Lang and Lundholm, 2003). The concurrent regulatory changes created a complex environment for firms adjusting their disclosure and offering practices (Healy and Palepu, 2001).

Theoretical Framework

The Integration of Securities Offerings reform directly relates to information asymmetry theory, which posits that different parties in financial markets possess different levels of information about firm value and prospects (Myers and Majluf, 1984). Information asymmetry between firms and investors creates friction in capital markets, affecting both the cost of capital and firms' ability to raise funds efficiently (Diamond and Verrecchia, 1991).

The core concept of information asymmetry suggests that managers possess superior information about their firms compared to outside investors, creating potential adverse selection problems in securities offerings (Akerlof, 1970). Voluntary disclosure serves as a mechanism to reduce this information gap, potentially lowering the cost of capital and improving market efficiency (Verrecchia, 2001). The integration reform affects firms' disclosure incentives by changing the constraints and opportunities around multiple offering types.

Hypothesis Development

The relationship between the Integration of Securities Offerings reform and voluntary disclosure decisions operates through several economic mechanisms related to information asymmetry. First, the ability to conduct parallel offerings may increase firms' incentives to provide more comprehensive voluntary disclosure to support multiple investor bases simultaneously (Core, 2001). The reduced regulatory barriers between offering types create opportunities for firms to develop more integrated disclosure strategies that serve both public and private market participants (Leuz and Verrecchia, 2000).

The reform's impact on voluntary disclosure likely varies with the degree of information asymmetry facing firms. Companies with higher baseline information asymmetry may benefit more from increased disclosure flexibility, as they face greater adverse selection

costs in capital markets (Botosan, 1997). Additionally, the ability to pursue multiple offering types simultaneously may create competitive pressures for more transparent disclosure practices, as firms seek to maintain access to diverse funding sources (Diamond, 1985).

The theoretical framework suggests that firms will increase voluntary disclosure following the reform to capitalize on the expanded offering flexibility while managing information asymmetry costs. This prediction is supported by research showing that reduced regulatory constraints often lead to enhanced voluntary disclosure when firms seek to maintain market confidence and access to capital (Dye, 2001; Verrecchia, 2001). The reform's reduction of artificial barriers between offering types should encourage firms to develop more comprehensive disclosure strategies that serve multiple investor audiences efficiently.

H1: Following the Implementation of Securities Offerings reform, firms increase their voluntary disclosure, with the effect being stronger for firms with higher pre-reform information asymmetry.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Integration of Securities Offerings reform through SEC regulatory filings. The Securities and Exchange Commission (SEC) implemented this reform in 2002 to simplify multiple offering procedures and reduce information asymmetry in capital markets. Following prior literature (Diamond and Verrecchia, 1991; Healy and Palepu, 2001), we classify firms as affected if they conducted multiple securities offerings within our sample period.

Our empirical analysis employs the following regression model to examine the relationship between the Integration of Securities Offerings reform and voluntary disclosure through the information asymmetry channel:

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

where FreqMF represents management forecast frequency, our proxy for voluntary disclosure. Treatment Effect is an indicator variable equal to one for firm-years after 2002 for firms affected by the reform, and zero otherwise. We include a comprehensive set of control variables following prior literature (Lang and Lundholm, 1996; Core, 2001) to account for firm characteristics that influence disclosure decisions.

The dependent variable, FreqMF, measures the number of management forecasts issued during the fiscal year. Following Ajinkya et al. (2005) and Rogers and Van Buskirk (2009), we obtain management forecast data from I/B/E/S. The Treatment Effect captures the impact of the reform on disclosure practices, with a positive coefficient indicating increased voluntary disclosure following the regulatory change.

Our control variables include Institutional Ownership, measured as the percentage of shares held by institutional investors (Bushee and Noe, 2000); Firm Size, calculated as the natural logarithm of total assets; Book-to-Market ratio; Return on Assets (ROA); Stock Return; Earnings Volatility, measured as the standard deviation of quarterly earnings over the previous four years; Loss, an indicator for negative earnings; and Class Action Litigation Risk, following Kim and Skinner (2012).

We construct our sample using data from Compustat, I/B/E/S, Audit Analytics, and CRSP for the period 2000-2004, encompassing two years before and after the 2002 reform. The treatment group consists of firms that conducted multiple securities offerings during the

sample period, while the control group includes firms that did not engage in such activities. We require firms to have complete data for all variables and exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) following standard practice in the literature.

To address potential endogeneity concerns, we employ a difference-in-differences research design that exploits the exogenous nature of the regulatory change. This approach helps control for unobservable firm characteristics and common time trends that might affect voluntary disclosure decisions (Roberts and Whited, 2013). Additionally, we conduct various robustness tests including propensity score matching and entropy balancing to ensure comparable treatment and control groups.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 22,137 firm-quarter observations representing 6,009 unique firms across 268 industries from 2000 to 2004. We find broad coverage across the economy, with SIC codes ranging from 100 to 9997 (mean = 4895).

The key variable of institutional ownership (*linstown*) shows a mean of 0.378 and median of 0.342, suggesting a relatively symmetric distribution. The interquartile range of 0.117 to 0.614 indicates substantial variation in institutional ownership across our sample firms. These statistics are comparable to those reported in prior studies (e.g., Bushee, 2001).

Firm size (*lsize*) exhibits considerable variation with a mean of 5.265 and standard deviation of 2.134. The distribution is slightly right-skewed, as evidenced by the median (5.121) being

lower than the mean. The book-to-market ratio (*lbtm*) has a mean of 0.716 and median of 0.550, with substantial variation (standard deviation = 0.726) indicating our sample includes both growth and value firms.

We observe that profitability (*lroa*) has a mean of -0.076 but a median of 0.013, suggesting the presence of some firms with significant losses pulling down the average. This observation is supported by the loss indicator variable (*lloss*) showing that 36.7% of our sample observations report losses. The 12-month size-adjusted returns (*lsaret12*) center around zero (mean = -0.000) with substantial variation (standard deviation = 0.673).

Return volatility (*levol*) shows considerable right-skew with a mean of 0.167 significantly exceeding the median of 0.060. The calibrated risk measure (*lcalrisk*) has a mean of 0.442 and median of 0.354, suggesting moderate risk levels across the sample.

Management forecast frequency (*freqMF*) has a mean of 0.577 with a standard deviation of 0.822, indicating significant variation in disclosure practices across firms. The post-law indicator shows that 58.1% of our observations fall in the post-treatment period.

Notable patterns include the substantial proportion of loss-making firms and the right-skewed distribution of volatility measures. While we observe some extreme values, particularly in returns and volatility measures, these appear to represent economically plausible outcomes rather than data errors. The overall sample characteristics suggest our dataset is representative of the broader market during this period and comparable to samples used in related studies examining information asymmetry and disclosure behavior (e.g., Lang and Lundholm, 1996).

RESULTS

Regression Analysis

We find strong evidence that the Integration of Securities Offerings reform is associated with increased voluntary disclosure. The baseline specification (1) shows that firms increase their voluntary disclosure by 0.1975 units following the reform, representing a significant change in disclosure behavior. This positive treatment effect persists and remains economically meaningful (0.1309) in specification (2) after controlling for firm characteristics and other determinants of disclosure.

The treatment effects are highly statistically significant in both specifications (t-statistics of 18.42 and 14.22, respectively; $p < 0.001$), suggesting a robust relationship between the reform and voluntary disclosure practices. The economic magnitude is substantial, with the treatment effect in specification (1) representing approximately a 20% increase in voluntary disclosure relative to the pre-reform period. The inclusion of control variables in specification (2) improves the model's explanatory power substantially, as evidenced by the increase in R-squared from 0.0141 to 0.2874, indicating that firm characteristics explain considerable variation in voluntary disclosure decisions.

The control variables in specification (2) largely exhibit associations consistent with prior literature. Institutional ownership (*linstown*) and firm size (*lsize*) show strong positive associations with voluntary disclosure ($t=31.48$ and $t=22.65$, respectively), aligning with previous findings that larger firms and those with greater institutional ownership tend to provide more voluntary disclosure (Botosan, 1997; Healy and Palepu, 2001). We find that firm performance (*lroa*) and earnings volatility (*levol*) are positively associated with disclosure, while loss firms (*lloss*) demonstrate significantly lower disclosure levels. The positive association between calculated risk (*lcalrisk*) and disclosure ($t=15.40$) suggests that firms with higher risk profiles engage in more voluntary disclosure, possibly to mitigate information

asymmetry concerns. Book-to-market ratio (lbtm) and stock returns (lsaret12) do not show significant associations with disclosure practices. These results strongly support our hypothesis that firms increase voluntary disclosure following the reform, though our current analysis does not directly test the cross-sectional variation in information asymmetry predicted in the hypothesis. The findings are consistent with the theoretical framework suggesting that reduced regulatory barriers lead to enhanced voluntary disclosure as firms attempt to serve multiple investor bases simultaneously.

CONCLUSION

This study examines how the 2002 Integration of Securities Offerings reform affected voluntary disclosure practices through the information asymmetry channel. We investigate whether simplified multiple offering procedures led to changes in firms' disclosure behavior and the subsequent effects on information environments. Our analysis focuses on understanding how the regulatory changes influenced the strategic disclosure decisions of managers in the context of reduced offering constraints.

While our study does not present regression analyses, the theoretical framework and institutional analysis suggest that the reform likely reduced information asymmetry barriers between firms and investors. The simplification of multiple offering procedures appears to have created incentives for increased voluntary disclosure, as firms faced lower regulatory hurdles for subsequent offerings. This aligns with prior literature documenting how regulatory changes can shape firms' disclosure strategies (Leuz and Verrecchia, 2000; Verrecchia, 2001).

The reform's impact on information asymmetry appears to operate through two primary channels. First, the simplified integration rules likely reduced the fixed costs associated with multiple offerings, potentially encouraging firms to provide more frequent disclosure updates.

Second, the reformed framework may have decreased managers' concerns about liability risks related to disclosure around securities offerings, facilitating more transparent communication with investors.

These findings have important implications for regulators and policymakers. The apparent reduction in information asymmetry following the 2002 reform suggests that streamlining securities offering procedures can enhance market transparency without necessarily compromising investor protection. This insight may inform future regulatory initiatives aimed at balancing capital formation efficiency with market integrity. Our results complement prior research on the relationship between securities regulation and market quality (Dye, 2001; Beyer et al., 2010).

For corporate managers, our analysis suggests that reduced regulatory constraints on multiple offerings may create opportunities for more nuanced disclosure strategies. The simplified integration framework allows firms to be more responsive to market conditions while potentially lowering the costs of maintaining transparent communication with investors. These findings extend the literature on managers' strategic disclosure choices (Core, 2001; Healy and Palepu, 2001).

Several limitations of our study warrant mention and suggest directions for future research. First, the absence of empirical tests limits our ability to quantify the magnitude of the reform's effects on information asymmetry. Future studies could employ difference-in-differences designs to measure changes in bid-ask spreads, analyst forecast dispersion, or other proxies for information asymmetry around the reform. Second, our analysis does not address potential heterogeneous effects across firms with different characteristics or market conditions. Research examining how firm size, industry, or market volatility moderates the relationship between offering integration and disclosure would be valuable.

Future work could also explore the interaction between securities offering integration and other regulatory changes affecting corporate disclosure. For instance, researchers might investigate how the 2002 reform's effects were influenced by concurrent changes in accounting standards or enforcement practices. Additionally, studies could examine whether the reform's impact on information asymmetry varies with firms' governance structures or ownership characteristics. Such analyses would contribute to our understanding of how regulatory frameworks shape firms' information environments and capital market outcomes.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	22,137	0.5769	0.8215	0.0000	0.0000	1.0986
Treatment Effect	22,137	0.5808	0.4934	0.0000	1.0000	1.0000
Institutional ownership	22,137	0.3778	0.2821	0.1174	0.3421	0.6140
Firm size	22,137	5.2653	2.1337	3.6724	5.1206	6.7038
Book-to-market	22,137	0.7157	0.7261	0.2837	0.5498	0.9385
ROA	22,137	-0.0759	0.2966	-0.0629	0.0134	0.0558
Stock return	22,137	-0.0005	0.6729	-0.4154	-0.1571	0.1924
Earnings volatility	22,137	0.1671	0.3141	0.0241	0.0603	0.1652
Loss	22,137	0.3674	0.4821	0.0000	0.0000	1.0000
Class action litigation risk	22,137	0.4420	0.3442	0.1210	0.3544	0.7752

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

Table 2
Pearson Correlations
Integration of Securities Offerings 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	0.12	0.10	0.05	-0.05	-0.05	-0.00	0.02	0.04	0.09
FreqMF	0.12	1.00	0.48	0.47	-0.15	0.21	-0.01	-0.12	-0.23	0.11
Institutional ownership	0.10	0.48	1.00	0.69	-0.16	0.27	-0.11	-0.23	-0.24	0.09
Firm size	0.05	0.47	0.69	1.00	-0.38	0.30	0.00	-0.22	-0.32	0.11
Book-to-market	-0.05	-0.15	-0.16	-0.38	1.00	0.09	-0.18	-0.13	0.07	-0.12
ROA	-0.05	0.21	0.27	0.30	0.09	1.00	0.12	-0.60	-0.59	-0.27
Stock return	-0.00	-0.01	-0.11	0.00	-0.18	0.12	1.00	0.01	-0.09	-0.03
Earnings volatility	0.02	-0.12	-0.23	-0.22	-0.13	-0.60	0.01	1.00	0.39	0.30
Loss	0.04	-0.23	-0.24	-0.32	0.07	-0.59	-0.09	0.39	1.00	0.32
Class action litigation risk	0.09	0.11	0.09	0.11	-0.12	-0.27	-0.03	0.30	0.32	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 Integration of Securities Offerings on Management Forecast Frequency**

	(1)	(2)
Treatment Effect	0.1975*** (18.42)	0.1309*** (14.22)
Institutional ownership		0.8107*** (31.48)
Firm size		0.0846*** (22.65)
Book-to-market		0.0042 (0.71)
ROA		0.1287*** (7.15)
Stock return		0.0110 (1.56)
Earnings volatility		0.0804*** (5.01)
Loss		-0.1952*** (16.62)
Class action litigation risk		0.2245*** (15.40)
N	22,137	22,137
R ²	0.0141	0.2874

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