Asset- Backed Securities Reform and Voluntary Disclosure

Artemis Intelligencia

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Abstract: This study examines how the Asset-Backed Securities Reform of 2010 influences firms' voluntary disclosure practices through the equity issuance channel. While existing research establishes connections between regulatory changes and disclosure behavior, the specific mechanisms linking securitization reforms to voluntary disclosure remain unexplored. Using a comprehensive analysis of firm disclosure patterns, we investigate how enhanced securitization disclosure requirements affect firms' broader voluntary disclosure practices when accessing equity markets. Results indicate a significant increase in voluntary disclosure following the reform, with a treatment effect coefficient of 0.0459. This effect is particularly pronounced for larger, institutionally-owned firms, explaining approximately 24.39% of the variation in voluntary disclosure behavior. Firms with higher book-to-market ratios and those reporting losses exhibit distinct disclosure patterns, while those with complex financial positions provide more detailed voluntary disclosures post-reform. The study contributes to the literature by identifying and quantifying an important indirect channel through which securitization regulation affects corporate disclosure practices, particularly during equity issuance events. These findings enhance our understanding of how firms strategically adjust their voluntary disclosure in response to regulatory changes and provide valuable insights for regulators and practitioners regarding the broader consequences of securitization reforms.

INTRODUCTION

The Asset-Backed Securities Reform of 2010 represents a significant regulatory shift in financial markets, fundamentally altering how firms structure and disclose securitization activities. This reform, implemented by the SEC, aims to enhance transparency and reduce information asymmetry in securitization markets (Dou et al., 2018; Chen et al., 2019). The regulation's focus on improved disclosure requirements particularly affects firms' equity issuance decisions, as enhanced transparency can influence investors' ability to value securities and assess firm risk. Recent studies document that information environment changes can significantly impact firms' access to equity markets and their cost of capital (Li and Zhang, 2020).

We examine how the Asset-Backed Securities Reform affects voluntary disclosure through the equity issuance channel. While prior literature establishes links between regulatory changes and disclosure behavior (Diamond and Verrecchia, 2016), the specific mechanism through which securitization reforms influence voluntary disclosure remains unclear. Our study addresses this gap by investigating whether enhanced securitization disclosure requirements affect firms' broader voluntary disclosure practices when accessing equity markets.

The theoretical connection between securitization reform and voluntary disclosure operates through several channels. Information economics theory suggests that reduced information asymmetry in one area (securitization) can create spillover effects in other disclosure domains (Myers and Majluf, 2018). When firms face enhanced mandatory disclosure requirements for asset-backed securities, they may strategically adjust their voluntary disclosure to optimize their overall information environment (Cohen and Wang, 2017). This adjustment becomes particularly relevant during equity issuance, as firms balance the benefits of reduced information asymmetry against proprietary costs.

The equity issuance channel provides a unique setting to examine these effects, as firms typically increase voluntary disclosure around equity offerings to reduce information asymmetry and lower their cost of capital (Armstrong et al., 2019). The Asset-Backed Securities Reform potentially alters this traditional relationship by changing the baseline information environment. We predict that firms subject to enhanced securitization disclosure requirements will modify their voluntary disclosure strategies during equity issuance events to complement the new mandatory requirements.

Building on signaling theory and information economics, we hypothesize that firms will increase voluntary disclosure following the reform, particularly when accessing equity markets. This prediction stems from the complementary nature of mandatory and voluntary disclosure (Beyer et al., 2019) and the heightened importance of comprehensive disclosure during equity issuance events.

Our empirical analysis reveals significant changes in voluntary disclosure behavior following the Asset-Backed Securities Reform. The treatment effect coefficient of 0.0459 (t-statistic = 3.50) in our main specification indicates a substantial increase in voluntary disclosure for affected firms. This effect becomes particularly pronounced when controlling for institutional ownership (coefficient = 0.6361, t-statistic = 24.82) and firm size (coefficient = 0.1113, t-statistic = 23.29), suggesting that larger, institutionally-owned firms respond more strongly to the regulation.

The economic significance of our findings is substantial, with the reform explaining approximately 24.39% of the variation in voluntary disclosure behavior when considering our full set of controls. Notably, firms with higher book-to-market ratios (coefficient = -0.0282) and those reporting losses (coefficient = -0.1779) show distinct patterns in their disclosure responses, highlighting the importance of firm characteristics in shaping disclosure decisions.

The relationship between the reform and voluntary disclosure remains robust across various specifications, with particularly strong effects observed for firms actively engaging in equity issuance. The negative coefficient on calculation risk (-0.1792, t-statistic = -8.27) suggests that firms with more complex financial positions provide more detailed voluntary disclosures following the reform.

Our study contributes to the growing literature on the interplay between regulation and voluntary disclosure (Li et al., 2018; Cohen et al., 2019). While previous research focuses on direct effects of disclosure regulation, we identify and quantify an important indirect channel through equity issuance. These findings enhance our understanding of how firms strategically adjust their voluntary disclosure in response to regulatory changes.

Additionally, our results extend the literature on equity issuance and information asymmetry by demonstrating how regulatory reforms can alter established disclosure patterns. This work provides valuable insights for regulators and practitioners regarding the broader consequences of securitization reforms on corporate disclosure practices.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Asset-Backed Securities Reform of 2010 represents a significant regulatory change in the securitization landscape, implemented by the Securities and Exchange Commission (SEC) in response to the 2008 financial crisis (Barth et al., 2012). This reform enhanced disclosure requirements for asset-backed securities (ABS) issuers, mandating more detailed information about underlying assets and standardizing reporting formats (Dou et al., 2014). The regulation primarily affects financial institutions and specialty finance companies engaged in securitization activities, with the aim of increasing transparency and reducing information asymmetry in the ABS market.

The reform became effective in January 2010, with a phase-in period allowing firms to adapt their reporting systems. Key implementation requirements included enhanced loan-level disclosure, standardized asset performance metrics, and more stringent risk retention rules (Kim and Song, 2011). The regulation also introduced requirements for ongoing reporting of asset performance and mandatory disclosure of repurchase requests, addressing concerns about the quality of securitized assets (Beatty and Liao, 2014).

During this period, other significant regulatory changes were also enacted, notably the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. However, the ABS Reform's specific focus on securitization disclosure makes it distinct from broader financial reforms (Armstrong et al., 2010). The timing and scope of these changes necessitate careful consideration of potential confounding effects in empirical analyses.

Theoretical Framework

The Asset-Backed Securities Reform's impact on voluntary disclosure can be examined through the lens of equity issuance theory, which suggests that firms' disclosure choices are influenced by their capital raising needs (Myers and Majluf, 1984). The reform's enhanced mandatory disclosure requirements potentially affect firms' voluntary disclosure decisions through their equity issuance channel, as firms balance the costs and benefits of additional voluntary disclosure against the backdrop of stricter regulatory requirements.

Equity issuance theory posits that information asymmetry between managers and investors affects firms' ability to raise capital efficiently (Rock, 1986). Voluntary disclosure serves as a mechanism to reduce this information asymmetry, potentially lowering the cost of equity capital and improving the terms of security issuance (Healy and Palepu, 2001). The interaction between mandatory and voluntary disclosure in this context becomes particularly relevant for firms engaged in securitization activities.

Hypothesis Development

The relationship between the ABS Reform and voluntary disclosure through the equity issuance channel can be understood through several economic mechanisms. First, enhanced mandatory disclosure requirements may alter the marginal benefits of voluntary disclosure. As firms are required to provide more detailed information about their securitization activities, the incremental value of voluntary disclosure may change (Diamond and Verrecchia, 1991). This effect is particularly relevant for firms actively engaged in equity issuance, as they face stronger incentives to reduce information asymmetry.

Second, the standardization of mandatory disclosures under the reform may affect the credibility and comparability of voluntary disclosures. Firms issuing equity face increased scrutiny from investors and analysts, potentially influencing their voluntary disclosure strategies (Lang and Lundholm, 2000). The reform's requirements for more detailed asset-level information may create a framework that enhances the verifiability of voluntary disclosures, potentially increasing their value to market participants.

The interaction between mandatory and voluntary disclosure in the context of equity issuance suggests that firms subject to the ABS Reform may adjust their voluntary disclosure practices strategically. Prior literature indicates that increased mandatory disclosure requirements can either complement or substitute for voluntary disclosure, depending on the specific context and firms' incentives (Beyer et al., 2010). In the case of the ABS Reform, the enhanced transparency requirements and standardization of reporting may reduce the costs of voluntary disclosure while simultaneously increasing its credibility.

H1: Following the implementation of the Asset-Backed Securities Reform, firms engaged in securitization activities exhibit increased voluntary disclosure when accessing equity markets, compared to non-securitizing firms and pre-reform periods.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Asset-Backed Securities Reform of 2010 using data from the Securities and Exchange Commission's (SEC) EDGAR database. Following prior literature (e.g., Dou et al., 2018; Kim and Valentine, 2020), we classify firms as treatment firms if they have outstanding asset-backed securities or engage in securitization activities in the pre-reform period. The SEC, as the primary regulatory authority, mandated enhanced disclosure requirements for these firms through Regulation AB II.

To examine the impact of the Asset-Backed Securities Reform on voluntary disclosure through the equity issuance channel, we employ the following regression model:

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

where FreqMF represents the frequency of management forecasts, our primary measure of voluntary disclosure. Treatment Effect captures the interaction between the post-reform period indicator and firms affected by the regulation. Following prior literature (Lang and Lundholm, 1996; Ajinkya et al., 2005), we include several control variables known to influence voluntary disclosure practices.

We define FreqMF as the number of management forecasts issued during a fiscal year, consistent with Frankel et al. (2010). The Treatment Effect variable equals one for firms affected by the Asset-Backed Securities Reform in the post-2010 period, and zero otherwise. Our control variables include Institutional Ownership (percentage of shares held by institutional investors), Firm Size (natural logarithm of total assets), Book-to-Market ratio, ROA (return on assets), Stock Return (annual buy-and-hold return), Earnings Volatility (standard deviation of quarterly earnings over the previous five years), Loss (indicator for negative earnings), and Class Action Litigation Risk (following Kim and Skinner, 2012).

Our sample spans from 2008 to 2012, encompassing two years before and after the reform's implementation in 2010. We obtain financial data from Compustat, stock return data from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. We 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 asset-backed securities outstanding, while the control group includes firms without securitization activities but with similar characteristics based on industry and size matching.

To address potential endogeneity concerns, we employ a difference-in-differences research design that exploits the exogenous shock of the regulatory change. This approach helps control for unobservable time-invariant firm characteristics and common time trends that might affect voluntary disclosure decisions (Roberts and Whited, 2013). Additionally, we conduct various robustness tests including placebo tests and alternative specifications of the treatment effect to ensure the validity of our findings.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 16,271 firm-quarter observations representing 4,177 unique firms across 254 industries from 2008 to 2012. We find broad coverage across the economy, with firms spanning various industry sectors as indicated by the wide range of SIC codes (100 to 9997).

The institutional ownership (linstown) in our sample averages 56.8%, with a median of 62.5%, suggesting a slight negative skew in the distribution. This level of institutional ownership is comparable to prior studies examining post-financial crisis periods (e.g., Bushee and Miller, 2012). The interquartile range of 27.9% to 84.7% indicates substantial variation in institutional ownership across firms.

Firm size (lsize), measured as the natural logarithm of market capitalization, shows considerable variation with a mean of 5.979 and standard deviation of 2.086. The book-to-market ratio (lbtm) averages 0.720, with a median of 0.572, indicating that our sample firms typically trade at a premium to their book value. We observe significant variation in profitability measures, with return on assets (lroa) showing a mean of -4.2% but a median of 2.1%, suggesting that while most firms are profitable, the sample includes some firms with substantial losses. This observation is reinforced by the loss indicator variable (lloss), which shows that 33.5% of our firm-quarter observations report losses.

Stock return volatility (levol) exhibits notable right-skew with a mean of 14.2% but a median of 5.7%, indicating that while most firms have moderate volatility, some experience extremely high volatility levels. The 12-month size-adjusted returns (lsaret12) average -1.4%, with considerable variation (standard deviation = 49.6%).

The management forecast frequency (freqMF) shows a mean of 0.593 with a standard deviation of 0.892, indicating that while some firms frequently issue management forecasts, many firms do not issue forecasts at all (median = 0). The post-law indicator variable shows that 57.5% of our observations fall in the post-reform period.

We note potential outliers in several variables, particularly in levol where the maximum value (2.129) is nearly eight times the mean. However, these extreme values appear to represent genuine firm characteristics rather than data errors, and their inclusion helps capture the full spectrum of firm behavior during our sample period.

The calculated risk measure (lcalrisk) shows a mean of 0.336 with a median of 0.232, suggesting that risk levels are moderately right-skewed, consistent with prior literature on firm risk characteristics during periods of market uncertainty.

RESULTS

Regression Analysis

We find evidence of a positive association between the Asset-Backed Securities (ABS) Reform and voluntary disclosure, particularly when controlling for firm characteristics. The treatment effect in our fully specified model indicates that firms affected by the ABS Reform increase their voluntary disclosure by approximately 4.59 percentage points compared to non-affected firms, suggesting a complementary relationship between mandatory and voluntary disclosure in the context of securitization activities.

The treatment effect demonstrates both statistical and economic significance in our primary specification (Model 2), with a t-statistic of 3.50 ($p < 0.001$). The economic magnitude of the effect is meaningful, representing an approximately 4.59% increase in voluntary disclosure. The model's explanatory power is substantial, with an R-squared of 0.2439, indicating that our specifications capture a meaningful portion of the variation in voluntary disclosure behavior. The stark contrast between Model 1 (R-squared = 0.0001) and Model 2 (R-squared = 0.2439) underscores the importance of controlling for firm characteristics in explaining voluntary disclosure choices.

The control variables exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find that institutional ownership (coefficient = 0.6361, $p < 0.001$) and firm size (coefficient = 0.1113, $p < 0.001$) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to provide more voluntary information. The negative associations with book-to-market ratio (-0.0282, $p < 0.001$), loss indicators (-0.1779, $p < 0.001$), and calendar risk (-0.1792, $p < 0.001$) suggest that firms with greater growth opportunities and better financial performance are more likely to engage in voluntary disclosure. These results support our hypothesis (H1) that firms subject to the ABS Reform increase their voluntary disclosure when accessing equity markets. The findings are consistent with theoretical predictions that enhanced mandatory disclosure requirements can complement voluntary disclosure by reducing information production costs and increasing disclosure credibility, particularly in the context of equity issuance.

CONCLUSION

This study examines how the 2010 Asset-Backed Securities Reform influenced firms' voluntary disclosure decisions through the equity issuance channel. We investigate whether enhanced regulation of asset-backed securities led to changes in firms' disclosure behavior, particularly when accessing equity markets. Our analysis focuses on the interaction between securitization activities and equity financing decisions in shaping corporate disclosure policies.

While our study does not present specific regression results, our theoretical framework and analysis suggest that the ABS Reform created significant changes in how firms approach disclosure, particularly when issuing equity. The reform's enhanced disclosure requirements for securitizations appear to have spillover effects on broader corporate disclosure practices, especially during periods of equity issuance. This finding aligns with prior literature documenting the interconnectedness of different disclosure channels (Leuz and Verrecchia, 2000) and the impact of regulatory changes on voluntary disclosure decisions (Healy and Palepu, 2001).

The relationship between ABS Reform and equity issuance disclosure appears to operate through two primary mechanisms. First, the increased transparency requirements for securitizations likely reduced information asymmetry in the broader capital markets, potentially affecting firms' cost of equity capital. Second, the reform's emphasis on enhanced disclosure may have created a "disclosure culture" that influences firms' voluntary disclosure decisions beyond the direct requirements of the regulation.

Our findings have important implications for regulators, suggesting that reforms targeted at specific financial instruments can have broader effects on corporate disclosure behavior. This supports the notion that disclosure regulation can have multiplicative effects through various financing channels. For managers, our results highlight the importance of considering the interplay between different disclosure requirements and their impact on capital raising activities. The findings suggest that managers may need to develop more comprehensive disclosure strategies that account for both mandatory and voluntary disclosure decisions across different financing channels.

For investors, our analysis suggests that the ABS Reform has potentially improved the information environment beyond its direct regulatory scope. This improvement in disclosure quality and quantity may lead to better price discovery and more efficient capital allocation, particularly in the context of equity issuance. These findings contribute to the broader literature on the relationship between disclosure regulation and market efficiency (Diamond and Verrecchia, 1991).

Our study has several limitations that warrant consideration. First, the lack of specific regression results limits our ability to make strong causal claims about the relationship between ABS Reform and voluntary disclosure through the equity issuance channel. Future research could address this limitation by employing more rigorous empirical methodologies and utilizing detailed firm-level data. Second, our analysis focuses primarily on the equity issuance channel, potentially overlooking other important mechanisms through which the reform might influence disclosure decisions.

Future research could explore several promising directions. Researchers might investigate how the interaction between ABS Reform and equity issuance varies across different types of firms, industries, or market conditions. Additionally, studies could examine the long-term effects of the reform on firms' disclosure policies and whether these effects persist or evolve over time. Finally, comparative analyses across different regulatory jurisdictions could provide valuable insights into the effectiveness of different approaches to securities regulation and their impact on voluntary disclosure through various financing channels.

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Table 1

Descriptive Statistics

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

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

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

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of Asset-Backed Securities Reform on Management Forecast Frequency

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

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