Asset- Backed Securities Reform and Voluntary Disclosure

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Abstract: This study examines how the 2010 Asset-Backed Securities Reform influences firms' voluntary disclosure practices through reputation risk channels. While existing research documents the direct effects of disclosure regulation on mandatory reporting, the reform's impact on voluntary disclosure decisions through reputational concerns remains unexplored. Drawing on information economics and reputation risk theory, we investigate how increased regulatory scrutiny affects firms' voluntary disclosure behavior. Using a difference-in-differences research design, we analyze firms' disclosure patterns before and after the reform's implementation. Results indicate that firms significantly increased voluntary disclosure by approximately 4.6% following the reform, with effects particularly pronounced for firms facing higher reputation risk exposure. The relationship remains robust after controlling for institutional ownership, firm size, and other firm characteristics. Firms with greater institutional ownership and larger size demonstrate stronger voluntary disclosure practices, while those with higher book-to-market ratios and loss indicators show reduced disclosure levels. This study contributes to the literature by identifying reputation risk as a specific channel through which regulatory changes affect firm behavior and provides novel evidence on the role of reputation risk in shaping voluntary disclosure decisions. The findings have important implications for understanding how regulatory reforms influence firm behavior beyond their direct mandates.

INTRODUCTION

The 2010 Asset-Backed Securities Reform represents a significant regulatory shift in financial markets, fundamentally altering how firms manage securitization disclosure and reporting requirements. This reform, implemented by the SEC, aims to enhance transparency and restore investor confidence in the wake of the 2008 financial crisis (Diamond and Rajan, 2009; Gorton and Metrick, 2012). The reform's emphasis on improved disclosure creates a natural setting to examine how regulatory changes affect firms' voluntary disclosure practices through reputation risk channels. While prior literature documents the direct effects of disclosure regulation on mandatory reporting (Dou et al., 2018), less is known about how such reforms influence voluntary disclosure decisions through reputational concerns.

Understanding the relationship between asset-backed securities regulation and voluntary disclosure through reputation risk is crucial for several reasons. First, reputation serves as a vital enforcement mechanism in financial markets where information asymmetry is prevalent (Diamond, 1991). Second, regulatory changes can alter the reputational costs and benefits of voluntary disclosure (Leuz and Wysocki, 2016). Our study addresses this gap by examining how the 2010 reform affects firms' voluntary disclosure decisions through changes in reputation risk exposure.

The theoretical link between asset-backed securities regulation and voluntary disclosure operates through reputation risk channels in several ways. Information economics theory suggests that firms use voluntary disclosure to signal their type and build reputation capital (Spence, 1973; Diamond, 1989). The 2010 reform increases the visibility of firms' securitization activities, potentially magnifying the reputational consequences of disclosure choices. This heightened scrutiny creates stronger incentives for firms to manage their reputation through voluntary disclosure (Beyer et al., 2010).

Reputation risk theory predicts that firms subject to increased regulatory oversight face greater reputational costs from adverse disclosures (Kreps and Wilson, 1982). The reform's enhanced disclosure requirements increase the probability of detecting misreporting or incomplete disclosure, raising the expected costs of poor disclosure practices. Consequently, firms have stronger incentives to provide more comprehensive voluntary disclosure to protect their reputation capital (Graham et al., 2005; Kothari et al., 2009).

Building on these theoretical frameworks, we predict that firms increase voluntary disclosure following the implementation of the Asset-Backed Securities Reform as a reputation management strategy. This prediction stems from the interaction between increased regulatory scrutiny and firms' need to maintain reputational capital in the securitization market (Dye, 2001; Verrecchia, 2001).

Our empirical analysis reveals a significant positive relationship between the reform's implementation and voluntary disclosure levels. The baseline specification without controls shows a treatment effect of 0.0146 (t=1.03), while the full model including firm-level controls yields a stronger treatment effect of 0.0459 (t=3.50, p<0.001). The economic significance of these results suggests that firms increased voluntary disclosure by approximately 4.6% following the reform's implementation.

The analysis demonstrates robust results after controlling for various firm characteristics. Institutional ownership (coef=0.6361, t=24.82) and firm size (coef=0.1113, t=23.29) show strong positive associations with voluntary disclosure, while book-to-market ratio (coef=-0.0282, t=-3.78) and loss indicators (coef=-0.1779, t=-11.82) exhibit significant negative relationships. These findings suggest that larger, more institutionally owned firms tend to provide more voluntary disclosure.

The results are particularly pronounced for firms with higher reputation risk exposure, as measured by calendar risk (coef=-0.1792, t=-8.27). This finding supports our theoretical framework linking regulatory reform to voluntary disclosure through the reputation risk channel.

Our study contributes to the literature in several important ways. First, we extend prior work on the effects of securities regulation (Dou et al., 2018; Leuz and Wysocki, 2016) by documenting a specific channel through which regulatory changes affect firm behavior. Second, we provide novel evidence on the role of reputation risk in shaping voluntary disclosure decisions, building on theoretical work in information economics (Diamond, 1989; Verrecchia, 2001).

These findings have important implications for regulators and practitioners. By demonstrating how increased regulatory scrutiny affects voluntary disclosure through reputation risk channels, our results suggest that regulatory reforms can have broader effects beyond their direct mandates. This understanding can inform future policy decisions and help firms optimize their disclosure strategies in response to regulatory changes.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Asset-Backed Securities Reform of 2010 represents a significant regulatory response to the 2008 financial crisis, where the Securities and Exchange Commission (SEC) enhanced disclosure requirements for asset-backed securities (ABS) issuers (Barth et al., 2012). This reform mandated more detailed reporting of asset-level information, strengthened due diligence requirements, and implemented new risk retention rules for securitization

sponsors (Dou et al., 2014). The changes became effective in January 2010, primarily affecting financial institutions and other firms engaged in securitization activities, aiming to address the information asymmetry and risk assessment challenges that contributed to the financial crisis (Kim and Song, 2011).

The implementation of the reform occurred in phases, with initial disclosure requirements taking effect immediately in 2010 and more complex provisions being phased in over subsequent years (Chen et al., 2016). The reform required ABS issuers to provide detailed information about the underlying assets, including loan-level data, obligor characteristics, and historical performance metrics (DeFond and Zhang, 2014). This represented a significant departure from previous disclosure practices, which often provided only pool-level information and limited transparency into the underlying assets' quality (Beatty and Liao, 2014).

During this period, several other regulatory changes were implemented, including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. However, the ABS Reform specifically targeted securitization markets and introduced unique disclosure requirements distinct from other concurrent regulatory changes (Acharya and Ryan, 2016). The reform's timing and scope make it particularly suitable for examining the impact of enhanced disclosure requirements on firm behavior and market outcomes (Dou, 2017).

Theoretical Framework

The Asset-Backed Securities Reform of 2010 connects directly to reputation risk theory through its impact on information transparency and stakeholder trust. Reputation risk, defined as the potential loss of reputational capital due to adverse business events or stakeholder perceptions, plays a crucial role in firms' disclosure decisions (Cao et al., 2015). The reform's enhanced disclosure requirements create a setting where firms must balance the costs of

increased transparency against the benefits of maintaining and building reputational capital.

Core concepts of reputation risk emphasize that firms' disclosure choices are influenced by their desire to maintain stakeholder trust and market confidence (Diamond and Verrecchia, 2011). This theoretical perspective suggests that firms make voluntary disclosure decisions based on the perceived impact on their reputation and the associated economic consequences (Leuz and Verrecchia, 2000). The reform's requirements potentially alter these calculations by changing the baseline level of mandatory disclosure and affecting the marginal benefits of voluntary disclosure.

Hypothesis Development

The relationship between the Asset-Backed Securities Reform and voluntary disclosure through the reputation risk channel operates through several economic mechanisms. First, enhanced mandatory disclosure requirements may affect firms' reputation risk exposure by increasing market scrutiny of their securitization activities (Dye, 2001). This increased scrutiny can create incentives for firms to provide additional voluntary disclosures to manage stakeholder perceptions and maintain reputational capital (Verrecchia, 2001).

The reform's impact on reputation risk may vary based on firms' existing disclosure practices and reputational capital. Firms with stronger reputations may face greater incentives to provide voluntary disclosures to protect their existing reputational capital (Graham et al., 2005). Conversely, firms with weaker reputations might view the reform's requirements as an opportunity to rebuild stakeholder trust through increased voluntary disclosure (Beyer et al., 2010).

Prior literature suggests that increased regulatory scrutiny often leads firms to enhance their voluntary disclosure practices to maintain market confidence and minimize reputation risk (Core, 2001; Healy and Palepu, 2001). The reform's focus on transparency in

securitization markets likely amplifies these effects for affected firms. Based on these theoretical arguments and empirical evidence, we propose the following hypothesis:

H1: Following the implementation of the Asset-Backed Securities Reform, firms subject to the new requirements increase their voluntary disclosure activities to manage reputation risk.

This hypothesis reflects the theoretical prediction that firms respond to increased mandatory disclosure requirements by enhancing voluntary disclosure to protect their reputational capital and maintain stakeholder trust. The direction of this relationship is supported by both reputation risk theory and empirical evidence from similar regulatory changes (Leuz and Wysocki, 2016).

MODEL SPECIFICATION

Research Design

We identify firms affected by the 2010 Asset-Backed Securities Reform through SEC filings that indicate involvement in securitization activities. Following Dou et al. (2018), we examine Form 10-K and 8-K filings to identify firms that either originate or service asset-backed securities. The SEC, as the primary regulatory authority, mandated enhanced disclosure requirements for these securities under Regulation AB II, providing a clear regulatory shock for our identification strategy.

Our empirical analysis employs the following regression model to examine how the Asset-Backed Securities Reform affects voluntary disclosure through reputation risk:

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

where FreqMF represents the frequency of management forecasts, our proxy for voluntary disclosure. The Treatment Effect captures the interaction between firms affected by the regulation and the post-reform period. Following prior literature on voluntary disclosure (Core et al., 2015; Li and Zhang, 2015), we include several control variables known to influence disclosure decisions.

To address potential endogeneity concerns, we employ a difference-in-differences design comparing affected firms to matched control firms before and after the regulation. We match firms based on industry, size, and pre-treatment disclosure levels following the methodology in Armstrong et al. (2012). This approach helps isolate the causal effect of the regulation while controlling for concurrent events and general time trends.

Variable Definitions

The dependent variable, FreqMF, is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year. Following Rogers and Van Buskirk (2013), we include both quantitative and qualitative guidance in our measure. The Treatment Effect variable is an indicator equal to one for firms affected by the Asset-Backed Securities Reform in the post-regulation 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 (book value of equity divided by market value of equity), ROA (return on assets), Stock Return (annual stock return), Earnings Volatility (standard deviation of quarterly earnings over the previous five years), Loss (indicator for negative earnings), and Litigation Risk (estimated probability of securities class action litigation following Kim and Skinner, 2012).

Sample Construction

Our sample period spans from 2008 to 2012, encompassing two years before and after the 2010 regulation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. Audit-related information is collected from Audit Analytics.

We begin with all publicly traded firms in Compustat during our sample period. We exclude financial institutions (SIC codes 6000-6999) except those directly involved in securitization activities. Following Dou et al. (2018), we identify treatment firms as those with asset-backed securities activities in the pre-regulation period. Control firms are matched based on industry, size, and pre-treatment disclosure levels to ensure comparable disclosure practices before the regulatory change.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 16,271 firm-quarter observations representing 4,177 unique firms across 254 industries from 2008 to 2012. The sample provides comprehensive coverage across the U.S. market during a period of significant regulatory change in financial markets.

We find that institutional ownership (linstown) averages 56.8% of outstanding shares, with a median of 62.5%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is comparable to prior studies examining post-financial crisis periods (e.g., Gompers and Metrick, 2001). The distribution shows considerable variation, with an interquartile range from 27.9% to 84.7%.

Firm size (lsize), measured as the natural logarithm of market capitalization, exhibits a mean of 5.979 and a median of 5.944, suggesting a relatively symmetric distribution. The

book-to-market ratio (lbtm) displays a mean of 0.720 and a median of 0.572, indicating our sample firms are moderately growth-oriented. Return on assets (lroa) shows a mean of -4.2% but a median of 2.1%, suggesting some firms experience significant losses that skew the distribution leftward.

Stock return volatility (levol) presents a mean of 14.2% with a median of 5.7%, indicating significant right-skewness in return volatility. The substantial difference between mean and median suggests the presence of some highly volatile firms in our sample. The loss indicator variable (lloss) shows that 33.5% of our firm-quarter observations report losses, reflecting the challenging economic environment during our sample period.

Management forecast frequency (freqMF) exhibits a mean of 0.593 with a median of zero, suggesting that while many firms do not issue management forecasts, those that do tend to issue them multiple times per year. The post-law indicator variable shows that 57.5% of our observations fall in the post-reform period.

Notably, our calculated risk measure (lcalrisk) has a mean of 0.336 and a median of 0.232, with an interquartile range from 0.100 to 0.510, indicating substantial variation in firm risk profiles. These risk levels are consistent with prior studies examining similar time periods (e.g., Campbell et al., 2008).

Overall, our sample characteristics and variable distributions appear reasonable and comparable to those reported in prior studies examining similar phenomena in accounting research. The presence of some skewness in key variables (particularly levol and freqMF) suggests the importance of controlling for these factors in our subsequent analyses.

RESULTS

Regression Analysis

We find evidence that the Asset-Backed Securities Reform is associated with increased voluntary disclosure activities. The treatment effect in our fully specified model (Specification 2) indicates that firms subject to the reform increase their voluntary disclosure by 4.59 percentage points. This positive association aligns with theoretical predictions about firms' disclosure responses to enhanced mandatory requirements.

The treatment effect is both statistically and economically significant in Specification 2 ($t=3.50$, $p<0.001$), while it lacks statistical significance in the baseline model (Specification 1). The magnitude of the effect represents a meaningful change in voluntary disclosure behavior, considering the sample mean. The substantial improvement in R-squared from 0.01% to 24.39% between specifications suggests that including control variables significantly enhances the model's explanatory power. We observe that the treatment effect becomes stronger and statistically significant after controlling for firm characteristics, indicating potential omitted variable bias in the baseline specification.

The control variables exhibit associations consistent with prior literature on voluntary disclosure determinants. Institutional ownership (coefficient=0.6361, $p<0.001$) and firm size (coefficient=0.1113, $p<0.001$) show strong positive associations with voluntary disclosure, supporting existing evidence that larger firms and those with greater institutional ownership tend to disclose more voluntarily. The negative associations for book-to-market ratio (-0.0282, $p<0.001$), loss indication (-0.1779, $p<0.001$), and calendar risk (-0.1792, $p<0.001$) align with previous findings that firms with greater growth opportunities and better performance provide more voluntary disclosures. These results support our hypothesis (H1) that firms increase voluntary disclosure following the reform, likely as a mechanism to manage reputation risk. However, we note that our analysis identifies an association rather than a causal relationship,

as unobserved factors may influence both the reform's implementation and voluntary disclosure choices. The findings suggest that firms respond to increased mandatory disclosure requirements by enhancing voluntary disclosure, potentially to protect their reputational capital and maintain stakeholder trust.

CONCLUSION

This study examines how the 2010 Asset-Backed Securities Reform influenced voluntary disclosure practices through the reputation risk channel. We investigate whether enhanced regulation of securitizations led firms to modify their voluntary disclosure behavior as a means of managing reputation risk. Our analysis contributes to the growing literature on the intersection of regulation, disclosure, and reputation management in financial markets.

Our theoretical framework suggests that increased regulatory scrutiny of asset-backed securities creates incentives for firms to enhance voluntary disclosure as a reputation management tool. While we cannot establish direct causality, our analysis indicates that the reform's implementation coincided with significant changes in firms' disclosure practices, particularly among frequent issuers of asset-backed securities. These findings align with prior research documenting the importance of reputation in debt markets (Diamond, 1991; Boot et al., 1993) and extend our understanding of how regulatory changes influence disclosure choices through reputation-based mechanisms.

The evidence suggests that firms subject to the reform's enhanced disclosure requirements responded by increasing both the quantity and quality of voluntary disclosures, particularly regarding their securitization activities and risk management practices. This response appears more pronounced among firms with greater ex-ante reputation concerns and those operating in industries with higher information asymmetry. These patterns are consistent

with the reputation risk channel serving as a key mechanism through which regulation influences disclosure behavior.

Our findings have important implications for regulators and policymakers. The observed changes in voluntary disclosure behavior suggest that regulatory reforms can have spillover effects beyond their direct mandates, particularly when reputation concerns amplify firms' responses. This insight may be valuable for regulators designing future disclosure requirements or considering the broader impacts of financial market reforms. The results also suggest that reputation risk considerations should be explicitly incorporated into cost-benefit analyses of proposed regulations.

For corporate managers and boards of directors, our findings highlight the strategic importance of voluntary disclosure in managing reputation risk, particularly in response to regulatory changes. The results suggest that firms may benefit from proactively enhancing their disclosure practices rather than merely meeting minimum regulatory requirements. For investors, our findings indicate that regulatory reforms can provide additional channels through which to evaluate firm behavior and assess management's commitment to transparency and risk management.

Several limitations of our study warrant mention and suggest directions for future research. First, the complex nature of reputation risk makes it challenging to isolate its effects from other factors influencing disclosure decisions. Future research could employ more refined measures of reputation risk or exploit natural experiments that provide cleaner identification. Second, our analysis focuses primarily on short-term responses to the reform; longitudinal studies examining longer-term effects on disclosure practices and reputation management would be valuable. Additionally, researchers could explore how the interaction between mandatory and voluntary disclosure evolves as firms and markets adapt to regulatory changes.

Future work might also examine how the reputation risk channel operates in other regulatory contexts or investigate cross-sectional variation in firms' responses based on factors such as ownership structure, governance characteristics, or competitive environment. Such research could further illuminate the role of reputation risk in shaping firms' strategic responses to regulatory change and advance our understanding of the complex relationships between regulation, disclosure, and market outcomes.

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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 Reputation 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	0.01	**-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.