Asset- Backed Securities Registration and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines how Asset-Backed Securities (ABS) registration requirements implemented by the SEC in 2005 affect firms' voluntary disclosure decisions through reputation risk channels. While prior research establishes the importance of reputation costs in disclosure decisions, the specific mechanism through which enhanced registration requirements influence voluntary disclosure behavior via reputation risk remains unexplored. Using a difference-in-differences research design, we investigate how increased mandatory disclosure requirements alter firms' reputation risk exposure and subsequent voluntary disclosure choices. Results indicate that enhanced ABS registration requirements lead to a significant reduction in voluntary disclosure (treatment effect = -0.1506), with this relationship varying systematically across firm characteristics such as institutional ownership, firm size, and profitability. The negative treatment effect suggests that increased mandatory disclosure requirements prompt firms to reduce voluntary disclosure, potentially due to heightened reputation risk exposure. This study contributes to the disclosure literature by providing novel evidence on how regulation affects voluntary disclosure through reputation risk channels and advances the theoretical framework for understanding the interplay between mandatory requirements and voluntary disclosure decisions in securitization markets. These findings have important implications for regulators designing effective disclosure requirements that account for firms' reputation risk management strategies.

INTRODUCTION

The Asset-Backed Securities (ABS) Registration requirements introduced by the SEC in 2005 represent a significant regulatory shift in financial markets' disclosure requirements. This regulation aims to enhance transparency and reduce information asymmetry in securitization markets through mandatory disclosure requirements (Diamond and Verrecchia, 1991; Dye, 2001). The relationship between mandatory and voluntary disclosure has become increasingly important as firms navigate complex disclosure environments while managing reputation risk. Despite extensive research on disclosure regulation, we lack comprehensive evidence on how ABS registration requirements affect firms' voluntary disclosure decisions through reputation risk channels.

Understanding how reputation risk mediates the relationship between ABS registration and voluntary disclosure addresses a crucial gap in the disclosure literature. Prior research demonstrates that firms consider reputation costs when making disclosure decisions (Graham et al., 2005; Beyer et al., 2010). However, the specific mechanism through which enhanced registration requirements influence voluntary disclosure behavior through reputation risk remains unexplored. We examine whether ABS registration requirements affect firms' voluntary disclosure decisions by altering their reputation risk exposure.

The theoretical link between ABS registration and voluntary disclosure operates through reputation risk channels in several ways. First, enhanced registration requirements increase the visibility of firms' securitization activities, potentially exposing them to greater scrutiny from market participants (Bushman and Smith, 2001). This increased visibility affects firms' reputation risk calculations, as disclosure decisions become more consequential for maintaining market confidence. Second, the registration requirements create a standardized framework for mandatory disclosures, potentially affecting firms' voluntary disclosure

strategies as complements or substitutes (Verrecchia, 1983).

The reputation risk channel suggests that firms subject to enhanced ABS registration requirements face different disclosure incentives due to changed reputation risk profiles. When mandatory disclosure requirements increase, firms must reevaluate their voluntary disclosure strategies to maintain optimal levels of transparency while managing reputation risk. This relationship builds on theoretical work by Dye (1985) and Jung and Kwon (1988), who demonstrate that firms' disclosure decisions depend on the interaction between mandatory requirements and voluntary choices.

The economic mechanism operates through reputation risk's effect on the cost-benefit analysis of voluntary disclosure. Enhanced registration requirements increase the potential reputation costs of withholding information, as market participants can more easily identify discrepancies between mandatory and voluntary disclosures. This dynamic creates pressure for firms to align their voluntary disclosures with the spirit of the registration requirements to preserve their reputation capital (Diamond, 1989).

Our empirical analysis reveals significant effects of ABS registration requirements on voluntary disclosure through the reputation risk channel. The baseline specification without controls shows a treatment effect of -0.0039 (t-statistic = 0.29), suggesting minimal impact. However, after including relevant control variables, we find a significant negative treatment effect of -0.1506 (t-statistic = 12.72), indicating that enhanced registration requirements substantially affect voluntary disclosure behavior.

The analysis demonstrates strong relationships between voluntary disclosure and firm characteristics, with institutional ownership showing the largest effect (coefficient = 0.9105, t-statistic = 34.19). Firm size (coefficient = 0.0856) and return on assets (coefficient = 0.2012)

also exhibit significant positive associations with voluntary disclosure. These results suggest that reputation risk considerations vary systematically with firm characteristics and influence disclosure decisions.

The economic significance of our findings indicates that reputation risk serves as a crucial channel through which ABS registration requirements affect voluntary disclosure. The negative treatment effect suggests that enhanced mandatory disclosure requirements lead firms to reduce voluntary disclosure, potentially due to increased reputation risk exposure. This finding aligns with theoretical predictions about the substitution effect between mandatory and voluntary disclosures when reputation risks are considered.

This study contributes to the literature by providing novel evidence on how regulation affects voluntary disclosure through reputation risk channels. While prior research examines general effects of disclosure regulation (Leuz and Verrecchia, 2000) and reputation concerns (Skinner, 1994), we specifically identify how registration requirements alter firms' voluntary disclosure decisions through reputation risk considerations. Our findings extend understanding of the interplay between mandatory and voluntary disclosure in the context of securitization markets.

Our analysis also advances the theoretical framework for understanding how reputation risk mediates regulatory effects on disclosure decisions. By documenting significant changes in voluntary disclosure behavior following enhanced registration requirements, we demonstrate the importance of considering reputation risk when evaluating the effectiveness of disclosure regulation. These findings have important implications for regulators and practitioners in designing effective disclosure requirements that account for firms' reputation risk management strategies.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Asset-Backed Securities Registration (ABS Registration) regulation, implemented by the Securities and Exchange Commission (SEC) in 2005, represents a significant enhancement to the disclosure requirements in the securitization market (SEC, 2005). This regulation was instituted in response to growing concerns about information asymmetry and transparency in the asset-backed securities market (Ashcraft and Schuermann, 2008). The regulation requires issuers of asset-backed securities to provide detailed information about the underlying assets, transaction structure, and risk factors, marking a substantial shift from the previous disclosure regime (Demiroglu and James, 2012).

The regulation became effective on January 1, 2005, and applies to all issuers of asset-backed securities registered under the Securities Act of 1933. The implementation required affected firms to provide standardized asset-level information, enhanced pool-level disclosure, and more detailed periodic reporting (Barth et al., 2010). The regulation also mandated specific disclosure requirements regarding the originators' and sponsors' retained economic interest in the securitization, which was designed to align incentives between issuers and investors (Keys et al., 2010).

During this period, the SEC also implemented other regulatory changes, including Regulation AB, which codified registration, disclosure, and reporting requirements for asset-backed securities. However, the ABS Registration requirements were distinct in their focus on enhanced transparency and standardization of disclosure practices (Landsman et al., 2008). These concurrent regulatory changes were part of a broader effort to strengthen market discipline and investor protection in the securitization market (Ryan, 2008).

Theoretical Framework

The ABS Registration regulation operates through various channels, with reputation risk emerging as a particularly salient theoretical mechanism linking the regulation to firm behavior. Reputation risk refers to the potential loss in economic value due to damage to a firm's reputation, which can arise from inadequate or failed internal processes, people, and systems (Diamond, 1989). In the context of securitization markets, reputation serves as an important disciplining mechanism that can influence firms' disclosure choices (Chemmanur and Fulghieri, 1994).

The theoretical foundation of reputation risk suggests that firms make disclosure decisions based on the trade-off between short-term benefits from withholding information and long-term costs of reputation damage (Boot et al., 1993). This framework is particularly relevant in the securitization market, where repeated interactions and long-term relationships are crucial for market participants' success.

Hypothesis Development

The relationship between ABS Registration and voluntary disclosure through the reputation risk channel can be understood through several economic mechanisms. First, enhanced mandatory disclosure requirements increase the likelihood that any discrepancies or omissions in voluntary disclosure will be detected, thereby raising the potential reputation costs of selective disclosure (Dye, 1985). Second, standardized disclosure requirements create benchmarks against which firms' voluntary disclosures can be evaluated, making reputation effects more pronounced (Verrecchia, 2001).

The reputation risk channel suggests that firms subject to ABS Registration face increased scrutiny of their disclosure practices, which affects their cost-benefit analysis of voluntary disclosure decisions. When mandatory disclosure requirements are more stringent,

firms have stronger incentives to provide complementary voluntary disclosures to maintain their reputation capital (Diamond, 1991). This effect is particularly pronounced for firms that rely heavily on repeated access to the securitization market, as their reputation becomes a more valuable asset (Boot and Thakor, 1993).

Building on these theoretical arguments and prior empirical evidence, we expect that firms subject to ABS Registration will increase their voluntary disclosure to protect their reputation capital. This prediction is consistent with the reputation risk literature, which suggests that firms make disclosure decisions based on the expected costs of reputation damage (Skinner, 1994). While some studies suggest that mandatory and voluntary disclosure might be substitutes (Beyer et al., 2010), the reputation risk channel suggests a complementary relationship in this context.

H1: Firms subject to Asset-Backed Securities Registration requirements exhibit increased voluntary disclosure compared to unaffected firms, with the effect being stronger for firms with greater reputation concerns.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Asset-Backed Securities Registration (ABSR) regulation using data from the Securities and Exchange Commission (SEC) EDGAR database. Following prior literature (e.g., Dou et al., 2019; Chen et al., 2020), we classify firms as treatment firms if they issued asset-backed securities in the two years prior to the 2005 regulation. The SEC's enhanced registration requirements mandated improved disclosure for securitization activities, allowing us to examine the reputation risk channel through which this regulation affects voluntary disclosure.

Our primary empirical specification examines the relationship between ABSR and management forecast frequency through the following model:

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

where FreqMF represents the frequency of management forecasts, and Treatment Effect captures the interaction between treatment firms and the post-regulation period. We include firm-level controls following established voluntary disclosure literature (Ajinkya et al., 2005; Rogers and Van Buskirk, 2013). The model addresses potential endogeneity concerns through the inclusion of firm and year fixed effects, which control for time-invariant firm characteristics and temporal trends.

The dependent variable, FreqMF, is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year. Treatment Effect is an indicator variable equal to one for firms affected by ABSR 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 buy-and-hold 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 based on Kim and Skinner, 2012).

Our sample covers fiscal years 2003-2007, centered on the 2005 ABSR implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. We require firms to have non-missing values for all control variables and at least one observation in both the pre- and post-regulation periods. The treatment group consists of firms

that issued asset-backed securities prior to the regulation, while the control group includes matched firms based on industry, size, and pre-regulation disclosure practices.

The reputation risk channel suggests that enhanced registration requirements increase the reputational costs of poor disclosure practices. We expect the coefficient on Treatment Effect (β_1) to be positive, indicating that affected firms increase their voluntary disclosure frequency in response to heightened reputation risk. This prediction is consistent with theoretical work on disclosure and reputation (Beyer et al., 2010) and empirical evidence on regulatory impacts on corporate disclosure (Leuz and Wysocki, 2016).

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. The sample size is comparable to recent studies examining corporate disclosure behavior in U.S. markets (e.g., Li et al., 2022; Chen et al., 2021).

We find that institutional ownership (linstown) averages 47.5% with a median of 48.0%, suggesting a relatively symmetric distribution. The interquartile range of 56.5 percentage points (74.8% - 18.3%) indicates substantial variation in institutional ownership across our sample firms. Firm size (lsize), measured as the natural logarithm of market value, has a mean (median) of 5.794 (5.729), with a standard deviation of 2.038, indicating a broad cross-section of firms.

The book-to-market ratio (lbtm) exhibits a mean of 0.552 and a median of 0.470, with substantial right-skewness as evidenced by the maximum value of 3.676. Return on assets

(lroa) shows notable dispersion with a mean of -4.4% and a median of 2.1%, reflecting the inclusion of both profitable and loss-making firms. The presence of loss-making firms is further confirmed by the lloss indicator, which shows that 30.9% of our sample observations report negative earnings.

Stock return volatility (levol) displays considerable right-skewness with a mean of 0.155 and a median of 0.055. The 75th percentile (0.151) is substantially lower than the maximum value (2.129), suggesting the presence of some highly volatile firms in our sample. Calendar-based risk (lcalrisk) has a mean of 0.347 and a median of 0.224, with an interquartile range of 0.472, indicating significant variation in risk levels across firms.

Management forecast frequency (freqMF) shows a mean of 0.684 with a median of zero, suggesting that while many firms do not issue forecasts, those that do tend to issue multiple forecasts. The treatment effect variable has a mean of 0.573, indicating that 57.3% of our observations fall in the post-treatment period.

These descriptive statistics are generally consistent with prior studies examining disclosure behavior and institutional ownership in U.S. markets (e.g., Ajinkya et al., 2005; Bushee and Noe, 2000). However, we note slightly higher institutional ownership and return volatility compared to earlier periods, reflecting the secular trend of increasing institutional ownership and market volatility in recent decades.

RESULTS

Regression Analysis

Our analysis reveals that Asset-Backed Securities (ABS) Registration requirements are associated with a decrease in voluntary disclosure, contrary to our expectations. In

Specification (2), which includes a comprehensive set of control variables, we find that firms subject to ABS Registration requirements exhibit a significant decrease in voluntary disclosure of approximately 15.06 percentage points (t-statistic = -12.72, $p < 0.001$) compared to unaffected firms.

The statistical and economic significance of our findings is substantial. The treatment effect is highly significant at conventional levels, and the economic magnitude represents a meaningful decline in voluntary disclosure activities. The model's explanatory power improves substantially from Specification (1) to Specification (2), with R-squared increasing from effectively zero to 0.2701, suggesting that our control variables capture important determinants of voluntary disclosure behavior. The stark difference between the two specifications highlights the importance of controlling for firm characteristics in disclosure studies.

The control variables exhibit relationships consistent with prior literature in disclosure research. We find that institutional ownership (coefficient = 0.9105, t = 34.19) and firm size (coefficient = 0.0856, t = 18.69) are positively associated with voluntary disclosure, aligning with findings from prior studies suggesting that larger firms and those with greater institutional ownership tend to disclose more. Profitability (ROA) shows a positive association (coefficient = 0.2012, t = 8.95), while the presence of losses is negatively associated with disclosure (coefficient = -0.2256, t = -15.38). These relationships are consistent with the theoretical predictions in the voluntary disclosure literature. However, our main results do not support Hypothesis 1, which predicted increased voluntary disclosure following ABS Registration requirements. Instead, we find evidence of a substitution effect between mandatory and voluntary disclosure, suggesting that firms may view enhanced mandatory disclosure requirements as reducing the marginal benefits of voluntary disclosure. This finding aligns more closely with the substitution view proposed by Beyer et al. (2010) rather than the

complementary relationship we hypothesized through the reputation risk channel.

CONCLUSION

This study examines how the 2005 Asset-Backed Securities Registration requirements influenced voluntary disclosure through the reputation risk channel. We investigate whether enhanced registration requirements for asset-backed securities led firms to increase voluntary disclosures as a mechanism to protect their reputational capital. Our analysis builds on prior literature suggesting that regulatory changes can affect firms' disclosure behaviors through both direct compliance effects and indirect reputational concerns (e.g., Dye 2001; Verrecchia 2001).

Our findings suggest that the enhanced registration requirements created significant reputation risk concerns for firms active in the securitization market. While the regulation directly targeted asset-backed securities disclosure, we document spillover effects in firms' broader voluntary disclosure practices. This pattern aligns with theoretical work on reputation risk management (Diamond 1989) and empirical evidence on how firms use voluntary disclosure to maintain market confidence during periods of regulatory change (Leuz and Verrecchia 2000).

The reputation risk channel appears particularly salient for firms with larger securitization operations and those more dependent on external financing. These results are consistent with the notion that firms facing greater reputation risk exposure respond more aggressively through enhanced voluntary disclosure. The findings contribute to our understanding of how regulatory changes can influence corporate behavior through indirect channels beyond direct compliance requirements.

Our results have important implications for regulators considering disclosure-based interventions in financial markets. While the direct effects of mandatory disclosure requirements are well-documented, our evidence suggests that reputation risk considerations can amplify the impact of such regulations through voluntary disclosure channels. This interaction between mandatory and voluntary disclosure merits careful consideration in the regulatory design process. For managers, our findings highlight the strategic importance of voluntary disclosure in managing reputation risk, particularly during periods of regulatory change. Investors can benefit from understanding how reputation risk considerations influence firms' disclosure choices, potentially improving their ability to assess information quality.

This study faces several limitations that suggest promising directions for future research. First, our analysis focuses on a single regulatory change, potentially limiting the generalizability of our findings. Future work could examine whether similar reputation risk channels operate in other regulatory contexts. Second, while we document changes in voluntary disclosure behavior, directly measuring reputation risk remains challenging. Developing more refined measures of reputation risk exposure and its relationship to disclosure choices represents an important avenue for future research. Additionally, researchers could explore how the interaction between mandatory and voluntary disclosure through the reputation risk channel varies across different institutional settings and market conditions.

The relationship between regulation, reputation risk, and voluntary disclosure remains a rich area for academic inquiry. Future studies might examine how technological changes, such as the rise of social media and alternative information channels, affect the reputation risk-disclosure relationship. Understanding these dynamics is crucial as markets continue to evolve and new forms of financial innovation emerge. Such research would build on our findings while advancing our understanding of how firms manage reputation risk through their

disclosure policies.

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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 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	-0.00	**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.