Electronic Filing Of Form D and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines how the SEC's 2007 electronic Form D filing mandate affects firms' voluntary disclosure decisions through changes in information asymmetry. While prior research establishes that disclosure requirements influence information asymmetry, the impact of electronic filing formats on voluntary disclosure remains understudied. Drawing on information asymmetry theory, we investigate whether enhanced accessibility of Form D filings through the SEC's EDGAR system leads to changes in firms' voluntary disclosure practices. Using a differences-in-differences research design, we find that the electronic filing mandate led to an 11.76% reduction in voluntary disclosure. This effect remains robust after controlling for firm characteristics, with institutional ownership and firm size showing strong positive associations with disclosure. The results support the theoretical prediction that improved information accessibility through electronic Form D filing reduces firms' incentives for voluntary disclosure by decreasing baseline information asymmetry. These findings contribute to the literature by documenting how technological improvements in mandatory disclosure accessibility affect firms' voluntary disclosure decisions and have important implications for regulators considering similar electronic filing requirements. Our study provides novel evidence on the substitution effect between mandatory and voluntary disclosures in the context of technological improvements in information dissemination.

INTRODUCTION

The Securities and Exchange Commission's 2007 mandate for electronic filing of Form D represents a significant shift in how firms disclose information about their exempt offerings. This regulatory change streamlined the filing process and increased the accessibility of Form D disclosures, potentially affecting information asymmetry between firms and investors (Diamond and Verrecchia, 1991; Leuz and Verrecchia, 2000). The electronic filing requirement fundamentally altered the dissemination of private placement information, making previously hard-to-access paper filings readily available through the SEC's EDGAR system. This transformation raises important questions about how improved information accessibility affects firms' voluntary disclosure decisions through changes in information asymmetry.

We examine how the electronic filing mandate influences voluntary disclosure through the information asymmetry channel. While prior research establishes that disclosure requirements can affect information asymmetry (Verrecchia, 2001; Beyer et al., 2010), the impact of electronic filing formats on voluntary disclosure decisions remains understudied. Specifically, we investigate whether enhanced accessibility of Form D filings leads to changes in firms' voluntary disclosure practices through reduced information asymmetry between managers and investors.

The theoretical link between electronic filing requirements and voluntary disclosure operates through information asymmetry reduction. When Form D filings become more accessible, the information gap between informed and uninformed investors narrows (Easley and O'Hara, 2004). This reduction in information asymmetry affects firms' cost of capital and their incentives for voluntary disclosure (Lambert et al., 2007). The electronic filing mandate likely reduces the costs for investors to acquire and process Form D information, potentially leading to more informed trading and price discovery.

Building on analytical models of disclosure choice (Dye, 1985; Jung and Kwon, 1988), we predict that improved information accessibility through electronic Form D filings reduces

firms' incentives for voluntary disclosure. As the baseline level of information asymmetry decreases due to enhanced access to Form D information, the marginal benefit of voluntary disclosure declines. This prediction aligns with theoretical work suggesting that mandatory and voluntary disclosures can act as substitutes when they address similar information needs (Einhorn, 2005).

Information asymmetry theory suggests that when public information becomes more accessible, private information gathering becomes less valuable (Verrecchia, 1982). Therefore, we hypothesize that the electronic filing mandate leads to a reduction in voluntary disclosure as firms respond to the changed information environment and adjusted investor information demands.

Our empirical analysis reveals that the electronic filing mandate significantly reduced firms' voluntary disclosure. The treatment effect coefficient of -0.1176 (t-statistic = 9.48) in our main specification indicates that firms reduced their voluntary disclosure following the mandate. This effect remains robust after controlling for various firm characteristics, with institutional ownership (coefficient = 0.7943, t-statistic = 31.60) and firm size (coefficient = 0.0952, t-statistic = 20.38) showing strong positive associations with disclosure.

The economic magnitude of our findings suggests that the electronic filing mandate led to an 11.76% reduction in voluntary disclosure, supporting our hypothesis that enhanced information accessibility through Form D electronic filing reduces firms' incentives for voluntary disclosure. The high statistical significance and substantial R-squared of 0.2544 in our full specification indicate that our model captures meaningful variation in voluntary disclosure behavior.

These results are consistent with the information asymmetry channel, as evidenced by the significant coefficients on information environment controls such as analyst following and institutional ownership. The negative relationship between electronic filing and voluntary disclosure persists across various robustness tests and alternative specifications, suggesting a causal link between enhanced information accessibility and reduced voluntary disclosure.

This study contributes to the literature on mandatory disclosure regulations and their effects on voluntary disclosure choices (Leuz and Wysocki, 2016). We extend prior work on electronic filing requirements by documenting how improved information accessibility affects firms' disclosure decisions through the information asymmetry channel. Our findings provide novel evidence on the substitution effect between mandatory and voluntary disclosures in the context of technological improvements in information dissemination.

Our results have important implications for regulators and standard setters considering similar electronic filing mandates. We demonstrate that technological improvements in mandatory disclosure accessibility can have significant spillover effects on firms' voluntary disclosure practices, highlighting the interconnected nature of firms' disclosure decisions and the importance of considering these relationships when designing disclosure regulations.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

In 2007, the Securities and Exchange Commission (SEC) mandated the electronic filing of Form D, marking a significant shift in how firms report exempt securities offerings (SEC Release No. 33-8891). Form D serves as a notice filing for companies raising capital through Regulation D exemptions, which allows them to sell securities without registering with the SEC (Ivanov and Bauguess, 2013). This regulatory change aimed to enhance

transparency and accessibility of private placement information while reducing filing costs for issuers (Dambra et al., 2015).

The electronic filing requirement became effective on September 15, 2008, with a phase-in period allowing both paper and electronic submissions until March 16, 2009. After this date, all Form D filings were required to be submitted electronically through the SEC's EDGAR system. The mandate affected all firms conducting private placements under Regulation D, including both public and private companies seeking to raise capital through exempt offerings (Bernstein et al., 2017). The SEC implemented this change to modernize the filing process, improve data collection and analysis capabilities, and enhance market participants' access to Form D information.

During this period, the SEC also adopted other regulatory changes, including amendments to Regulation D in 2008 that revised the definition of "accredited investor" and implemented additional disclosure requirements for Rule 506 offerings (Koch et al., 2016). However, the electronic Form D mandate represented a distinct initiative focused specifically on improving the accessibility and processing of exempt offering information. These changes occurred against the backdrop of broader efforts to increase transparency in private capital markets while maintaining appropriate exemptions for smaller offerings (Chaplinsky et al., 2017).

Theoretical Framework

The electronic filing mandate for Form D relates directly to information asymmetry theory, which posits that disparities in information access between market participants can affect capital allocation and investment decisions (Akerlof, 1970). Information asymmetry creates friction in capital markets when investors possess less information than firm insiders about the quality of investment opportunities (Diamond and Verrecchia, 1991). The electronic

filing requirement potentially reduces these information gaps by making Form D filings more readily accessible to market participants.

Core concepts of information asymmetry theory suggest that firms can mitigate adverse selection problems through credible disclosure mechanisms (Leuz and Verrecchia, 2000). In the context of private placements, information asymmetry is particularly acute due to reduced disclosure requirements compared to public offerings. The electronic filing mandate may influence firms' voluntary disclosure decisions by altering the costs and benefits of information dissemination.

Hypothesis Development

The relationship between electronic Form D filing and voluntary disclosure operates through several economic mechanisms related to information asymmetry. First, enhanced accessibility of Form D information through EDGAR reduces information acquisition costs for market participants, potentially affecting firms' broader disclosure strategies (Verrecchia, 2001). When basic offering information becomes more widely available, firms may face increased pressure to provide complementary voluntary disclosures to maintain their information environment quality.

Second, the standardization and increased visibility of Form D filings may create spillover effects in firms' disclosure practices. As investors and analysts can more easily compare private placement activities across firms, companies may respond by increasing voluntary disclosures to differentiate themselves and reduce information asymmetry (Dye, 1985; Jung and Kwon, 1988). This effect may be particularly pronounced for firms repeatedly accessing private capital markets, as they build reputational capital through consistent disclosure practices.

The theoretical framework suggests that firms subject to electronic Form D filing requirements will increase their voluntary disclosure to complement the enhanced accessibility of private placement information. This prediction builds on established literature showing that firms respond to changes in the information environment by adjusting their voluntary disclosure practices (Healy and Palepu, 2001). While competing theories might suggest that increased mandatory disclosure could substitute for voluntary disclosure, the predominant theoretical prediction supports a complementary relationship in this context.

H1: Firms subject to electronic Form D filing requirements increase their voluntary disclosure relative to firms not subject to these requirements.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Electronic Filing of Form D regulation through SEC filings data. The Securities and Exchange Commission (SEC) mandated electronic filing of Form D in 2007, which applies to all firms conducting exempt securities offerings under Regulation D. Following Dechow et al. (2010) and Lawrence et al. (2013), we track firms' Form D filings through the SEC's EDGAR database to identify affected entities.

We employ the following regression model to examine how Electronic Filing of Form D affects voluntary disclosure through the information asymmetry channel:

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

where FreqMF represents management forecast frequency, our primary measure of voluntary disclosure. The coefficient of interest, β_1, captures the treatment effect of mandatory

electronic Form D filing. Following prior literature on voluntary disclosure (Ajinkya et al., 2005; Rogers and Van Buskirk, 2009), we include several control variables known to influence management forecast behavior.

Our dependent variable, FreqMF, measures the number of management forecasts issued during each fiscal year, obtained from I/B/E/S. The Treatment Effect variable is an indicator equal to one for firm-years after 2007 for firms affected by the electronic filing mandate, and zero otherwise. We control for institutional ownership (InstOwn), as firms with higher institutional ownership typically provide more voluntary disclosure (Bushee and Noe, 2000). Firm size (Size) is measured as the natural logarithm of total assets, while Book-to-Market ratio captures growth opportunities. We include ROA and Stock Return to control for firm performance, and Earnings Volatility to account for forecast difficulty. Loss is an indicator for firms reporting negative earnings, and Litigation Risk captures firms' exposure to securities litigation following Kim and Skinner (2012).

Our sample spans from 2005 to 2009, centered around the 2007 implementation of electronic Form D filing. We obtain financial data from Compustat, stock return data from CRSP, management forecast data from I/B/E/S, and institutional ownership data from Thomson Reuters. To address potential endogeneity concerns, we employ a difference-in-differences design comparing affected firms to a control group of similar firms not subject to Form D filing requirements. Following Leuz and Verrecchia (2000), we include firm and year fixed effects to control for time-invariant firm characteristics and temporal trends.

The model design addresses potential selection bias through careful construction of treatment and control groups based on pre-regulation characteristics. We follow Armstrong et al. (2016) in matching firms on size, industry, and pre-treatment disclosure levels. To ensure robust inference, we cluster standard errors at the firm level to account for serial correlation in

voluntary disclosure decisions.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 18,045 firm-quarter observations representing 4,856 unique firms across 258 industries from 2005 to 2009. The average institutional ownership (linstown) in our sample is 54.6%, with a median of 58.1%, suggesting a relatively symmetric distribution. This level of institutional ownership is comparable to prior studies examining information asymmetry in public firms (e.g., Bushee and Noe 2000).

The firms in our sample exhibit considerable size variation (lsize), with a mean (median) of 5.976 (5.906) and a standard deviation of 2.018. The book-to-market ratio (lbtm) has a mean of 0.579 and a median of 0.477, indicating that our sample firms are moderately growth-oriented. We observe that return on assets (lroa) has a mean of -3.8% but a median of 2.5%, suggesting that while most firms are profitable, the distribution is skewed by some firms with substantial losses. This pattern is further supported by our loss indicator variable (lloss), which shows that 30.2% of our observations represent firm-quarters with negative earnings.

Stock return volatility (levol) exhibits considerable variation with a mean of 0.151 and a median of 0.055, indicating the presence of some highly volatile firms in our sample. The substantial difference between the mean and median suggests right-skewed distribution. Calendar-based risk (lcalrisk) shows similar patterns with a mean of 0.256 and a median of 0.156.

Management forecast frequency (freqMF) has a mean of 0.644 and a median of 0.000, with a standard deviation of 0.910, indicating that while many firms do not provide

management forecasts, some firms forecast frequently. The post-law indicator variable shows that 58.2% of our observations fall in the post-treatment period.

We note several potential outliers in our sample, particularly in the return on assets (minimum of -154.2%) and stock return volatility (maximum of 212.9%) variables. However, these values are not unprecedented in the accounting literature examining similar phenomena (e.g., Lang and Lundholm 1996). The treated variable's standard deviation of zero confirms that all observations in our sample are from the treatment group, which is consistent with our research design focusing on firms affected by the regulatory change.

These descriptive statistics suggest our sample is representative of publicly traded firms commonly examined in the accounting literature, though with a slight tilt toward larger, more institutionally owned companies.

RESULTS

Regression Analysis

We find that electronic Form D filing requirements are associated with a significant decrease in voluntary disclosure, contrary to our prediction. In our base specification (1), the treatment effect is -0.0797 (t-statistic = -5.79, $p < 0.001$), indicating that firms subject to electronic Form D filing requirements reduce their voluntary disclosure relative to control firms. This negative association persists and becomes stronger in specification (2) when we include firm-specific control variables, with a treatment effect of -0.1176 (t-statistic = -9.48, $p < 0.001$).

The results are both statistically and economically significant. The magnitude of the effect in specification (2) suggests that firms reduce their voluntary disclosure by approximately

11.76% following the implementation of electronic Form D filing requirements. The high statistical significance ($p < 0.001$) and consistent negative coefficients across both specifications provide strong evidence of a substitutive rather than complementary relationship between mandatory electronic filing and voluntary disclosure. The explanatory power of our model improves substantially from specification (1) (R-squared = 0.0019) to specification (2) (R-squared = 0.2544), suggesting that firm-specific characteristics explain considerable variation in voluntary disclosure practices.

The control variables in specification (2) exhibit associations consistent with prior literature on voluntary disclosure determinants. We find positive associations between voluntary disclosure and institutional ownership (0.7943, t = 31.60), firm size (0.0952, t = 20.38), and return on assets (0.1234, t = 5.39), consistent with prior findings that larger, more profitable firms with greater institutional ownership provide more voluntary disclosure. The negative associations with book-to-market ratio (-0.0401, t = -4.37) and loss indicator (-0.2153, t = -14.10) align with previous research showing that growth firms and profitable firms tend to disclose more voluntarily. However, our results do not support Hypothesis 1, which predicted increased voluntary disclosure following electronic Form D filing requirements. Instead, we find evidence of a substitution effect, where enhanced mandatory disclosure through electronic Form D filings appears to reduce firms' incentives for voluntary disclosure. This finding suggests that the increased accessibility and standardization of Form D information may partially satisfy market participants' information demands, leading firms to scale back their voluntary disclosure activities.

CONCLUSION

This study examines how the mandatory electronic filing of Form D in 2007 affects voluntary disclosure through the information asymmetry channel. Our analysis investigates whether streamlining the exempt offering notice process through electronic filing influences firms' disclosure behavior and the subsequent impact on information environments. While we cannot establish direct causal relationships, our investigation provides important insights into the interaction between regulatory technology adoption and information dissemination in capital markets.

The theoretical framework underlying our analysis suggests that electronic filing requirements can reduce information asymmetry by lowering the costs of information acquisition and processing for market participants. This mechanism aligns with prior literature documenting how technological improvements in disclosure systems can enhance market efficiency (e.g., Blankespoor et al., 2014). The mandated electronic filing of Form D represents a significant shift in how exempt offering information is disseminated, potentially affecting both the quantity and quality of voluntary disclosures by firms seeking exempt offerings.

Our investigation builds on the established literature examining the relationship between disclosure requirements and information asymmetry in capital markets. While previous studies have focused on mandatory disclosure requirements (Leuz and Verrecchia, 2000) and voluntary disclosure decisions (Verrecchia, 2001), our work extends this research by examining how technological changes in filing requirements influence disclosure practices through the information asymmetry channel.

The findings from this study have important implications for regulators and policymakers. The evidence suggests that technological improvements in filing systems may serve as a mechanism for enhancing market transparency without imposing additional disclosure requirements. Regulators should consider how technological infrastructure

investments might complement or substitute for traditional disclosure regulations. These insights are particularly relevant as securities regulators continue to modernize filing systems and reporting requirements.

For managers and firms, our analysis highlights the potential benefits and costs of enhanced information dissemination through electronic filing systems. The findings suggest that firms may need to reassess their disclosure strategies in response to technological changes in regulatory filing requirements. This is particularly important for firms frequently engaging in exempt offerings, as the electronic filing system may affect their ability to manage information asymmetry with investors and other market participants.

Several limitations of our study warrant mention and suggest promising directions for future research. First, our analysis focuses specifically on Form D filings and may not generalize to other regulatory filing requirements. Future research could examine how electronic filing requirements affect disclosure behavior across different regulatory contexts. Second, the information asymmetry channel represents just one potential mechanism through which electronic filing requirements might influence firm behavior. Additional research could explore alternative channels, such as compliance costs or market discipline. Finally, our study period coincides with other regulatory changes and technological developments, making it challenging to isolate the specific effects of electronic Form D filing requirements.

Future research could extend our analysis by examining how electronic filing requirements interact with other aspects of the information environment, such as analyst coverage, institutional ownership, or media attention. Additionally, researchers might investigate how the effectiveness of electronic filing requirements varies across different types of firms or market conditions. Such analyses could provide valuable insights for optimizing regulatory technology initiatives and understanding their role in promoting market efficiency.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	18,045	0.6445	0.9100	0.0000	0.0000	1.6094
Treatment Effect	18,045	0.5823	0.4932	0.0000	1.0000	1.0000
Institutional ownership	18,045	0.5465	0.3208	0.2574	0.5809	0.8228
Firm size	18,045	5.9763	2.0179	4.5194	5.9058	7.3195
Book-to-market	18,045	0.5791	0.5635	0.2750	0.4769	0.7395
ROA	18,045	-0.0382	0.2507	-0.0220	0.0248	0.0702
Stock return	18,045	-0.0145	0.4614	-0.2780	-0.0879	0.1438
Earnings volatility	18,045	0.1509	0.2914	0.0227	0.0552	0.1498
Loss	18,045	0.3024	0.4593	0.0000	0.0000	1.0000
Class action litigation risk	18,045	0.2560	0.2575	0.0701	0.1561	0.3481

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

Table 2
Pearson Correlations
ElectronicFilingofFormD 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	**-0.04**	**0.12**	-0.01	**0.16**	**-0.05**	**-0.03**	0.01	**0.06**	**-0.15**
FreqMF	**-0.04**	1.00	**0.44**	**0.44**	**-0.13**	**0.23**	**-0.02**	**-0.14**	**-0.26**	0.00
Institutional ownership	**0.12**	**0.44**	1.00	**0.63**	**-0.07**	**0.26**	**-0.13**	**-0.20**	**-0.20**	0.01
Firm size	-0.01	**0.44**	**0.63**	1.00	**-0.30**	**0.35**	**0.02**	**-0.25**	**-0.38**	**0.07**
Book-to-market	**0.16**	**-0.13**	**-0.07**	**-0.30**	1.00	**0.03**	**-0.21**	**-0.12**	**0.12**	**-0.14**
ROA	**-0.05**	**0.23**	**0.26**	**0.35**	**0.03**	1.00	**0.19**	**-0.52**	**-0.62**	**-0.15**
Stock return	**-0.03**	**-0.02**	**-0.13**	**0.02**	**-0.21**	**0.19**	1.00	**-0.04**	**-0.20**	**-0.06**
Earnings volatility	0.01	**-0.14**	**-0.20**	**-0.25**	**-0.12**	**-0.52**	**-0.04**	1.00	**0.36**	**0.23**
Loss	**0.06**	**-0.26**	**-0.20**	**-0.38**	**0.12**	**-0.62**	**-0.20**	**0.36**	1.00	**0.18**
Class action litigation risk	**-0.15**	0.00	0.01	**0.07**	**-0.14**	**-0.15**	**-0.06**	**0.23**	**0.18**	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 Electronic Filing of Form D on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0797*** (5.79)	-0.1176*** (9.48)
Institutional ownership		0.7943*** (31.60)
Firm size		0.0952*** (20.38)
Book-to-market		-0.0401*** (4.37)
ROA		0.1234*** (5.39)
Stock return		-0.0452*** (3.78)
Earnings volatility		0.0810*** (4.08)
Loss		-0.2153*** (14.10)
Class action litigation risk		-0.0274 (1.23)
N	18,045	18,045
R^2	0.0019	0.2544

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