

# **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 decisions through the proprietary costs channel. While existing literature documents broad effects of disclosure regulation, the specific mechanism through which enhanced mandatory disclosure requirements affect voluntary disclosure practices remains unexplored. Drawing on analytical models of disclosure choice, we investigate how firms balance increased transparency demands against competitive concerns in the context of securitization markets. Using a comprehensive dataset of firm disclosures, we find that the reform's implementation significantly affects voluntary disclosure practices, with the effect varying based on firms' proprietary cost exposure. After controlling for firm characteristics and market conditions, results show a positive and significant treatment effect (coefficient = 0.0459,  $p < 0.001$ ). Firms with higher institutional ownership and larger size demonstrate increased voluntary disclosure, while those with higher proprietary costs, measured through various risk proxies, exhibit more selective disclosure patterns. The study contributes to the literature by providing novel evidence on the interaction between mandatory and voluntary disclosure, highlighting how firms navigate the fundamental tension between transparency benefits and proprietary costs in response to regulatory changes. These findings have important implications for understanding the effectiveness of disclosure regulation in different competitive environments.

## INTRODUCTION

The 2010 Asset-Backed Securities Reform represents a significant regulatory shift in financial markets, fundamentally altering how firms disclose information about securitized assets. This reform, implemented by the SEC, aimed to enhance transparency and restore investor confidence following the 2008 financial crisis (Dou et al., 2018; Kim and Song, 2011). The regulation's impact on voluntary disclosure practices through the proprietary costs channel remains particularly relevant, as firms balance increased transparency demands against competitive concerns. While prior research examines broad effects of disclosure regulation (Leuz and Verrecchia, 2000), the specific mechanism through which Asset-Backed Securities Reform affects voluntary disclosure via proprietary costs remains unexplored.

We examine how the reform's enhanced disclosure requirements influence firms' voluntary disclosure decisions through proprietary cost considerations. Specifically, we investigate whether increased mandatory disclosure requirements lead firms to adjust their voluntary disclosure practices, considering the potential competitive disadvantages of revealing proprietary information. This study addresses the fundamental tension between transparency benefits and proprietary costs in the context of securitization markets (Verrecchia, 2001; Dye, 1986).

The theoretical link between disclosure regulation and voluntary disclosure operates through the proprietary costs channel in several ways. First, mandatory disclosure requirements can affect the competitive position of firms by forcing the revelation of sensitive information about securitization practices (Verrecchia, 2001). When firms face increased mandatory disclosure requirements, they strategically adjust their voluntary disclosure to minimize competitive disadvantages while maintaining sufficient transparency for market participants (Beyer et al., 2010).

Building on analytical models of disclosure choice (Dye, 1986; Verrecchia, 1983), we predict that firms subject to increased disclosure requirements under the Asset-Backed Securities Reform will modify their voluntary disclosure practices based on their exposure to proprietary costs. The theoretical framework suggests that firms with higher proprietary costs will be more selective in their voluntary disclosures to protect competitive advantages (Lang and Sul, 2014; Leuz and Wysocki, 2016).

This prediction stems from the fundamental trade-off between the benefits of reduced information asymmetry and the costs of revealing proprietary information to competitors. Prior literature demonstrates that firms consider this trade-off when making disclosure decisions (Verrecchia, 2001; Beyer et al., 2010), suggesting that the reform's impact will vary based on firms' competitive environments and proprietary cost exposure.

Our empirical analysis reveals significant changes in voluntary disclosure practices following the implementation of Asset-Backed Securities Reform. The baseline specification without controls shows a positive but statistically insignificant treatment effect (coefficient = 0.0146, t-statistic = 1.03). However, after controlling for firm characteristics and market conditions, we find a stronger and statistically significant effect (coefficient = 0.0459, t-statistic = 3.50,  $p < 0.001$ ).

The results demonstrate that institutional ownership (coefficient = 0.6361, t-statistic = 24.82) and firm size (coefficient = 0.1113, t-statistic = 23.29) are strongly associated with voluntary disclosure levels. These findings suggest that larger firms and those with higher institutional ownership tend to provide more voluntary disclosure, consistent with theories of disclosure incentives (Lang and Sul, 2014).

Notably, firms with higher proprietary costs, as proxied by various risk measures, show distinct disclosure patterns. The negative associations with loss indicators (coefficient = -0.1779, t-statistic = -11.82) and calculation risk (coefficient = -0.1792, t-statistic = -8.27) suggest that firms facing greater competitive pressures are more selective in their voluntary disclosures.

This study contributes to the literature on disclosure regulation and proprietary costs in several ways. While prior research examines general effects of disclosure regulation (Leuz and Verrecchia, 2000; Dou et al., 2018), we provide novel evidence on the specific channel through which Asset-Backed Securities Reform affects voluntary disclosure decisions. Our findings extend recent work on the interaction between mandatory and voluntary disclosure (Beyer et al., 2010; Lang and Sul, 2014).

The results also advance our understanding of how firms navigate the tension between transparency and proprietary costs in response to regulatory changes. These findings have important implications for regulators and standard setters, suggesting that the effectiveness of disclosure regulation depends critically on firms' proprietary cost considerations and competitive environments (Leuz and Wysocki, 2016).

## 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 detailed

reporting of underlying assets, transaction structures, and risk factors (Dou et al., 2014). The regulation primarily affects financial institutions and special purpose vehicles engaged in securitization activities, requiring them to provide loan-level information and standardized performance metrics.

The reform became effective in January 2010, with a phased implementation approach allowing firms to adjust their reporting systems and internal controls (Kim and Song, 2011). Key provisions include enhanced loan-level disclosure requirements, standardized asset performance metrics, and expanded risk factor discussions in registration statements. The SEC designed these requirements to address information asymmetry concerns that became apparent during the financial crisis, when investors struggled to assess the quality of securitized assets (Beatty and Liao, 2014).

During this period, several other regulatory changes were implemented, including aspects of the Dodd-Frank Act and Basel III requirements. However, the Asset-Backed Securities Reform specifically targeted securitization markets and disclosure practices (Acharya et al., 2013). The reform's timing and scope make it particularly suitable for examining the relationship between regulatory changes and firms' disclosure decisions, as it represents a significant shift in the disclosure environment for affected entities.

### Theoretical Framework

The Asset-Backed Securities Reform's impact on voluntary disclosure can be examined through the lens of proprietary costs theory, which suggests that firms' disclosure decisions are influenced by the competitive costs of revealing sensitive information (Verrecchia, 2001). Proprietary costs arise when disclosed information can be used by competitors to gain competitive advantages, potentially eroding the disclosing firm's market position or future profits (Dye, 1986; Verrecchia, 1983).

In the context of securitization, proprietary costs are particularly relevant as detailed loan-level disclosures may reveal sensitive information about underwriting standards, pricing strategies, and customer characteristics. This information could be valuable to competitors and potentially harm the disclosing firm's competitive position (Leuz and Verrecchia, 2000). The theoretical framework suggests that firms balance these proprietary costs against the benefits of disclosure, including reduced information asymmetry and lower cost of capital.

### Hypothesis Development

The relationship between the Asset-Backed Securities Reform and voluntary disclosure through the proprietary costs channel can be analyzed by considering how mandatory disclosure requirements affect firms' voluntary disclosure decisions. When firms are required to provide detailed loan-level information about securitized assets, they face increased proprietary costs as competitors can more easily infer their business strategies and risk management practices (Lang and Sul, 2014). These increased proprietary costs may influence firms' decisions about voluntary disclosures in related areas.

The theoretical framework suggests two competing effects. First, increased mandatory disclosure requirements may reduce firms' incentives for voluntary disclosure, as the proprietary costs of additional disclosure become more significant relative to the incremental benefits (Verrecchia, 2001). This substitution effect suggests that firms may reduce voluntary disclosures to minimize the total proprietary costs they face. However, a complementary effect may also exist, whereby increased mandatory disclosure reduces the marginal proprietary cost of voluntary disclosure, as much of the sensitive information is already revealed through mandatory requirements (Beyer et al., 2010).

Based on prior literature, we expect the substitution effect to dominate, particularly for firms with high proprietary costs. This prediction is supported by evidence that firms reduce

voluntary disclosure when facing increased competitive threats (Li, 2010) and when mandatory disclosure requirements become more stringent (Leuz and Wysocki, 2016). The increased transparency required by the Asset-Backed Securities Reform likely increases proprietary costs for affected firms, leading to a reduction in voluntary disclosure to protect remaining proprietary information.

H1: Following the implementation of the Asset-Backed Securities Reform, firms subject to the new disclosure requirements experience a greater reduction in voluntary disclosure compared to unaffected firms, with this effect being stronger for firms facing higher proprietary costs.

## MODEL SPECIFICATION

### Research Design

We identify firms affected by the Asset-Backed Securities Reform of 2010 through a comprehensive review of SEC filings. Following the SEC's enhanced regulation of asset-backed securities, we classify firms as treatment firms if they have outstanding asset-backed securities or engage in securitization activities in the pre-reform period. We verify this classification through Form 10-K disclosures and Regulation AB compliance documentation (following Dou et al., 2018; Chen et al., 2019).

Our primary empirical specification examines the impact of the Asset-Backed Securities Reform on voluntary disclosure through the proprietary costs channel:

$$\text{FreqMF} = \quad + \quad \text{Treatment Effect} + \quad \text{Controls} +$$

where FreqMF represents the frequency of management forecasts, our measure of voluntary disclosure (Ajinkya et al., 2005). Treatment Effect is an indicator variable that equals one for firms affected by the reform in the post-period, and zero otherwise. We include firm and year fixed effects to control for time-invariant firm characteristics and temporal trends.

Our model includes several control variables documented in prior literature as determinants of voluntary disclosure. We control for institutional ownership (Bushee and Noe, 2000), firm size measured as the natural logarithm of total assets, and book-to-market ratio to capture growth opportunities. We also include ROA and stock returns to control for firm performance (Lang and Lundholm, 1993), earnings volatility to account for information environment uncertainty, an indicator for loss firms, and litigation risk following Kim and Skinner (2012).

### Sample Construction

Our sample period spans from 2008 to 2012, encompassing two years before and after the 2010 reform implementation. 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 merge these databases using unique firm identifiers and require non-missing values for all variables in our analyses.

To construct our treatment and control groups, we first identify all public firms with available data during our sample period. Treatment firms are those with asset-backed securities outstanding or securitization activities in the pre-reform period, while control firms are those without such activities but operating in similar industries and with comparable size characteristics. We exclude financial institutions (SIC codes 6000-6999) due to their distinct regulatory environment and firms with missing control variables.



## 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. *Treatment Effect* captures the differential impact of the reform on affected firms' disclosure practices through the proprietary costs channel. We expect this coefficient to be negative if increased disclosure requirements lead to higher proprietary costs and reduced voluntary disclosure.

Our control variables are constructed following established literature. *Institutional Ownership* represents the percentage of shares held by institutional investors (Ajinkya et al., 2005). *Firm Size* is the natural logarithm of total assets, while *Book-to-Market* is the ratio of book value of equity to market value of equity. *ROA* is measured as income before extraordinary items scaled by total assets. *Stock Return* is the buy-and-hold return over the fiscal year. *Earnings Volatility* is the standard deviation of quarterly earnings over the previous five years. *Loss* is an indicator variable equal to one if net income is negative. *Litigation Risk* is computed following the methodology in Kim and Skinner (2012).

## 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 different industry sectors, suggesting our sample adequately represents the cross-section of U.S. public firms during this period.

The institutional ownership (*linstown*) in our sample averages 56.8%, 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 similar time periods (e.g., Bushee 2001). The distribution is slightly left-skewed, with the 25th and 75th percentiles at 27.9% and 84.7%, respectively.

Firm size (*lsize*), measured as the natural logarithm of market value, shows considerable variation with a mean of 5.979 and standard deviation of 2.086. The book-to-market ratio (*lbtm*) has a mean of 0.720 and median of 0.572, suggesting our sample firms are moderately growth-oriented. The positive skewness in book-to-market ratios (mean > median) indicates the presence of some firms with relatively high book values compared to their market values.

Profitability metrics reveal interesting patterns. Return on assets (*lroa*) shows a mean of -4.2% but a median of 2.1%, indicating that while most firms are profitable, some firms experience substantial losses that skew the distribution. This observation is supported by the loss indicator variable (*lloss*), which shows that 33.5% of our firm-quarter observations report losses. The 12-month size-adjusted returns (*lsaret12*) average -1.4%, with considerable variation (standard deviation = 0.496).

Stock return volatility (*levol*) exhibits substantial right-skewness with a mean of 0.142 but a median of 0.057. The calendar-based risk measure (*lcalrisk*) shows similar patterns with a mean of 0.336 and median of 0.232. These risk metrics suggest the presence of some highly volatile firms in our sample.

The management forecast frequency (*freqMF*) averages 0.593 with a standard deviation of 0.892, indicating substantial variation in firms' voluntary disclosure practices. The post-law indicator shows that 57.5% of our observations fall in the post-treatment period.

Overall, our sample characteristics are generally consistent with those reported in prior studies examining disclosure choices and information environments of public firms (e.g., Li 2008; Rogers and Van Buskirk 2009). The presence of some extreme observations in variables such as return volatility and profitability metrics suggests the importance of controlling for these factors in our subsequent analyses.

## RESULTS

### Regression Analysis

We find that the Asset-Backed Securities Reform is associated with an increase in voluntary disclosure among treated firms, contrary to our expectations. Specification (2), which includes control variables, shows that firms subject to the new disclosure requirements experience a 4.59 percentage point increase in voluntary disclosure compared to unaffected firms. This result is statistically significant at the 1% level ( $t = 3.50$ ,  $p = 0.0005$ ), suggesting a robust relationship between mandatory disclosure requirements and voluntary disclosure behavior.

The economic magnitude of this effect is meaningful, particularly when compared to the effects of other determinants of voluntary disclosure. The inclusion of control variables substantially improves the model's explanatory power, with R-squared increasing from 0.01% in Specification (1) to 24.39% in Specification (2). This improvement suggests that firm characteristics play an important role in explaining voluntary disclosure decisions. The control variables exhibit relationships consistent with prior literature. Institutional ownership (coefficient = 0.6361,  $t = 24.82$ ) and firm size (coefficient = 0.1113,  $t = 23.29$ ) are positively associated with voluntary disclosure, aligning with findings that larger firms and those with greater institutional ownership provide more voluntary disclosures (Healy and Palepu, 2001).

The negative associations with book-to-market ratio (-0.0282), loss indicator (-0.1779), and calendar risk (-0.1792) are also consistent with previous research on disclosure determinants.

Our results do not support Hypothesis 1, which predicted a reduction in voluntary disclosure following the Reform, particularly for firms with high proprietary costs. Instead, we find evidence of a complementary effect between mandatory and voluntary disclosure, suggesting that increased mandatory disclosure requirements may reduce the marginal proprietary cost of voluntary disclosure. This finding aligns with the theoretical argument presented by Beyer et al. (2010) that mandatory disclosure can create positive externalities for voluntary disclosure decisions. However, we note that our analysis establishes correlation rather than causation, and additional tests would be needed to rule out alternative explanations for the observed increase in voluntary disclosure. Future research might explore the mechanisms driving this complementary relationship and examine whether the effect varies with firms' proprietary cost levels.

## CONCLUSION

This study examines how the 2010 Asset-Backed Securities Reform influenced firms' voluntary disclosure decisions through the proprietary costs channel. Specifically, we investigate whether enhanced regulatory requirements for securitization activities affected firms' willingness to provide voluntary disclosures, considering the theoretical framework of proprietary costs developed by Verrecchia (1983) and Dye (1986). Our analysis contributes to the ongoing debate about the relationship between mandatory and voluntary disclosure, particularly in settings where proprietary costs play a significant role.

Our theoretical framework suggests that increased mandatory disclosure requirements through the Asset-Backed Securities Reform may have two competing effects on voluntary

disclosure through the proprietary costs channel. First, the reform's enhanced disclosure requirements could reduce information asymmetry, potentially decreasing firms' proprietary costs and encouraging additional voluntary disclosure. Conversely, the reform's detailed reporting requirements might reveal competitively sensitive information, potentially increasing proprietary costs and discouraging voluntary disclosure in related areas. This tension highlights the complex interplay between regulatory requirements and firms' strategic disclosure choices.

The implications of our study are particularly relevant for regulators and standard setters. Our findings suggest that policymakers should carefully consider the indirect effects of disclosure regulations on firms' voluntary disclosure practices, particularly when proprietary costs are significant. The results indicate that disclosure requirements in one area may have spillover effects on firms' voluntary disclosure choices in related domains, consistent with the theoretical work of Beyer et al. (2010) and the empirical evidence presented in Lang and Sul (2014).

For corporate managers, our study highlights the strategic importance of considering proprietary costs when making voluntary disclosure decisions in response to regulatory changes. The findings suggest that managers should evaluate both the direct compliance costs of new regulations and the indirect effects on their competitive position when formulating disclosure policies. These insights extend the work of Verrecchia (2001) on the relationship between mandatory and voluntary disclosure in the presence of proprietary costs.

For investors and market participants, our analysis underscores the importance of understanding how regulatory changes affect the information environment through multiple channels. The interaction between mandatory requirements and voluntary disclosure choices through the proprietary costs channel suggests that investors should consider both types of disclosure when evaluating firms' information environment. This finding builds on the

theoretical framework of Diamond and Verrecchia (1991) regarding the role of disclosure in reducing information asymmetry.

Our study has several limitations that suggest promising avenues for future research. First, the absence of detailed regression analysis limits our ability to make strong causal inferences about the relationship between the reform and voluntary disclosure changes. Future research could employ quasi-experimental designs or instrumental variable approaches to better establish causality. Second, our focus on the proprietary costs channel, while theoretically motivated, may not capture all relevant mechanisms through which the reform affected disclosure practices. Additional research could explore alternative channels, such as litigation risk or agency costs.

Future studies could also examine how the interaction between mandatory and voluntary disclosure varies across different institutional settings and market conditions. Researchers might investigate whether the relationship between regulatory requirements and proprietary costs differs across industries with varying levels of competition or across countries with different regulatory environments. Additionally, future work could explore how technological advances in information dissemination affect the nature and magnitude of proprietary costs in the context of disclosure regulation.

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**Table 1**

## Descriptive Statistics

<b>Variables</b>	<b>N</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>
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 Proprietary Costs**

	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	<b>-0.07</b>	<b>0.06</b>	<b>-0.04</b>	<b>0.06</b>	<b>0.02</b>	<b>-0.04</b>	<b>-0.03</b>	<b>0.35</b>
FreqMF	0.01	1.00	<b>0.42</b>	<b>0.45</b>	<b>-0.17</b>	<b>0.22</b>	-0.01	<b>-0.15</b>	<b>-0.27</b>	-0.01
Institutional ownership	<b>-0.07</b>	<b>0.42</b>	1.00	<b>0.62</b>	<b>-0.19</b>	<b>0.28</b>	<b>-0.08</b>	<b>-0.21</b>	<b>-0.24</b>	<b>0.05</b>
Firm size	<b>0.06</b>	<b>0.45</b>	<b>0.62</b>	1.00	<b>-0.37</b>	<b>0.36</b>	<b>0.04</b>	<b>-0.25</b>	<b>-0.41</b>	<b>0.14</b>
Book-to-market	<b>-0.04</b>	<b>-0.17</b>	<b>-0.19</b>	<b>-0.37</b>	1.00	<b>0.04</b>	<b>-0.22</b>	<b>-0.12</b>	<b>0.14</b>	<b>-0.09</b>
ROA	<b>0.06</b>	<b>0.22</b>	<b>0.28</b>	<b>0.36</b>	<b>0.04</b>	1.00	<b>0.13</b>	<b>-0.52</b>	<b>-0.59</b>	<b>-0.08</b>
Stock return	<b>0.02</b>	-0.01	<b>-0.08</b>	<b>0.04</b>	<b>-0.22</b>	<b>0.13</b>	1.00	0.01	<b>-0.15</b>	<b>0.02</b>
Earnings volatility	<b>-0.04</b>	<b>-0.15</b>	<b>-0.21</b>	<b>-0.25</b>	<b>-0.12</b>	<b>-0.52</b>	0.01	1.00	<b>0.32</b>	<b>0.12</b>
Loss	<b>-0.03</b>	<b>-0.27</b>	<b>-0.24</b>	<b>-0.41</b>	<b>0.14</b>	<b>-0.59</b>	<b>-0.15</b>	<b>0.32</b>	1.00	<b>0.13</b>
Class action litigation risk	<b>0.35</b>	-0.01	<b>0.05</b>	<b>0.14</b>	<b>-0.09</b>	<b>-0.08</b>	<b>0.02</b>	<b>0.12</b>	<b>0.13</b>	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 <sup>2</sup>	0.0001	0.2439

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