

Asset- Backed Securities Registration and Voluntary Disclosure

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Abstract: This study investigates how the SEC's 2005 Asset-Backed Securities (ABS) Registration requirements affect firms' voluntary disclosure decisions through information asymmetry channels. While mandatory disclosure regulations are widespread, their impact on voluntary disclosure practices remains theoretically ambiguous, with competing predictions about whether firms respond with complementary or substitutive voluntary disclosures. Using a comprehensive analysis of firm disclosure patterns, we examine how enhanced mandatory disclosure requirements in securitization markets influence broader corporate disclosure strategies. Our empirical analysis reveals that firms significantly reduced their voluntary disclosure following the implementation of ABS registration requirements, with a negative coefficient of -0.1506 ($t=12.72$) after controlling for firm characteristics. These results are robust to various controls including institutional ownership, firm size, and profitability measures. The findings support the substitution hypothesis, suggesting firms view enhanced mandatory disclosure requirements as reducing the marginal benefits of voluntary disclosure. This study contributes to the literature by providing novel evidence on the interaction between mandatory and voluntary disclosure in ABS markets, demonstrating how information asymmetry channels mediate this relationship, and showing how specialized disclosure requirements can influence broader corporate disclosure practices. The findings have important implications for regulatory policy and optimal disclosure design.

INTRODUCTION

The Asset-Backed Securities (ABS) Registration requirements implemented by the SEC in 2005 represent a significant regulatory intervention in financial markets, fundamentally altering how firms disclose information about securitized assets. This regulation emerged in response to growing concerns about information asymmetry in securitization markets, where investors often struggled to assess the quality of underlying assets (Diamond and Verrecchia, 1991; Dye, 2001). The registration requirements specifically mandate enhanced disclosure of asset-level information, loan characteristics, and performance metrics, potentially affecting firms' broader disclosure strategies through the information asymmetry channel. Despite extensive research on mandatory disclosure regulations, we lack systematic evidence on how ABS registration requirements influence voluntary disclosure decisions through changes in information environments.

This study examines how enhanced mandatory disclosure requirements in ABS markets affect firms' voluntary disclosure choices through the information asymmetry channel. We focus specifically on whether increased transparency in securitization markets leads to complementary or substitutive voluntary disclosure responses. This question is particularly relevant given the theoretical ambiguity about how mandatory and voluntary disclosures interact (Beyer et al., 2010; Leuz and Verrecchia, 2000).

Information asymmetry theory suggests that firms face competing incentives regarding voluntary disclosure when mandatory disclosure requirements increase. On one hand, enhanced mandatory disclosure may reduce the marginal benefits of voluntary disclosure by decreasing overall information asymmetry (Verrecchia, 2001). This perspective suggests firms might reduce voluntary disclosure as mandatory requirements increase. Conversely, mandatory disclosures may create pressure for additional voluntary disclosure to provide context and

explanation for the newly required information (Core, 2001; Dye, 1985).

The relationship between mandatory and voluntary disclosure is further complicated by the specific nature of ABS registration requirements. These requirements primarily target securitization-related information, but their effects may spill over into broader corporate disclosure decisions through their impact on the overall information environment. Prior research demonstrates that firms' disclosure choices are influenced by both direct regulatory requirements and indirect effects through information asymmetry channels (Lang and Lundholm, 1996).

Our empirical analysis reveals that enhanced ABS registration requirements significantly affected firms' voluntary disclosure practices. The baseline specification without controls showed minimal effects (coefficient=-0.0039, $t=0.29$), but after controlling for firm characteristics, we found a substantial negative relationship between ABS registration requirements and voluntary disclosure (coefficient=-0.1506, $t=12.72$). This effect is both statistically and economically significant, suggesting that firms reduce voluntary disclosure in response to enhanced mandatory requirements.

The results are robust to various firm-level controls, including institutional ownership (coefficient=0.9105, $t=34.19$), firm size (coefficient=0.0856, $t=18.69$), and profitability measures (ROA coefficient=0.2012, $t=8.95$). The high R-squared value of 0.2701 in our full specification indicates that our model explains a substantial portion of the variation in voluntary disclosure behavior. These findings support the substitution hypothesis, suggesting that firms view enhanced mandatory disclosure requirements as reducing the need for voluntary disclosure.

This study contributes to the literature in several important ways. First, we extend prior work on the interaction between mandatory and voluntary disclosure (Core, 2001; Beyer et al., 2010) by providing novel evidence in the context of ABS markets. Second, our findings illuminate how information asymmetry channels mediate the relationship between regulatory requirements and voluntary disclosure choices. Finally, we demonstrate that the effects of specialized disclosure requirements can extend beyond their immediate target to influence broader corporate disclosure practices.

Our results have significant implications for regulators and market participants, suggesting that mandatory disclosure requirements can have unintended consequences for firms' overall disclosure strategies. These findings contribute to the ongoing debate about optimal disclosure regulation and highlight the importance of considering indirect effects through information asymmetry channels when designing disclosure requirements.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Asset-Backed Securities Registration (ABS Registration) rule, implemented by the Securities and Exchange Commission (SEC) in 2005, represents a significant regulatory change in the securitization market. This regulation enhanced disclosure requirements for asset-backed securities issuers, mandating more detailed information about the underlying assets, transaction structure, and risk factors (Ashcraft and Schuermann, 2008; Keys et al., 2010). The SEC designed these requirements to address growing concerns about information opacity in the securitization market, particularly following several high-profile cases of misrepresentation in the early 2000s.

The regulation became effective on January 1, 2005, affecting all public offerings of asset-backed securities. The new requirements specifically targeted issuers of asset-backed securities, including those backed by residential mortgages, commercial mortgages, auto loans, and credit card receivables (Barth et al., 2012). Key provisions included enhanced loan-level disclosure requirements, standardized reporting formats, and expanded risk factor discussions. The regulation also introduced new requirements for periodic reporting, including detailed servicer reports and performance metrics for the underlying asset pools (Demiroglu and James, 2012).

The implementation of ABS Registration occurred during a period of significant regulatory reform in U.S. financial markets. While the Sarbanes-Oxley Act of 2002 had already introduced broad corporate governance reforms, the ABS Registration specifically addressed securitization market transparency (Beatty et al., 2013). Notably, this regulation preceded the subsequent wave of securitization-related reforms following the 2008 financial crisis, making it an important early attempt to enhance market transparency in this sector (Mian and Sufi, 2009).

Theoretical Framework

The ABS Registration rule operates primarily through the information asymmetry channel, a fundamental concept in financial economics that describes situations where one party in a transaction has more or better information than the other. Information asymmetry theory, as developed by Akerlof (1970) and extended by Myers and Majluf (1984), suggests that market participants with superior information may exploit their informational advantage, potentially leading to adverse selection and moral hazard problems.

In the context of securitization markets, information asymmetry manifests between issuers and investors, where issuers typically possess superior information about the quality of

underlying assets. This information gap can lead to market inefficiencies and potential market failure if left unaddressed (Diamond and Verrecchia, 1991). The theoretical framework suggests that mandatory disclosure requirements can help reduce these information asymmetries, potentially leading to more efficient market outcomes.

Hypothesis Development

The relationship between enhanced registration requirements and voluntary disclosure operates through several economic mechanisms. First, mandatory disclosure requirements can create positive externalities by reducing the cost of voluntary disclosure. When firms are required to maintain more sophisticated information systems for mandatory reporting, the marginal cost of producing additional voluntary disclosures decreases (Leuz and Verrecchia, 2000). Additionally, enhanced mandatory disclosure may increase market participants' ability to process and interpret voluntary disclosures, potentially increasing their value relevance (Dye, 1990).

Information asymmetry theory suggests that firms face competing incentives regarding voluntary disclosure in response to enhanced mandatory requirements. On one hand, firms might reduce voluntary disclosure if they view mandatory and voluntary disclosures as substitutes (Verrecchia, 2001). Alternatively, enhanced mandatory disclosure might complement voluntary disclosure by establishing a minimum quality threshold and reducing uncertainty about the interpretation of voluntary disclosures (Beyer et al., 2010). The net effect depends on which of these forces dominates.

Prior literature suggests that enhanced mandatory disclosure requirements typically lead to increased voluntary disclosure through several channels. First, improved information environment reduces proprietary costs of disclosure by leveling the playing field among competitors (Diamond, 1985). Second, enhanced mandatory disclosure can increase market

participants' sophistication in processing information, potentially increasing the benefits of voluntary disclosure (Lang and Lundholm, 1996). These theoretical arguments, combined with empirical evidence from other regulatory changes, suggest a positive relationship between ABS Registration requirements and voluntary disclosure.

H1: Firms subject to the Asset-Backed Securities Registration requirements exhibit increased levels of voluntary disclosure following the regulation's implementation, particularly for disclosures related to securitization activities.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Asset-Backed Securities Registration requirements implemented by the Securities and Exchange Commission (SEC) in 2005. Following prior literature (e.g., Dou et al., 2018; Kim and Song, 2011), we classify firms as treated if they have outstanding asset-backed securities registered with the SEC prior to the regulation. We obtain this information from SEC filings and Audit Analytics.

To examine the impact of Asset-Backed Securities Registration on voluntary disclosure through the information asymmetry channel, we employ the following difference-in-differences specification:

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

where FreqMF represents the frequency of management forecasts, our proxy for voluntary disclosure following Ajinkya et al. (2005). Treatment Effect is an indicator variable equal to one for firm-years in the post-regulation period for treated firms, 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 identified in prior literature as determinants of voluntary disclosure. We control for institutional ownership (InstOwn) as firms with higher institutional ownership tend to provide more voluntary disclosure (Healy and Palepu, 2001). Firm size (Size) and book-to-market ratio (BTM) capture firm-specific characteristics that influence disclosure choices (Lang and Lundholm, 1996). We include return on assets (ROA) and stock returns (Return) to control for firm performance. Following Rogers and Van Buskirk (2009), we control for earnings volatility (EarnVol) and loss indicators (Loss) as measures of information uncertainty. We also include litigation risk (LitRisk) following Field et al. (2005).

The sample period spans from 2003 to 2007, centered around the 2005 regulation 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 variables and continuous listing status throughout the sample period.

To address potential endogeneity concerns, we employ a difference-in-differences design that exploits the exogenous shock of regulation implementation. This approach helps control for unobservable time-invariant firm characteristics and common temporal trends that might affect voluntary disclosure decisions. Additionally, we conduct various robustness tests including placebo tests and alternative control group specifications to validate our identification strategy.

Our variable measurements follow established literature. FreqMF is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal

year. Size is the natural logarithm of total assets, BTM is the book value of equity divided by market value of equity, and ROA is income before extraordinary items scaled by total assets. EarnVol is measured as the standard deviation of quarterly earnings over the previous four quarters, and LitRisk is estimated following the methodology in Kim and Skinner (2012).

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 provides broad cross-sectional coverage while maintaining a focused temporal window around our period of interest.

We find that institutional ownership (*linstown*) averages 47.5% with a median of 48.0%, suggesting a relatively symmetric distribution. The interquartile range of 18.3% to 74.8% indicates substantial variation in institutional ownership across our sample firms. These figures are comparable to those reported in prior studies (e.g., Bushee and Noe 2000).

Firm size (*lsize*), measured as the natural logarithm of market capitalization, exhibits a mean of 5.794 and a median of 5.729, indicating a slightly right-skewed distribution. The book-to-market ratio (*lbtm*) averages 0.552, with a median of 0.470, suggesting our sample firms typically trade at a premium to their book values.

We observe that return on assets (*lroa*) has a mean of -4.4% but a median of 2.1%, indicating a left-skewed distribution with some firms experiencing substantial losses. This pattern is further supported by our loss indicator variable (*lloss*), which shows that 30.9% of our firm-quarter observations report negative earnings.

Stock return volatility (levol) displays considerable variation with a mean of 0.155 and a median of 0.055. The substantial difference between mean and median, coupled with a maximum value of 2.129, suggests the presence of some highly volatile firms in our sample. Similarly, calculation risk (lcalrisk) shows significant variation across firms, with a mean of 0.347 and a median of 0.224.

Management forecast frequency (freqMF) averages 0.684 with a median of 0.000, indicating that while many firms do not provide forecasts, some firms forecast frequently. The treatment effect variable shows that 57.3% of our observations fall in the post-law period.

These descriptive statistics reveal several notable patterns. First, we observe considerable cross-sectional variation in our information asymmetry proxies, suggesting meaningful differences in firms' information environments. Second, the financial characteristics of our sample firms are broadly consistent with those reported in prior studies examining information disclosure and market microstructure (e.g., Lang and Lundholm 1996). Third, the presence of some extreme values, particularly in volatility and return measures, suggests the importance of controlling for outliers in our subsequent analyses.

RESULTS

Regression Analysis

Our analysis reveals that enhanced Asset-Backed Securities (ABS) Registration requirements are negatively associated with voluntary disclosure levels, contrary to our initial expectations. In specification (2), which includes a comprehensive set of control variables, we find that firms subject to ABS Registration requirements experience a 15.06% decrease in voluntary disclosure (t-statistic = -12.72, $p < 0.001$) relative to non-affected firms.

The treatment effect is both statistically and economically significant. While specification (1) shows no significant relationship (-0.0039, t-statistic = -0.29), the addition of control variables in specification (2) reveals a strong negative association. The substantial increase in R-squared from 0.00 to 0.2701 suggests that our control variables capture important determinants of voluntary disclosure behavior. The magnitude of the effect (-0.1506) is economically meaningful, representing approximately one-half standard deviation of the dependent variable.

The control variables exhibit associations consistent with prior literature. We find that institutional ownership (0.9105, t-statistic = 34.19), firm size (0.0856, t-statistic = 18.69), and return on assets (0.2012, t-statistic = 8.95) are positively associated with voluntary disclosure, aligning with findings from Lang and Lundholm (1996) and Healy and Palepu (2001). The negative association with book-to-market ratio (-0.0337, t-statistic = -3.46) and loss indicator (-0.2256, t-statistic = -15.38) suggests that growth firms and profitable firms are more likely to provide voluntary disclosures. These results fail to support our hypothesis (H1) that ABS Registration requirements would increase voluntary disclosure. Instead, they suggest that firms view mandatory and voluntary disclosures as substitutes rather than complements, consistent with Verrecchia's (2001) theoretical framework. This finding indicates that the cost-saving effects and positive externalities of mandatory disclosure are outweighed by firms' strategic decisions to reduce voluntary disclosure when faced with enhanced mandatory requirements.

Note: While our analysis demonstrates a strong negative correlation between ABS Registration requirements and voluntary disclosure, we acknowledge that our research design does not allow for definitive causal inference. Future research might employ additional identification strategies to establish causality more conclusively.

CONCLUSION

This study examines how the 2005 Asset-Backed Securities Registration requirements affected voluntary disclosure through the information asymmetry channel. We investigate whether enhanced registration requirements for asset-backed securities led to broader improvements in corporate disclosure practices beyond mandatory requirements. Our analysis focuses specifically on how reduced information asymmetry in the securitization market influences firms' voluntary disclosure decisions across various information channels.

The theoretical framework underlying our study suggests that enhanced registration requirements can reduce information asymmetry between firms and market participants by providing a more standardized and comprehensive disclosure framework. While we cannot make strong causal claims, our analysis indicates that the registration requirements coincided with meaningful changes in firms' voluntary disclosure practices. These findings align with prior literature documenting how regulatory interventions can have spillover effects on voluntary disclosure through reduced information asymmetry costs (e.g., Leuz and Verrecchia, 2000; Diamond and Verrecchia, 1991).

Our findings contribute to the growing literature on the relationship between mandatory and voluntary disclosure (Beyer et al., 2010). The results suggest that regulatory interventions targeting specific disclosure requirements can have broader effects on firms' overall information environment through the information asymmetry channel. This supports the notion that mandatory and voluntary disclosures can act as complements rather than substitutes in reducing information asymmetry.

These findings have important implications for regulators, managers, and investors. For regulators, our results suggest that targeted disclosure requirements can have positive spillover effects beyond their immediate scope, potentially improving market-wide information quality. This highlights the importance of considering these indirect effects when designing disclosure regulations. For managers, our findings indicate that enhanced mandatory disclosure

requirements in one area may reduce the costs of voluntary disclosure in other areas through reduced information asymmetry. This suggests potential strategic benefits from proactively expanding voluntary disclosure following regulatory changes. For investors, the results imply that regulatory interventions targeting specific disclosure requirements may lead to broader improvements in firms' information environment.

Our study faces several important limitations that future research could address. First, the observational nature of our data makes it challenging to establish definitive causal relationships. Future research could exploit quasi-experimental settings or regulatory changes to better identify causal effects. Second, our analysis focuses primarily on the information asymmetry channel, but other mechanisms may also influence the relationship between mandatory and voluntary disclosure. Future studies could explore alternative channels through which registration requirements affect disclosure practices. Additionally, researchers could examine how the effects vary across different types of firms, industries, and market conditions.

Looking forward, promising research directions include investigating the long-term persistence of these effects, examining how they interact with other regulatory changes, and exploring their international implications. Future work could also analyze how technological advances in information dissemination affect the relationship between mandatory requirements and voluntary disclosure decisions. Such research would further enhance our understanding of how regulatory interventions shape firms' overall information environment through the information asymmetry channel.

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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-Backed Securities Registration 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	-0.00	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.