Standards for Publicly Traded Companies Audit Committees and Voluntary Disclosure

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Abstract: Corporate governance mechanisms play a pivotal role in shaping information environments and investor protection, with audit committees serving as critical gatekeepers in the financial reporting process. The Securities and Exchange Commission's 2003 Standards for Publicly Traded Companies Audit Committees represented a watershed moment in corporate governance reform, mandating independence requirements and financial expertise standards that fundamentally altered audit committee composition and functioning. This study addresses the fundamental research question of whether enhanced audit committee standards increase voluntary disclosure by improving information credibility for unsophisticated investors, who rely heavily on credible financial information due to their limited ability to process complex financial data. The economic mechanism operates through enhanced credibility and reduced information asymmetry, as independent audit committees with financial expertise provide stronger oversight of financial reporting processes, creating incentives for managers to increase voluntary disclosure. Using empirical analysis, we find robust evidence supporting the hypothesized relationship, with firms subject to enhanced audit committee standards increasing their voluntary disclosure by approximately 7.3 to 8.9 percentage points across different model specifications. The treatment effect demonstrates remarkable consistency with coefficients ranging from 0.0725 to 0.0894, all statistically significant at $p < 0.001$. This study contributes novel evidence on the specific channel through which governance reforms affect

disclosure decisions, demonstrating that governance reforms create differential effects based on investor sophistication and that the benefits of enhanced audit committee standards extend beyond compliance-driven reporting improvements to include significant effects on voluntary disclosure practices.

INTRODUCTION

Corporate governance mechanisms play a pivotal role in shaping information environments and investor protection, with audit committees serving as critical gatekeepers in the financial reporting process (Klein, 2002; Carcello and Neal, 2003). The Securities and Exchange Commission's 2003 Standards for Publicly Traded Companies Audit Committees represented a watershed moment in corporate governance reform, mandating independence requirements and financial expertise standards that fundamentally altered the composition and functioning of audit committees across publicly traded firms. This regulatory intervention emerged from growing concerns about audit quality and financial oversight failures that culminated in high-profile corporate scandals of the early 2000s (Sarbanes, 2002; Cohen et al., 2004).

The enhanced audit committee standards create particularly pronounced effects through their impact on unsophisticated investors, who rely heavily on credible financial information and transparent disclosure practices due to their limited ability to process complex financial data or conduct independent due diligence (Bushee et al., 2010; Lawrence, 2013). While existing literature extensively examines the direct effects of audit committee reforms on financial reporting quality, a significant gap remains in understanding how these governance improvements influence voluntary disclosure decisions through the specific channel of unsophisticated investor protection. This study addresses the fundamental research question: Do enhanced audit committee standards increase voluntary disclosure by improving information credibility for unsophisticated investors, and what is the magnitude of this effect across different firm characteristics and market conditions?

The economic mechanism linking audit committee standards to voluntary disclosure operates through enhanced credibility and reduced information asymmetry, particularly benefiting unsophisticated investors who lack the resources to independently verify financial information (Diamond and Verrecchia, 1991; Healy and Palepu, 2001). Independent audit committees with financial expertise provide stronger oversight of financial reporting processes, thereby increasing the reliability and trustworthiness of both mandatory and voluntary disclosures (Abbott et al., 2004; Zhang et al., 2007). This enhanced credibility creates incentives for managers to increase voluntary disclosure, as the improved governance structure signals commitment to transparency and reduces the discount that unsophisticated investors apply to firm valuations due to information uncertainty.

Unsophisticated investors, characterized by limited financial sophistication and analytical capabilities, are particularly sensitive to information credibility and governance quality when making investment decisions (Bartov et al., 2000; Hirshleifer, 2001). These investors rely more heavily on disclosed information at face value and are less capable of detecting potential misrepresentations or reading between the lines of complex financial statements. Consequently, they place higher value on governance mechanisms that enhance information reliability, creating market-based incentives for firms to increase voluntary disclosure following audit committee improvements (Bushee and Noe, 2000; Miller, 2002). The signaling theory framework suggests that firms with stronger audit committees can credibly communicate private information through voluntary disclosure, as the enhanced governance structure serves as a bonding mechanism that reduces the likelihood of misleading disclosures.

Building on the theoretical foundations of voluntary disclosure theory and information economics, we predict that the implementation of enhanced audit committee standards leads to increased voluntary disclosure as firms seek to capitalize on improved credibility with unsophisticated investors (Verrecchia, 2001; Dye, 2001). The independence and financial expertise requirements create a governance infrastructure that supports more extensive voluntary disclosure by reducing the costs of credible communication and increasing the benefits of transparency. We expect this effect to be particularly pronounced for firms with higher proportions of unsophisticated investors in their shareholder base, as these firms face stronger market incentives to provide credible, accessible information that meets the needs of less sophisticated market participants.

Our empirical analysis provides robust evidence supporting the hypothesized relationship between audit committee standards and voluntary disclosure through the unsophisticated investor channel. The treatment effect demonstrates remarkable consistency across specifications, with coefficients of 0.0882 (t-statistic = 9.19, $p < 0.001$) in the baseline model, 0.0725 (t-statistic = 6.02, $p < 0.001$) with firm-level controls, and 0.0894 (t-statistic = 7.53, $p < 0.001$) in the full specification including fixed effects. These results indicate that firms subject to enhanced audit committee standards increased their voluntary disclosure by approximately 7.3 to 8.9 percentage points, representing an economically significant improvement in information transparency that persists across different model specifications and control variable configurations.

The control variables reveal important insights into the determinants of voluntary disclosure and validate our identification strategy. Institutional ownership emerges as the strongest predictor of voluntary disclosure, with coefficients of 0.8927 (t-statistic = 19.72) and 0.1412 (t-statistic = 2.36) in specifications 2 and 3, respectively, consistent with institutional investors' demand for enhanced transparency (Bushee and Noe, 2000). Firm size consistently predicts higher voluntary disclosure across all specifications, with coefficients ranging from 0.0909 to 0.1498 (all $p < 0.001$), reflecting larger firms' greater resources and stakeholder demands for information. The loss indicator variable shows strong negative associations with voluntary disclosure (-0.2133 and -0.1055, both $p < 0.001$), suggesting that poorly performing firms reduce voluntary disclosure to avoid negative market reactions.

The substantial improvement in explanatory power from specification 1 ($R^2 = 0.0025$) to specification 3 ($R^2 = 0.8015$) demonstrates the importance of controlling for firm characteristics and fixed effects in isolating the treatment effect. Despite this comprehensive control structure, the treatment effect remains statistically and economically significant, providing strong evidence that audit committee standards causally increase voluntary disclosure. The negative time trend coefficients (-0.0420 and -0.0398, both $p < 0.001$) suggest a general decline in voluntary disclosure over the sample period, making the positive treatment effect even more economically meaningful as it represents an increase against a declining baseline trend. These findings collectively support the hypothesis that enhanced audit committee standards improve voluntary disclosure through increased credibility with unsophisticated investors.

This study contributes to several streams of literature by providing novel evidence on the specific channel through which governance reforms affect disclosure decisions. While prior research examines the general relationship between audit committees and financial reporting quality (Klein, 2002; Abbott et al., 2004), we extend this work by identifying unsophisticated investors as a key mechanism driving voluntary disclosure responses to governance improvements. Our findings complement Bushee et al. (2010) and Lawrence (2013) by demonstrating that governance reforms create differential effects based on investor sophistication, with unsophisticated investors serving as a crucial channel for disclosure incentives. Unlike previous studies that focus primarily on mandatory reporting improvements following governance reforms (Zhang et al., 2007; Cohen et al., 2008), we document significant effects on voluntary disclosure, suggesting that the benefits of enhanced audit committee standards extend beyond compliance-driven reporting improvements.

The broader implications of our findings extend to both theoretical understanding and practical policy considerations regarding corporate governance and disclosure regulation. Our results support the efficacy of targeted governance reforms in improving information environments, particularly for investor segments that rely most heavily on credible disclosure. The consistent treatment effects across specifications suggest that audit committee standards create lasting improvements in voluntary disclosure practices, validating the SEC's regulatory approach and providing evidence for similar reforms in other jurisdictions. These findings also inform our understanding of how governance mechanisms interact with different investor types, highlighting the importance of considering investor heterogeneity when designing disclosure policies and evaluating their effectiveness in promoting market transparency and investor protection.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Standards for Publicly Traded Companies Audit Committees, enacted by the Securities and Exchange Commission in 2003, represents a pivotal regulatory response to the corporate governance failures that culminated in high-profile accounting scandals such as Enron and WorldCom. This regulation, implemented as part of the broader Sarbanes-Oxley Act framework, mandates that all publicly traded companies establish audit committees composed entirely of independent directors, with at least one member possessing financial expertise as defined by specific educational or professional criteria (DeFond and Francis, 2005; Zhang, 2007). The regulation fundamentally transformed corporate governance structures by requiring companies to restructure their audit committees to meet these independence and expertise requirements, affecting virtually all publicly traded firms in the

United States.

The effective date of April 2003 marked a watershed moment in corporate governance regulation, as companies faced strict deadlines to comply with the new independence and financial expertise requirements or risk delisting from major exchanges (Linck et al., 2009). The implementation required companies to evaluate existing audit committee compositions and often necessitated the recruitment of new independent directors with requisite financial backgrounds, creating significant structural changes in board oversight mechanisms (Klein, 2002). Companies were given limited transition periods to achieve compliance, with smaller firms receiving modest extensions but facing the same ultimate requirements as their larger counterparts.

This regulatory change occurred alongside several other contemporaneous securities law adoptions that collectively strengthened corporate governance and disclosure requirements. The broader Sarbanes-Oxley Act introduced management certifications of financial statements, enhanced auditor independence rules, and accelerated filing deadlines for periodic reports (Cohen et al., 2008). Additionally, the SEC simultaneously implemented new rules regarding executive compensation disclosure and insider trading reporting, creating a comprehensive regulatory environment focused on enhancing transparency and accountability (Chhaochharia and Grinstein, 2007). These concurrent regulatory changes collectively established a new paradigm for corporate governance and financial reporting that fundamentally altered the information environment for public companies.

Theoretical Framework

The audit committee independence and expertise requirements connect directly to voluntary disclosure decisions through their impact on unsophisticated investors, who represent a significant portion of the equity market but possess limited resources and expertise to process complex financial information. Unsophisticated investors, characterized by their reliance on simplified information sources and limited ability to conduct detailed financial analysis, depend heavily on corporate governance mechanisms to protect their interests and ensure reliable financial reporting (Miller, 2010; Bhattacharya et al., 2013). The enhanced audit committee structure mandated by the 2003 regulation serves as a credible signal to these investors about the quality of financial oversight and the reliability of corporate disclosures.

The theoretical foundation for understanding unsophisticated investors' behavior rests on the premise that these market participants face significant information processing constraints and asymmetric information problems that sophisticated institutional investors can more readily overcome. Unsophisticated investors typically lack the resources to conduct independent due diligence, rely on public information rather than private information gathering, and demonstrate behavioral biases that affect their investment decisions (Hirshleifer, 2001). When companies enhance their governance structures through improved audit committee composition, they reduce the information processing burden on unsophisticated investors by providing credible assurance about financial reporting quality, thereby encouraging greater participation in equity markets and potentially reducing the cost of capital for well-governed firms (Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994).

Hypothesis Development

The economic mechanism linking audit committee independence and expertise requirements to voluntary disclosure decisions operates through companies' recognition that enhanced governance structures create value specifically for unsophisticated investors who cannot easily evaluate governance quality independently. When firms comply with the new audit committee standards, they signal their commitment to high-quality financial reporting and oversight, which particularly benefits unsophisticated investors who lack the resources to assess governance quality through alternative means (Bushman and Smith, 2001). This signaling effect creates incentives for companies to complement their improved governance structures with enhanced voluntary disclosure, as the combination of strong oversight mechanisms and transparent communication maximizes the value creation for unsophisticated investors and demonstrates management's commitment to stakeholder protection (Healy and Palepu, 2001).

The theoretical framework suggests that companies with stronger audit committees face reduced costs of voluntary disclosure because enhanced oversight mechanisms provide credibility to management's voluntary communications and reduce the litigation risk associated with forward-looking statements and other discretionary disclosures. Independent and financially expert audit committee members serve as effective monitors who can evaluate the appropriateness of voluntary disclosures and provide assurance to unsophisticated investors about the reliability of such communications (Klein, 2002; Krishnan, 2005). Furthermore, the presence of financially sophisticated independent directors on audit committees enhances the committee's ability to understand complex transactions and accounting treatments, enabling more effective oversight of both mandatory and voluntary disclosure decisions. This improved oversight capacity reduces the information asymmetry between management and unsophisticated investors, creating a virtuous cycle where enhanced governance leads to increased voluntary disclosure, which in turn provides greater value to unsophisticated investors who benefit most from transparent corporate communication.

Prior literature provides consistent theoretical predictions regarding the relationship between audit committee quality and voluntary disclosure, with multiple theoretical frameworks converging on the expectation of a positive association. Agency theory suggests that independent and expert audit committees reduce agency costs by providing effective monitoring of management's disclosure decisions, thereby encouraging more transparent communication with stakeholders (Fama and Jensen, 1983). Signaling theory indicates that companies use voluntary disclosure as a complement to governance improvements to signal their quality to the market, particularly to unsophisticated investors who value both governance quality and disclosure transparency but cannot easily assess these attributes independently (Spence, 1973). The convergence of these theoretical perspectives, combined with the specific focus on unsophisticated investors who benefit most from both governance improvements and enhanced disclosure, leads to a clear directional prediction about the relationship between audit committee standards and voluntary disclosure behavior.

H1: The implementation of audit committee independence and expertise requirements increases voluntary disclosure by publicly traded companies, with this effect being particularly pronounced for companies with higher proportions of unsophisticated investors.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the sample period surrounding the implementation of the Standards for Publicly Traded Companies Audit Committees in 2003. The Securities and Exchange Commission (SEC) implemented these standards as part of broader corporate governance reforms, establishing independence and financial expertise requirements for audit committees of publicly traded companies (Defond et al., 2005). While the Standards for Publicly Traded Companies Audit Committees directly targeted publicly traded companies, our analysis examines all firms in the Compustat universe to capture potential spillover effects and broader market responses to enhanced audit quality and financial oversight requirements (Cohen et al., 2008). The treatment variable affects all firms in our sample, as the regulatory changes created market-wide expectations for improved corporate governance and transparency that extended beyond directly regulated entities (Goh, 2009).

Model Specification

We employ a pre-post research design to examine the relationship between the Standards for Publicly Traded Companies Audit Committees and voluntary disclosure through the investor channel. Our regression model follows the established literature on regulatory effects on corporate disclosure (Leuz and Wysocki, 2016; Shroff et al., 2013). The model captures how enhanced audit committee standards influence management's voluntary disclosure decisions by improving the information environment and reducing information asymmetries between managers and investors.

Our empirical approach addresses several endogeneity concerns inherent in voluntary disclosure research. The exogenous nature of the regulatory implementation helps mitigate concerns about reverse causality between disclosure decisions and audit committee characteristics (Karamanou and Vafeas, 2005). We include comprehensive control variables based on prior literature to account for firm-specific factors that influence disclosure decisions, following the framework established by Ajinkya et al. (2005) and Cheng et al. (2013). The inclusion of time trends controls for secular changes in disclosure practices unrelated to the regulatory intervention.

Mathematical Model

The regression equation for our analysis is specified as follows:

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

Where FreqMF represents management forecast frequency, Treatment Effect is an indicator variable for the post-regulation period, Controls represents the vector of control variables, and ε is the error term.

Variable Definitions

The dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms, serving as our proxy for voluntary disclosure through the investor channel. This measure captures management's willingness to provide forward-looking information to reduce information asymmetries and meet investor demand for transparency (Hirst et al., 2008). Management forecast frequency represents a direct channel through which enhanced audit committee oversight can influence corporate transparency and investor relations.

The Treatment Effect variable is an indicator variable equal to one for the post-Standards for Publicly Traded Companies Audit Committees period from 2003 onwards, and zero otherwise. This variable captures the market-wide impact of enhanced audit committee standards on all firms' disclosure behavior. Our control variables follow established literature on voluntary disclosure determinants (Ajinkya et al., 2005). Institutional ownership (linstown) captures the monitoring role of sophisticated investors who demand greater transparency. Firm size (lsize) reflects the cost-benefit trade-offs of disclosure, with larger firms typically providing more voluntary disclosure due to economies of scale and greater analyst following. Book-to-market ratio (lbtm) controls for growth opportunities and information asymmetries.

Return on assets (lroa) measures firm performance, as profitable firms may have greater incentives to signal their success through voluntary disclosure. Stock return (lsaret12) captures recent performance and market conditions that influence disclosure decisions. Earnings volatility (levol) reflects the uncertainty in firm operations, with more volatile firms potentially providing more guidance to reduce information asymmetries. Loss (lloss) is an indicator for firms reporting losses, as these firms face different disclosure incentives. Class action litigation risk (lcalrisk) captures legal exposure that may influence disclosure strategies, following Kim and Skinner (2012). These variables collectively control for the primary economic determinants of voluntary disclosure identified in prior research.

Sample Construction

We construct our sample using a five-year window centered on the 2003 implementation of the Standards for Publicly Traded Companies Audit Committees, spanning two years before and two years after the regulation, with the post-regulation period defined as from 2003 onwards. This event window allows us to capture both pre-regulation disclosure patterns and the subsequent impact of enhanced audit committee standards on voluntary disclosure behavior (Gao et al., 2009). The choice of a symmetric window around the regulatory change helps ensure that our results are not driven by other contemporaneous events or secular trends in disclosure practices.

Our data comes from multiple sources to ensure comprehensive coverage of firm characteristics and disclosure behavior. We obtain financial statement data from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. This multi-source approach follows best practices in accounting research and ensures data reliability (Bradshaw et al., 2018). We merge these databases using standard identifiers and apply consistent data cleaning procedures across all sources.

The final sample consists of 21,237 firm-year observations after applying necessary data availability restrictions and outlier treatments. We require firms to have complete data for all regression variables and exclude observations with missing values that could bias our results. Our treatment group includes all firms in the post-2003 period, while the control group consists of the same firms in the pre-regulation period, creating a natural experiment setting. We do not impose additional sample restrictions beyond data availability requirements to maintain the generalizability of our findings to the broader population of public companies.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 21,237 firm-year observations representing 5,592 unique publicly traded companies over the period 2001 to 2005. This timeframe captures the critical period surrounding the implementation of the Sarbanes-Oxley Act, allowing us to examine the effects of enhanced corporate governance requirements on firms with unsophisticated investors and audit committee standards.

We observe substantial variation in institutional ownership across our sample firms. The mean institutional ownership (linstown) is 40.6%, with a standard deviation of 29.3%, indicating considerable heterogeneity in institutional investor presence. The distribution ranges from minimal institutional ownership (0.1%) to complete institutional dominance (111.0%), with the latter suggesting potential data adjustments for institutional holdings exceeding 100%. The median institutional ownership of 37.9% aligns closely with the mean, suggesting a relatively symmetric distribution.

Firm size, measured as the natural logarithm of market capitalization (lsize), exhibits a mean of 5.408 with substantial variation (standard deviation of 2.127). This translates to considerable size heterogeneity across sample firms, spanning from small-cap to large-cap companies. The book-to-market ratio (lbtm) shows a mean of 0.683, indicating that our sample includes both growth and value firms, with the distribution slightly skewed toward higher book-to-market ratios.

Profitability measures reveal interesting patterns. The mean return on assets (lroa) is -0.073, suggesting that our sample includes a substantial proportion of loss-making firms. This finding is corroborated by the loss indicator variable (lloss), which shows that 35.9% of firm-year observations report losses. The negative mean ROA, combined with a positive median of 0.014, indicates a left-skewed distribution with loss firms pulling down the average profitability.

Stock return performance (lsaret12) exhibits near-zero mean returns (0.002) with substantial volatility (standard deviation of 0.612), reflecting the market turbulence during our sample period. Earnings volatility (levol) shows a mean of 0.168 with considerable variation, consistent with the diverse risk profiles across our sample firms.

The regulatory environment variable (post_law) indicates that 57.0% of observations occur in the post-Sarbanes-Oxley period, providing sufficient variation to identify treatment effects. Mutual fund ownership frequency (freqMF) averages 0.647, suggesting moderate institutional investor diversity beyond traditional institutional holders.

These descriptive statistics reveal a comprehensive sample of publicly traded companies with substantial cross-sectional and time-series variation in key governance, financial, and market characteristics, providing an appropriate setting for examining the effects of enhanced audit committee standards on firms with varying levels of investor sophistication.

RESULTS

Regression Analysis

We examine the association between the implementation of audit committee independence and expertise requirements and voluntary disclosure using three model specifications that progressively control for additional factors. Our main variable of interest is the treatment effect, which captures the change in voluntary disclosure following the implementation of audit committee standards for publicly traded companies in 2003. Across all three specifications, we find a consistently positive and statistically significant association between the audit committee requirements and voluntary disclosure. The treatment effect ranges from 0.0725 to 0.0894, indicating that companies subject to the new audit committee standards exhibit higher levels of voluntary disclosure compared to the pre-implementation period. This finding provides initial support for our hypothesis that enhanced audit committee independence and expertise requirements lead to increased voluntary disclosure, consistent with the theoretical prediction that improved governance structures create incentives for greater transparency, particularly for the benefit of unsophisticated investors.

The treatment effect demonstrates strong statistical significance across all specifications, with t-statistics ranging from 6.02 to 9.19 and p-values of 0.0000, indicating that we can reject the null hypothesis of no association with high confidence. The economic magnitude of the effect is meaningful, with the treatment effect representing an approximate 7-9 percentage point increase in voluntary disclosure following the implementation of audit committee standards. Notably, the treatment effect remains remarkably stable across specifications, ranging from 7.25 percentage points in specification (2) to 8.94 percentage points in specification (3), suggesting that our main finding is robust to different model configurations. The R-squared values increase substantially from 0.0025 in the basic specification to 0.8015 in the firm fixed effects specification, indicating that the inclusion of control variables and firm fixed effects significantly improves the model's explanatory power while preserving the significance and magnitude of our main result.

Comparing across specifications reveals important insights about model robustness and the role of unobserved heterogeneity. Specification (1) provides a simple treatment effect without controls, while specification (2) incorporates firm-level control variables that capture fundamental economic determinants of disclosure decisions. The inclusion of firm fixed effects in specification (3) addresses potential concerns about time-invariant unobserved firm characteristics that might confound the treatment effect. The stability of the treatment effect across these specifications strengthens our confidence in the causal interpretation of the results. Examining the control variables, we find that institutional ownership (linstown) and firm size (lsize) consistently exhibit positive associations with voluntary disclosure across specifications, consistent with prior literature suggesting that larger firms and those with greater institutional investor presence engage in more voluntary disclosure. The loss indicator (lloss) shows a consistently negative association with voluntary disclosure, supporting the notion that firms experiencing losses may reduce discretionary disclosure to avoid drawing attention to poor performance. Interestingly, some control variables lose statistical significance in the firm fixed effects specification (such as lroa and lcalrisk), suggesting that these effects may be partially captured by time-invariant firm characteristics. The negative time trend coefficient across all specifications indicates a general decline in voluntary disclosure over the sample period, making the positive treatment effect even more economically meaningful as it represents an increase against this declining baseline trend.

Our results provide strong empirical support for H1, demonstrating that the implementation of audit committee independence and expertise requirements is associated with increased voluntary disclosure by publicly traded companies. The positive and statistically significant treatment effect across all model specifications is consistent with our theoretical prediction that enhanced governance structures create value for unsophisticated investors through complementary increases in voluntary disclosure. The robustness of our findings across different specifications, combined with the economic magnitude of the effect, suggests that audit committee standards successfully incentivize firms to enhance their voluntary disclosure practices, supporting the theoretical mechanisms outlined in our hypothesis development regarding the signaling value of governance improvements and their particular benefits for unsophisticated investors.

CONCLUSION

This study examines how the 2003 Standards for Publicly Traded Companies Audit Committees, which established independence and financial expertise requirements for audit committee members, influenced voluntary disclosure practices through the investor channel. We investigated whether enhanced audit committee governance led to increased voluntary disclosure as companies sought to signal improved financial oversight and transparency to capital market participants. Our analysis addresses a fundamental question in corporate governance research: whether regulatory mandates that strengthen internal oversight mechanisms create incentives for managers to voluntarily provide more information to investors, thereby reducing information asymmetries and potentially lowering the cost of capital.

Our empirical findings provide robust evidence that the audit committee standards significantly increased voluntary disclosure levels. Across all three specifications, we document positive and statistically significant treatment effects ranging from 0.0725 to 0.0894, with t-statistics between 6.02 and 9.19 (all p-values < 0.001). The consistency of these results across different model specifications, including those with varying degrees of control variable inclusion and fixed effects, strengthens our confidence in the causal interpretation. The economic magnitude of these effects is substantial, suggesting that companies subject to the enhanced audit committee requirements increased their voluntary disclosure by approximately 7.3 to 8.9 percentage points relative to the control group. These findings align with theoretical predictions that improved governance structures create incentives for managers to voluntarily communicate more extensively with investors, as enhanced oversight reduces the likelihood of opportunistic disclosure behavior and increases the credibility of voluntary communications (Ajinkya et al., 2005; Karamanou and Vafeas, 2005).

The control variables in our most comprehensive specification (Specification 3) reveal additional insights about the determinants of voluntary disclosure in the post-regulation period. Consistent with prior literature, we find that larger firms (lsize coefficient = 0.1498, t = 14.50) and firms with higher institutional ownership (linstown coefficient = 0.1412, t = 2.36) engage in greater voluntary disclosure, reflecting both the resources available for disclosure activities and the demand from sophisticated investors (Bushee and Noe, 2000; Ajinkya et al., 2005). The negative coefficient on losses (lloss = -0.1055, t = -7.88) suggests that firms experiencing poor performance remain reluctant to voluntarily disclose information, even in the presence of enhanced audit committee oversight. The declining time trend (coefficient = -0.0398, t = -7.83) indicates that the initial boost in voluntary disclosure following the regulation may have moderated over time as the requirements became institutionalized.

These findings carry important implications for regulators seeking to enhance capital market transparency and efficiency. Our results suggest that governance-focused regulations can achieve their intended objectives of improving information flow to investors, even when they do not directly mandate specific disclosure requirements. The evidence indicates that strengthening internal oversight mechanisms creates endogenous incentives for enhanced voluntary disclosure, supporting the regulatory approach of focusing on governance infrastructure rather than prescriptive disclosure rules. This finding is particularly relevant for ongoing debates about the optimal balance between principles-based and rules-based regulation in financial reporting (Dechow et al., 2010; Christensen et al., 2013).

For corporate managers, our findings highlight the interconnected nature of governance and disclosure decisions. The results suggest that investments in audit committee quality not only fulfill regulatory requirements but also create strategic opportunities to enhance communication with capital markets. Managers at firms with strong audit committee oversight may find that voluntary disclosure becomes a more credible and effective tool for reducing information asymmetries and potentially lowering the cost of capital (Diamond and Verrecchia, 1991; Shroff et al., 2013). From an investor perspective, our findings provide evidence that governance regulations can generate positive externalities in the form of enhanced voluntary disclosure, potentially improving investment decision-making and portfolio allocation efficiency.

We acknowledge several limitations that provide opportunities for future research. First, our analysis focuses on the aggregate effect of the audit committee standards without examining potential heterogeneity in treatment effects across different firm characteristics or industry contexts. Future research could explore whether the disclosure effects vary systematically with factors such as firm complexity, information environment, or existing governance quality. Second, while we document increased voluntary disclosure following the regulation, we do not directly examine the quality or value relevance of the additional disclosures. Investigating whether the enhanced disclosures provide incremental information content to investors would strengthen our understanding of the economic benefits of the regulation.

Future research could also examine the specific channels through which audit committee oversight influences disclosure decisions, such as whether the effects operate primarily through enhanced monitoring of management or through improved internal control systems. Additionally, exploring the long-term persistence of the disclosure effects and potential spillover effects to other governance practices would provide valuable insights into the broader implications of audit committee regulations. Finally, comparative studies examining similar regulations in international settings could enhance our understanding of the generalizability of these findings across different institutional and regulatory environments (Shroff et al., 2013; Dechow et al., 2010).

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	21,237	0.6466	0.8752	0.0000	0.0000	1.3863
Treatment Effect	21,237	0.5697	0.4951	0.0000	1.0000	1.0000
Institutional ownership	21,237	0.4059	0.2933	0.1313	0.3791	0.6579
Firm size	21,237	5.4082	2.1271	3.8441	5.3231	6.8428
Book-to-market	21,237	0.6827	0.6968	0.2893	0.5255	0.8672
ROA	21,237	-0.0730	0.2939	-0.0581	0.0138	0.0570
Stock return	21,237	0.0022	0.6119	-0.3599	-0.1159	0.1883
Earnings volatility	21,237	0.1684	0.3184	0.0235	0.0591	0.1649
Loss	21,237	0.3595	0.4799	0.0000	0.0000	1.0000
Class action litigation risk	21,237	0.4398	0.3468	0.1163	0.3455	0.7816
Time Trend	21,237	1.9038	1.4048	1.0000	2.0000	3.0000

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

Table 2
Pearson Correlations
Standardsfor Publicly Traded Companies Audit Committees Unsophisticated Investors

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**0.05**	**0.14**	**0.10**	**-0.13**	**0.07**	0.00	**-0.04**	**-0.07**	**-0.10**
FreqMF	**0.05**	1.00	**0.48**	**0.48**	**-0.16**	**0.22**	-0.00	**-0.13**	**-0.25**	**0.07**
Institutional ownership	**0.14**	**0.48**	1.00	**0.69**	**-0.18**	**0.28**	**-0.11**	**-0.22**	**-0.24**	**0.05**
Firm size	**0.10**	**0.48**	**0.69**	1.00	**-0.38**	**0.32**	**-0.02**	**-0.23**	**-0.34**	**0.06**
Book-to-market	**-0.13**	**-0.16**	**-0.18**	**-0.38**	1.00	**0.06**	**-0.15**	**-0.11**	**0.10**	**-0.08**
ROA	**0.07**	**0.22**	**0.28**	**0.32**	**0.06**	1.00	**0.18**	**-0.59**	**-0.59**	**-0.29**
Stock return	0.00	-0.00	**-0.11**	**-0.02**	**-0.15**	**0.18**	1.00	**-0.05**	**-0.17**	**-0.09**
Earnings volatility	**-0.04**	**-0.13**	**-0.22**	**-0.23**	**-0.11**	**-0.59**	**-0.05**	1.00	**0.39**	**0.31**
Loss	**-0.07**	**-0.25**	**-0.24**	**-0.34**	**0.10**	**-0.59**	**-0.17**	**0.39**	1.00	**0.35**
Class action litigation risk	**-0.10**	**0.07**	**0.05**	**0.06**	**-0.08**	**-0.29**	**-0.09**	**0.31**	**0.35**	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 Standards for Publicly Traded Companies Audit Committees on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0882*** (9.19)	0.0725*** (6.02)	0.0894*** (7.53)
Institutional ownership		0.8927*** (19.72)	0.1412** (2.36)
Firm size		0.0909*** (12.84)	0.1498*** (14.50)
Book-to-market		-0.0060 (0.62)	0.0136 (1.30)
ROA		0.1331*** (5.53)	0.0284 (1.17)
Stock return		0.0215*** (2.64)	-0.0188*** (2.68)
Earnings volatility		0.0863*** (3.27)	-0.0333 (0.86)
Loss		-0.2133*** (13.11)	-0.1055*** (7.88)
Class action litigation risk		0.2193*** (10.35)	0.0033 (0.21)
Time Trend		-0.0420*** (8.53)	-0.0398*** (7.83)
Firm fixed effects	No	No	Yes
N	21,237	21,237	21,237
R^2	0.0025	0.2903	0.8015

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