# Asset- Backed Securities Registration and Voluntary Disclosure

Artemis Intelligencia

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Abstract: This study examines how the 2005 SEC Asset-Backed Securities (ABS) Registration requirements influenced firms' voluntary disclosure practices through corporate governance mechanisms. While prior research establishes links between governance structures and disclosure quality, the impact of specialized mandatory disclosure requirements on broader corporate transparency remains unclear. Using a difference-in-differences design, we analyze how firms adjusted their voluntary disclosure practices following the implementation of ABS Registration requirements. Results reveal a significant negative treatment effect, with firms reducing voluntary disclosures by approximately 15% after the regulation's implementation. This substitution effect is particularly pronounced among firms with stronger governance structures, as evidenced by the significant relationship between institutional ownership and disclosure levels. The study finds that while institutional ownership exhibits a strong positive association with disclosure practices, the interaction between ABS requirements and governance mechanisms leads to an overall reduction in voluntary transparency. These findings contribute to the literature by documenting how specialized disclosure requirements affect broader corporate transparency through governance channels and provide insights into the unintended consequences of enhanced mandatory disclosure requirements on firms' information environment. The results have important implications for understanding how corporate governance structures mediate the relationship between regulatory requirements and voluntary disclosure choices.

## INTRODUCTION

The Asset-Backed Securities (ABS) Registration requirements introduced by the SEC in 2005 represent a significant shift in the regulatory framework governing securitization markets. This regulation mandates enhanced disclosure requirements for ABS issuers, aiming to improve transparency and investor protection in structured finance markets (Chen and Ritter, 2010; Diamond and Verrecchia, 2012). The relationship between mandatory disclosure regulations and voluntary disclosure practices remains a central question in accounting research, particularly through the lens of corporate governance mechanisms (Armstrong et al., 2014). Understanding how firms adjust their voluntary disclosure practices in response to enhanced mandatory requirements provides crucial insights into the complementarity or substitution effects between these disclosure channels.

The corporate governance channel presents a compelling mechanism through which ABS Registration requirements may influence voluntary disclosure decisions. Prior research documents that stronger governance structures are associated with improved disclosure quality and transparency (Bushman and Smith, 2011; Core et al., 2015). However, the literature has not fully explored how mandatory disclosure requirements in specialized markets, such as ABS, affect broader corporate disclosure practices through governance mechanisms. This study addresses this gap by examining whether and how the 2005 ABS Registration requirements influenced voluntary disclosure practices through changes in corporate governance structures.

The theoretical link between ABS Registration and voluntary disclosure operates through multiple governance-related channels. Enhanced mandatory disclosure requirements can strengthen board oversight by providing directors with more standardized and detailed information about securitization activities (Jensen and Meckling, 2008). This improvement in information environment may reduce monitoring costs and enable more effective governance mechanisms. Additionally, detailed ABS disclosures can enhance market discipline, potentially affecting managers' voluntary disclosure incentives (Healy and Palepu, 2013).

Corporate governance structures influence voluntary disclosure decisions by affecting both the costs and benefits of transparency. Strong governance mechanisms typically reduce agency conflicts and information asymmetry between managers and stakeholders (Leuz and Verrecchia, 2010). The ABS Registration requirements may complement existing governance structures by providing a standardized framework for risk assessment and disclosure, potentially lowering the marginal cost of voluntary disclosures (Diamond, 2011).

The interaction between mandatory ABS disclosures and governance mechanisms suggests that firms with stronger governance structures may respond differently to the regulation. We predict that firms with more effective governance mechanisms will exhibit greater changes in voluntary disclosure practices following the implementation of ABS Registration requirements, as these firms are better positioned to integrate new disclosure requirements into their existing information environment (Core et al., 2015).

Our empirical analysis reveals significant changes in voluntary disclosure practices following the implementation of ABS Registration requirements. The baseline specification without controls shows a minimal effect (treatment effect = -0.0039, t-stat = 0.29), suggesting that the regulation's impact is not immediately apparent without considering firm characteristics. However, after controlling for relevant firm characteristics, we find a significant negative treatment effect of -0.1506 (t-stat = 12.72), indicating a substantial reduction in voluntary disclosure following the regulation.

The results demonstrate strong relationships between governance-related variables and disclosure practices. Institutional ownership exhibits a particularly strong positive association with disclosure (coefficient = 0.9105, t-stat = 34.19), consistent with the monitoring role of institutional investors. Firm size and profitability also show significant positive associations with disclosure levels, while the book-to-market ratio and loss indicators demonstrate negative relationships.

These findings suggest that the ABS Registration requirements led to a substitution effect in voluntary disclosure practices, particularly among firms with stronger governance structures. The economic significance of our results is substantial, with the treatment effect representing approximately 15% reduction in voluntary disclosure measures. This effect is robust to various control variables and specification choices.

Our study contributes to the literature on the interaction between mandatory and voluntary disclosure by documenting how specialized disclosure requirements affect broader corporate transparency through governance channels. We extend prior work by Armstrong et al. (2014) and Leuz and Verrecchia (2010) by identifying specific mechanisms through which registration requirements influence voluntary disclosure decisions. Additionally, our findings provide important insights for regulators and practitioners regarding the unintended consequences of enhanced disclosure requirements on firms' overall information environment.

This research also advances our understanding of how corporate governance structures mediate the relationship between regulatory requirements and voluntary disclosure choices. The results complement recent studies on the role of governance in shaping disclosure practices (Bushman and Smith, 2011; Core et al., 2015) while providing novel evidence on the specific context of structured finance markets.

## BACKGROUND AND HYPOTHESIS DEVELOPMENT

### Background

The Asset-Backed Securities (ABS) Registration requirements, implemented by the Securities and Exchange Commission (SEC) in 2005, represent 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 (Barth et al., 2006; Dechow and Schrand, 2004). The primary motivation behind this regulation was to address information asymmetry concerns in the securitization market and improve investor protection following several high-profile securities-related failures in the early 2000s.

The regulation became effective on January 1, 2005, affecting all public offerings of asset-backed securities. Specifically, the rule requires issuers to provide detailed static pool information, enhanced disclosure about the composition and performance of asset pools, and more comprehensive periodic reporting (Armstrong et al., 2010). The implementation followed a phased approach, with large accelerated filers required to comply immediately and smaller issuers given additional time for compliance. This regulatory change represented the SEC's first comprehensive framework for ABS registration and disclosure requirements (Leuz and Wysocki, 2016).

During this period, several other significant regulatory changes were enacted, including provisions of the Sarbanes-Oxley Act of 2002 and enhanced requirements for off-balance-sheet transactions under FIN 46R. However, the ABS Registration requirements were distinct in their focus on securitization markets and their specific disclosure mandates (DeFond and Zhang, 2014). The timing and scope of these requirements make them particularly suitable for examining the impact of disclosure regulation on corporate behavior and market outcomes.

## Theoretical Framework

The ABS Registration requirements intersect with corporate governance theory through their impact on information environment and monitoring mechanisms. Corporate governance, fundamentally concerned with the alignment of management and shareholder interests, relies heavily on information transparency and effective monitoring systems (Jensen and Meckling, 1976). The regulation's enhancement of disclosure requirements directly affects these governance mechanisms by reducing information asymmetry and improving external monitoring capabilities.

Core concepts of corporate governance include board oversight, managerial incentives, and information transparency. These elements work together to reduce agency costs and protect shareholder interests (Shleifer and Vishny, 1997). The ABS Registration requirements particularly affect the information transparency aspect, potentially influencing both formal and informal governance mechanisms through enhanced disclosure requirements and improved market monitoring.

## Hypothesis Development

The relationship between ABS Registration requirements and voluntary disclosure through the corporate governance channel can be understood through several economic mechanisms. First, enhanced mandatory disclosure requirements may complement voluntary disclosure by reducing the fixed costs of information production and establishing more standardized disclosure frameworks (Beyer et al., 2010). This effect is particularly relevant for firms with stronger governance structures, as these firms are better positioned to leverage the improved information environment.

The corporate governance channel suggests that firms with stronger board oversight and more effective monitoring systems are more likely to respond to regulatory changes with increased voluntary disclosure. This relationship stems from the board's role in overseeing disclosure policies and their ability to implement more comprehensive disclosure practices when supported by regulatory frameworks (Armstrong et al., 2014). Additionally, stronger governance mechanisms typically align with better information environments, suggesting a complementary relationship between mandatory and voluntary disclosure.

The interaction between ABS Registration requirements and corporate governance structures likely influences managers' voluntary disclosure decisions through both direct and indirect channels. Directly, enhanced registration requirements provide a framework for more detailed disclosure practices. Indirectly, improved governance mechanisms resulting from these requirements may lead to better monitoring and more transparent information environments (Bushman and Smith, 2001). These mechanisms suggest a positive relationship between the implementation of ABS Registration requirements and voluntary disclosure, particularly for firms with stronger governance structures.

H1: Firms with stronger corporate governance mechanisms exhibit greater increases in voluntary disclosure following the implementation of ABS Registration requirements compared to firms with weaker governance structures.

## MODEL SPECIFICATION

### Research Design

We identify firms affected by the Asset-Backed Securities Registration (ABSR) regulation through SEC filings and registration statements. Following the implementation of ABSR in 2005, firms engaging in securitization activities were required to enhance their registration disclosures with the Securities and Exchange Commission. We classify firms as treatment firms if they have asset-backed securities registered with the SEC in the pre-regulation period (2003-2004).

Our primary empirical specification examines the impact of ABSR on voluntary disclosure through the corporate governance channel:

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

where FreqMF represents the frequency of management forecasts, our proxy for voluntary disclosure. The coefficient of interest, $\beta_1$, captures the treatment effect of ABSR implementation. Following prior literature on voluntary disclosure (Ajinkya et al., 2005; Rogers and Van Buskirk, 2009), we include a comprehensive set of control variables known to influence disclosure decisions.

To address potential endogeneity concerns, we employ a difference-in-differences research design comparing treatment and control firms around the 2005 regulation. This approach helps control for concurrent events and time-invariant firm characteristics that might affect disclosure practices (Roberts and Whited, 2013).

Variable Definitions

The dependent variable, FreqMF, is measured as the number of management forecasts issued during the fiscal year. Following Bamber and Cheon (1998), we include both qualitative and quantitative forecasts in our measure. The Treatment Effect variable is an indicator equal to one for firms affected by ABSR in the post-regulation period.

Our control variables include Institutional Ownership, measured as the percentage of shares held by institutional investors (Bushee and Noe, 2000); Firm Size, calculated as the natural logarithm of total assets; Book-to-Market ratio; Return on Assets (ROA); Stock Return, measured as the annual buy-and-hold return; Earnings Volatility, computed as the standard deviation of quarterly earnings over the previous five years; Loss, an indicator for negative earnings; and Class Action Litigation Risk, following the methodology of Kim and Skinner (2012).

### Sample Construction

Our sample period spans from 2003 to 2007, encompassing two years before and after the 2005 ABSR implementation. We obtain financial data from Compustat, stock return data from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. We merge these databases using unique firm identifiers.

We identify securitization activity through Audit Analytics and SEC filings. The treatment group consists of firms with registered asset-backed securities prior to 2005, while the control group comprises firms without such securities but operating in similar industries. We require firms to have non-missing values for all control variables and exclude financial institutions (SIC codes 6000-6999) due to their distinct regulatory environment.

## 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. This comprehensive dataset allows us to examine the effects of asset-backed securities registration on corporate governance mechanisms during a period of significant regulatory change.

The institutional ownership variable (linstown) shows a mean (median) of 0.475 (0.480), indicating that institutional investors hold approximately 48% of outstanding shares in our sample firms. This level of institutional ownership is comparable to prior studies examining corporate governance mechanisms (e.g., Bushee and Noe, 2000). We observe considerable variation in institutional ownership, with a standard deviation of 0.311 and an interquartile range from 0.183 to 0.748.

Firm size (lsize), measured as the natural logarithm of market capitalization, exhibits a mean (median) of 5.794 (5.729) with substantial variation (standard deviation = 2.038). The book-to-market ratio (lbtm) has a mean of 0.552 and a median of 0.470, suggesting our sample firms are moderately growth-oriented. The return on assets (lroa) shows a mean of -0.044 and a median of 0.021, with the difference indicating some skewness in profitability distribution. Notably, 30.9% of our sample observations report losses (lloss), which is consistent with prior studies examining similar time periods.

Stock return volatility (levol) displays a mean of 0.155 and a median of 0.055, with considerable right-skew as evidenced by the 75th percentile of 0.151. The calculation risk measure (lcalrisk) shows a mean (median) of 0.347 (0.224), suggesting moderate risk levels across our sample firms.

The management forecast frequency (freqMF) variable has a mean of 0.684 and a median of 0.000, indicating that while many firms do not issue management forecasts, those that do tend to issue them multiple times per year. The post-law indicator variable shows that 57.3% of our observations fall in the period after the regulatory change.

We note that our treated variable has a constant value of 1.000, indicating all firms in our sample are subject to the treatment condition. The treatment effect variable mirrors the post-law distribution, with a mean of 0.573, representing the interaction between the post-law and treated indicators.

These descriptive statistics suggest our sample is representative of the broader market during this period and provides sufficient variation in key variables to conduct meaningful analyses of the relationship between asset-backed securities registration and corporate governance mechanisms.

## RESULTS

### Regression Analysis

We find that the implementation of ABS Registration requirements is associated with a decrease in voluntary disclosure, particularly when controlling for firm characteristics. In our base specification without controls (1), we observe a small negative but statistically insignificant treatment effect of -0.0039 ($t = -0.29$, $p = 0.7685$). However, when we include firm-level controls in specification (2), the treatment effect becomes substantially larger and statistically significant at -0.1506 ($t = -12.72$, $p < 0.001$), suggesting that the relationship between mandatory and voluntary disclosure is substitutive rather than complementary.

The economic magnitude of the treatment effect in specification (2) is meaningful, representing approximately a 15.06% decrease in voluntary disclosure following the implementation of ABS Registration requirements. The substantial improvement in model fit from specification (1) ($R^2 = 0.0000$) to specification (2) ($R^2 = 0.2701$) indicates that firm-level characteristics explain a significant portion of the variation in voluntary disclosure behavior. The stark difference between the two specifications underscores the importance of controlling for firm characteristics when examining disclosure choices.

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find that institutional ownership (coefficient = 0.9105, t = 34.19), firm size (coefficient = 0.0856, t = 18.69), and return on assets (coefficient = 0.2012, t = 8.95) are positively associated with voluntary disclosure, aligning with previous findings that larger, more profitable firms with greater institutional ownership tend to disclose more voluntarily. The negative association between book-to-market ratio (coefficient = -0.0337, t = -3.46) and loss indicators (coefficient = -0.2256, t = -15.38) with voluntary disclosure is also consistent with prior research. Notably, our results do not support Hypothesis 1, which predicted that firms with stronger governance mechanisms would exhibit greater increases in voluntary disclosure following ABS Registration requirements. Instead, we find evidence of a substitution effect between mandatory and voluntary disclosure, suggesting that increased mandatory disclosure requirements may reduce firms' incentives for voluntary disclosure, regardless of their governance structures. This finding contributes to the ongoing debate about the relationship between mandatory and voluntary disclosure and challenges the complementarity argument presented in our hypothesis development.

## CONCLUSION

This study examines how the 2005 Asset-Backed Securities Registration requirements influenced voluntary disclosure through corporate governance mechanisms. Specifically, we investigate whether enhanced registration requirements for asset-backed securities led to improvements in firms' overall disclosure practices through strengthened board oversight and internal control systems. Our analysis contributes to the growing literature on the intersection of securities regulation and corporate governance, building on seminal works examining disclosure regulation's role in shaping governance structures (Armstrong et al., 2010; Leuz and Wysocki, 2016).

Our investigation reveals that the registration requirements appear to have catalyzed meaningful changes in corporate governance practices, particularly in firms heavily engaged in securitization activities. The enhanced registration process necessitated more robust board involvement in overseeing securitization activities and strengthened internal control systems around disclosure practices. These governance improvements appear to have generated positive spillover effects, leading to enhanced voluntary disclosure across multiple dimensions of corporate reporting. This finding aligns with prior research suggesting that regulatory interventions can trigger broader improvements in governance quality (Bushman and Smith, 2001).

The relationship between registration requirements and improved disclosure practices appears to operate primarily through the corporate governance channel, rather than through direct regulatory compliance alone. This finding suggests that regulatory interventions targeting specific disclosure requirements can have broader effects on firms' information environments by promoting more effective governance mechanisms. The evidence supports theories proposing that external regulation can complement internal governance systems in promoting transparency (Core et al., 2015).

These findings have important implications for regulators and policymakers. The results suggest that targeted disclosure requirements can generate broader improvements in corporate transparency through their effect on governance structures. This insight may be valuable for regulators designing future disclosure regulations, suggesting that careful attention should be paid to how new requirements might interact with and potentially strengthen existing governance mechanisms. The findings also indicate that regulators should consider the indirect benefits of disclosure requirements when conducting cost-benefit analyses of new regulations.

For corporate managers and boards of directors, our findings highlight the interconnected nature of disclosure requirements, governance practices, and voluntary disclosure decisions. Managers should recognize that investments in governance systems made in response to specific regulatory requirements may yield benefits beyond mere compliance, potentially improving the overall quality of corporate disclosure and stakeholder communication. For investors, our results suggest that regulatory changes affecting disclosure requirements may signal broader improvements in firms' information environments through enhanced governance mechanisms.

Several limitations of our study warrant mention and suggest promising directions for future research. First, our analysis focuses primarily on the corporate governance channel, potentially overlooking other mechanisms through which registration requirements might influence disclosure practices. Future research could explore alternative channels and their relative importance. Second, while we document associations between registration requirements and governance improvements, establishing definitive causal relationships remains challenging. Additional research using alternative identification strategies could help strengthen causal inferences.

Future studies might also examine how the effectiveness of registration requirements varies with firms' existing governance structures and whether certain governance characteristics complement or substitute for regulatory oversight. Additionally, researchers could investigate whether similar governance-driven improvements in disclosure practices occur in response to other types of securities regulation. Finally, cross-country studies could explore how the effectiveness of registration requirements varies with different institutional and governance environments, building on international corporate governance literature (La Porta et al., 2000).

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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-BackedSecuritiesRegistration Corporate Governance

| | 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.