Internet Availability Of Proxy Materials and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines how the SEC's 2007 Internet Availability of Proxy Materials rule affects firms' voluntary disclosure decisions, particularly through its impact on unsophisticated investors' information processing costs. While electronic access to proxy materials reduces information acquisition costs, it may increase processing costs for retail investors who often struggle with complex financial information. Using a difference-in-differences design, we investigate whether firms adjust their voluntary disclosure practices in response to this regulatory change, considering their shareholder base composition. Results indicate that firms significantly reduced voluntary disclosures following the implementation of electronic proxy access, with an average decrease of 11.76% after controlling for firm characteristics. This reduction is more pronounced among firms with higher retail investor ownership, suggesting that companies strategically adjust their disclosure practices in response to potential information processing constraints faced by unsophisticated investors. The effect remains robust across multiple specifications and is stronger for firms with lower institutional ownership. The study contributes to the literature on disclosure regulation and investor sophistication by demonstrating how changes in information delivery mechanisms influence corporate disclosure strategies, highlighting the important role of investor base characteristics in firms' disclosure decisions.

INTRODUCTION

The Securities and Exchange Commission's 2007 Internet Availability of Proxy Materials rule represents a significant shift in how firms communicate with investors, requiring companies to provide electronic access to proxy materials. This regulatory change fundamentally altered the information environment by reducing distribution costs and increasing the accessibility of corporate disclosures to retail investors (Diamond and Verrecchia, 1991; Blankespoor et al., 2014). The rule's implementation raises important questions about how changes in information dissemination affect firms' voluntary disclosure decisions, particularly through their impact on unsophisticated investors' information processing costs.

Prior literature documents that retail investors face significant constraints in processing complex financial information and often rely on simplified decision heuristics (Miller, 2010; Lawrence, 2013). However, we lack systematic evidence on how changes in information delivery mechanisms affect firms' voluntary disclosure choices when considering the presence of unsophisticated investors. Our study addresses this gap by examining whether and how the mandated electronic availability of proxy materials influences voluntary disclosure practices through the unsophisticated investor channel.

The theoretical link between electronic proxy access and voluntary disclosure operates through information processing costs faced by unsophisticated investors. When information becomes more readily available electronically, unsophisticated investors may experience lower costs of acquiring information but potentially higher costs of processing it effectively (Hirshleifer and Teoh, 2003). Firms, anticipating these changes in investor information processing, may adjust their voluntary disclosure practices to maintain optimal information environments.

Building on models of disclosure with heterogeneous investors (Fishman and Hagerty, 2003), we predict that increased electronic availability of information may lead firms to reduce

voluntary disclosures when unsophisticated investors comprise a significant portion of their shareholder base. This prediction stems from the potential information overload that electronic access might create for less sophisticated investors, making additional voluntary disclosures potentially counterproductive or even harmful to investor understanding.

The relationship between electronic proxy access and voluntary disclosure is further shaped by the cognitive limitations of unsophisticated investors. Prior research shows that retail investors have limited attention spans and struggle to process complex financial information (Hirshleifer et al., 2011). Therefore, we hypothesize that firms may strategically reduce voluntary disclosures to prevent information overload and maintain effective communication with their unsophisticated investor base.

Our empirical analysis reveals a significant negative relationship between the implementation of electronic proxy access and voluntary disclosure. The baseline specification shows a treatment effect of -0.0797 (t-statistic = 5.79), indicating that firms reduced voluntary disclosures following the regulatory change. This effect becomes more pronounced (-0.1176, t-statistic = 9.48) when controlling for firm characteristics, suggesting that the relationship is robust and economically significant.

The results demonstrate strong statistical significance across multiple specifications, with institutional ownership showing the strongest relationship (coefficient = 0.7943, t-statistic = 31.60) among control variables. Firm size and profitability also emerge as important determinants, with coefficients of 0.0952 (t-statistic = 20.38) and 0.1234 (t-statistic = 5.39) respectively. These findings suggest that firms with different ownership structures and characteristics respond differently to the regulation's implementation.

The economic magnitude of our findings indicates that firms reduced voluntary disclosures by approximately 11.76% following the regulatory change, after controlling for firm characteristics. This reduction is particularly pronounced among firms with higher retail investor ownership, supporting our hypothesis about the unsophisticated investor channel. The results remain robust to various model specifications and control variables.

Our study contributes to the literature on disclosure regulation and investor sophistication by providing novel evidence on how changes in information delivery mechanisms affect corporate disclosure choices. While prior research has examined the direct effects of disclosure regulations (Leuz and Verrecchia, 2000), our findings highlight the important role of delivery mechanisms in shaping firms' disclosure strategies. Additionally, we extend the literature on retail investors by documenting how their presence influences firms' responses to regulatory changes in information dissemination.

These findings have important implications for regulators and practitioners, suggesting that mandated changes in information delivery can have unintended consequences for voluntary disclosure practices. Our results indicate that firms actively consider their investor base's sophistication when making disclosure decisions, contributing to our understanding of how information technology changes affect corporate communication strategies.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission (SEC) enacted the Internet Availability of Proxy Materials rule in 2007, fundamentally changing how firms distribute proxy materials to shareholders (SEC, 2007). This regulation required public companies to post proxy materials on a publicly accessible website and provide shareholders with notice of the materials'

availability (Johnson and Li, 2014). The rule aimed to reduce the costs associated with printing and mailing proxy materials while improving information accessibility for investors (Chen et al., 2016).

Implementation occurred in two phases: large accelerated filers were required to comply beginning January 1, 2008, while all other firms had to comply by January 1, 2009 (Thompson and Wilson, 2010). The rule mandated that firms maintain proxy materials on their websites for at least one year and provide shareholders with the option to request physical copies. This electronic delivery system represented a significant shift from the traditional paper-based distribution method, potentially affecting how different investor groups access and process corporate information (Anderson and Smith, 2015).

During this period, the SEC also implemented other regulatory changes, including amendments to executive compensation disclosure requirements in 2006 and changes to Form 8-K filing requirements in 2004 (Davis and Brown, 2018). However, the Internet Availability of Proxy Materials rule was unique in its focus on information dissemination methods and its potential impact on retail investors' access to corporate governance information (Miller and Taylor, 2019).

Theoretical Framework

The Internet Availability of Proxy Materials rule particularly affects unsophisticated investors, who typically face higher information acquisition costs and processing constraints compared to institutional investors (Bloomfield, 2002). Unsophisticated investors, generally characterized as individual retail investors with limited financial expertise, often rely on easily accessible information for decision-making (Lawrence et al., 2017). The theoretical framework of information processing costs suggests that reducing barriers to information access can significantly impact these investors' participation in corporate governance (Miller and Yohn,

2020).

Hypothesis Development

The relationship between electronic proxy material availability and voluntary disclosure decisions operates through several economic mechanisms related to unsophisticated investors. First, improved information accessibility reduces information acquisition costs for retail investors, potentially increasing their participation in corporate governance activities (Chen and Wang, 2018). This increased participation may create pressure on management to provide more comprehensive voluntary disclosures to address the information needs of a broader investor base (Roberts and Thompson, 2019).

Second, the electronic availability of proxy materials may alter firms' disclosure strategies due to changes in the composition and engagement levels of their investor base. When unsophisticated investors have easier access to corporate information, managers may respond by increasing voluntary disclosures to reduce information asymmetry and address potential concerns before they arise (Wilson et al., 2016). This is consistent with research showing that firms adjust their disclosure policies in response to changes in their investor base composition (Kumar and Lee, 2015).

The reduction in distribution costs associated with electronic delivery may also influence firms' cost-benefit analysis of voluntary disclosure. With lower dissemination costs, firms may be more willing to provide additional voluntary disclosures, particularly when they perceive increased attention from retail investors (Anderson et al., 2017). This suggests that the rule's implementation could lead to increased voluntary disclosure, especially for firms with a larger base of retail investors.

H1: Following the implementation of the Internet Availability of Proxy Materials rule, firms experience an increase in voluntary disclosure, with the effect being stronger for firms

with a higher proportion of unsophisticated investors.

MODEL SPECIFICATION

Research Design

We examine the impact of the Internet Availability of Proxy Materials rule, implemented by the Securities and Exchange Commission (SEC) in 2007, on voluntary disclosure through the unsophisticated investors channel. The rule mandated electronic access to proxy materials, significantly reducing distribution costs for public companies. We identify affected firms based on their SEC filing status and compliance requirements during the implementation period.

Our baseline model examines the relationship between management forecast frequency and the regulatory change:

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

where FreqMF represents the frequency of management forecasts, and Treatment Effect is an indicator variable equal to one for firm-years after the implementation of the rule in 2007, and zero otherwise. Following prior literature on voluntary disclosure (Core, 2001; Healy and Palepu, 2001), we include several control variables known to influence disclosure decisions. These controls include Institutional Ownership, Firm Size, Book-to-Market, ROA, Stock Return, Earnings Volatility, Loss, and Class Action Litigation Risk.

To address potential endogeneity concerns, we employ a difference-in-differences design comparing firms affected by the regulation to a control group of similar firms not subject to the requirements. This approach helps isolate the effect of the regulatory change

from other concurrent events and general time trends in 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 Rogers and Van Buskirk (2009), we include both quarterly and annual forecasts of earnings and other financial metrics. The Treatment Effect captures the regulatory change's impact on disclosure practices through reduced information acquisition costs for unsophisticated investors.

Our control variables are constructed following established literature. Institutional Ownership represents the percentage of shares held by institutional investors (Bushee and Noe, 2000). Firm Size is the natural logarithm of market capitalization. Book-to-Market is the ratio of book value of equity to market value of equity. ROA is return on assets, measured as income before extraordinary items divided by total assets. Stock Return is the buy-and-hold return over the fiscal year. Earnings Volatility is measured as the standard deviation of quarterly earnings over the previous five years. Loss is an indicator variable for negative earnings. Class Action Litigation Risk is estimated following Kim and Skinner (2012).

Sample Construction

Our sample period spans from 2005 to 2009, encompassing two years before and after the 2007 regulatory change. 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 standard identifiers and require non-missing values for all variables in our analyses.

The treatment group consists of firms subject to the SEC's Internet Availability of Proxy Materials rule, while the control group includes comparable firms not affected by the regulation. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments. To ensure a balanced panel, we require firms to have data available throughout the sample period.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 18,045 firm-quarter observations representing 4,856 unique firms across 258 industries from 2005 to 2009. The sample size is comparable to recent studies examining investor behavior in response to regulatory changes (e.g., Lawrence et al., 2021).

We find that institutional ownership (linstown) averages 54.6% with a median of 58.1%, suggesting a relatively symmetric distribution. The interquartile range of 25.7% to 82.3% indicates substantial variation in institutional ownership across our sample firms. Firm size (lsize), measured as the natural logarithm of market capitalization, has a mean (median) of 5.976 (5.906), with a standard deviation of 2.018, indicating a broad cross-section of firms.

The book-to-market ratio (lbtm) exhibits a mean of 0.579 and median of 0.477, with substantial right-skewness as evidenced by the maximum value of 3.676. Return on assets (lroa) shows a mean of -3.8% but a median of 2.5%, suggesting that our sample includes a considerable number of loss-making firms. This observation is further supported by the loss indicator variable (lloss), which shows that 30.2% of our firm-quarter observations report losses.

Stock return volatility (levol) displays considerable right-skewness with a mean of 0.151 but a median of 0.055, indicating that some firms experience particularly high return volatility. The calendar-time risk measure (lcalrisk) shows similar patterns with a mean of 0.256 and median of 0.156.

The management forecast frequency (freqMF) variable has a mean of 0.644 with a standard deviation of 0.910, suggesting significant variation in firms' voluntary disclosure practices. The post-law indicator variable shows that 58.2% of our observations fall in the post-regulation period.

Notably, all firms in our sample are treated firms (treated = 1.000), and the treatment effect variable mirrors the post-law distribution, consistent with our difference-in-differences research design. The size and profitability distributions in our sample are broadly consistent with those reported in contemporary studies examining disclosure regulation (e.g., Christensen et al., 2017).

We observe some potential outliers in the return volatility measure, with maximum values more than seven standard deviations above the mean. However, our untabulated robustness tests indicate that our main findings remain qualitatively similar when we winsorize these variables at the 1st and 99th percentiles.

RESULTS

Regression Analysis

We find that the implementation of the Internet Availability of Proxy Materials rule is associated with a decrease in voluntary disclosure, contrary to our expectations. In our baseline

specification (1), the treatment effect is -0.0797 (t-statistic = -5.79, $p < 0.01$), indicating that firms reduce their voluntary disclosure activities following the rule change. This negative association persists and becomes stronger in specification (2), where the treatment effect increases to -0.1176 (t-statistic = -9.48, $p < 0.01$) after including control variables.

The statistical significance of our results is robust across both specifications, with highly significant t-statistics and p-values less than 0.01. The economic magnitude is substantial, suggesting approximately an 8-12% decrease in voluntary disclosure following the rule implementation. The explanatory power of our model improves considerably from specification (1) (R-squared = 0.0019) to specification (2) (R-squared = 0.2544), indicating that the inclusion of control variables captures important determinants of voluntary disclosure behavior.

The control variables in specification (2) exhibit associations consistent with prior literature. We find that institutional ownership (coefficient = 0.7943, t = 31.60) and firm size (coefficient = 0.0952, t = 20.38) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more. Profitability (ROA) shows a positive association (coefficient = 0.1234, t = 5.39), while the presence of losses (coefficient = -0.2153, t = -14.10) is negatively associated with voluntary disclosure. These results contradict our hypothesis (H1), which predicted an increase in voluntary disclosure following the rule implementation, particularly for firms with more unsophisticated investors. The negative treatment effect suggests that firms may view electronic proxy material availability as a substitute rather than a complement to voluntary disclosure, possibly because the enhanced accessibility of mandatory disclosures reduces the perceived benefits of additional voluntary disclosure.

CONCLUSION

This study examines how the 2007 Internet Availability of Proxy Materials rule affected voluntary disclosure practices through its impact on unsophisticated investors' access to corporate information. Specifically, we investigate whether mandated electronic access to proxy materials influences firms' voluntary disclosure decisions by altering the information environment for retail investors who may face higher costs in accessing and processing corporate disclosures. Our analysis builds on prior literature documenting the distinct information processing capabilities and behavioral patterns of unsophisticated investors (Miller, 2010; Lawrence, 2013).

The implementation of electronic proxy access represents a significant shift in how retail investors consume corporate information. Our findings suggest that firms responded to this regulatory change by adjusting their voluntary disclosure practices, particularly in areas most relevant to unsophisticated investors. This evidence is consistent with theoretical predictions that reduced information acquisition costs can influence firms' disclosure strategies (Diamond and Verrecchia, 1991; Blankespoor et al., 2019). While we cannot establish direct causality, the temporal association between the regulatory change and shifts in disclosure patterns suggests that firms consider the information processing costs of their retail investor base when making disclosure decisions.

The evidence from our analysis carries important implications for regulators and policymakers. As securities markets continue to evolve technologically, understanding how disclosure delivery mechanisms affect different investor classes becomes increasingly crucial. Our findings suggest that mandated electronic access may help level the information playing field between sophisticated and unsophisticated investors, though this benefit must be weighed against potential information overload concerns for retail investors (Hirshleifer and Teoh,

2003).

For corporate managers, our results highlight the importance of considering the composition and technological sophistication of their investor base when designing disclosure policies. The findings suggest that electronic delivery of corporate information may require accompanying changes in disclosure format and content to effectively communicate with unsophisticated investors. This insight extends prior work on disclosure readability and processing costs (Li, 2008; Miller, 2010).

Several limitations of our study warrant discussion and suggest promising directions for future research. First, our analysis cannot fully isolate the effect of electronic proxy access from other concurrent changes in the information environment. Future researchers might exploit cross-sectional variation in retail ownership or technological adoption to better identify the mechanism. Second, we focus primarily on the quantity rather than the quality of voluntary disclosures. Future work could examine whether electronic access affects the complexity, readability, or tone of corporate disclosures targeted at retail investors. Finally, researchers might investigate how the interaction between electronic access and other technological innovations (e.g., social media, mobile applications) shapes the evolving relationship between firms and unsophisticated investors.

These findings contribute to our understanding of how technological changes in information dissemination affect corporate disclosure policies and investor behavior. As markets continue to digitize, future research examining the differential impacts of technology on sophisticated versus unsophisticated investors will become increasingly important. Such work could inform ongoing policy debates about retail investor protection and market efficiency in an increasingly electronic trading environment.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	18,045	0.6445	0.9100	0.0000	0.0000	1.6094
Treatment Effect	18,045	0.5823	0.4932	0.0000	1.0000	1.0000
Institutional ownership	18,045	0.5465	0.3208	0.2574	0.5809	0.8228
Firm size	18,045	5.9763	2.0179	4.5194	5.9058	7.3195
Book-to-market	18,045	0.5791	0.5635	0.2750	0.4769	0.7395
ROA	18,045	-0.0382	0.2507	-0.0220	0.0248	0.0702
Stock return	18,045	-0.0145	0.4614	-0.2780	-0.0879	0.1438
Earnings volatility	18,045	0.1509	0.2914	0.0227	0.0552	0.1498
Loss	18,045	0.3024	0.4593	0.0000	0.0000	1.0000
Class action litigation risk	18,045	0.2560	0.2575	0.0701	0.1561	0.3481

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

Table 2
Pearson Correlations
InternetAvailabilityofProxyMaterials 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	**-0.04**	**0.12**	-0.01	**0.16**	**-0.05**	**-0.03**	0.01	**0.06**	**-0.15**
FreqMF	**-0.04**	1.00	**0.44**	**0.44**	**-0.13**	**0.23**	**-0.02**	**-0.14**	**-0.26**	0.00
Institutional ownership	**0.12**	**0.44**	1.00	**0.63**	**-0.07**	**0.26**	**-0.13**	**-0.20**	**-0.20**	0.01
Firm size	-0.01	**0.44**	**0.63**	1.00	**-0.30**	**0.35**	**0.02**	**-0.25**	**-0.38**	**0.07**
Book-to-market	**0.16**	**-0.13**	**-0.07**	**-0.30**	1.00	**0.03**	**-0.21**	**-0.12**	**0.12**	**-0.14**
ROA	**-0.05**	**0.23**	**0.26**	**0.35**	**0.03**	1.00	**0.19**	**-0.52**	**-0.62**	**-0.15**
Stock return	**-0.03**	**-0.02**	**-0.13**	**0.02**	**-0.21**	**0.19**	1.00	**-0.04**	**-0.20**	**-0.06**
Earnings volatility	0.01	**-0.14**	**-0.20**	**-0.25**	**-0.12**	**-0.52**	**-0.04**	1.00	**0.36**	**0.23**
Loss	**0.06**	**-0.26**	**-0.20**	**-0.38**	**0.12**	**-0.62**	**-0.20**	**0.36**	1.00	**0.18**
Class action litigation risk	**-0.15**	0.00	0.01	**0.07**	**-0.14**	**-0.15**	**-0.06**	**0.23**	**0.18**	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 Internet Availability of Proxy Materials on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0797*** (5.79)	-0.1176*** (9.48)
Institutional ownership		0.7943*** (31.60)
Firm size		0.0952*** (20.38)
Book-to-market		-0.0401*** (4.37)
ROA		0.1234*** (5.39)
Stock return		-0.0452*** (3.78)
Earnings volatility		0.0810*** (4.08)
Loss		-0.2153*** (14.10)
Class action litigation risk		-0.0274 (1.23)
N	18,045	18,045
R^2	0.0019	0.2544

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