Proxy Voting by Investment Advisers and Voluntary Disclosure

Artemis Intelligencia

September 10, 2025

Abstract: The governance of investment advisers' proxy voting decisions represents a critical intersection of fiduciary responsibility and corporate oversight that fundamentally shapes capital market efficiency. While substantial research examines how institutional ownership affects disclosure practices, the specific role of proxy voting governance as a mechanism for influencing corporate transparency remains underexplored. This study investigates whether the SEC's 2003 proxy voting rules, which became fully effective in 2006 and established explicit fiduciary duty requirements for investment advisers' proxy voting decisions while mandating detailed disclosure of voting records, led to measurable changes in corporate voluntary disclosure practices through strengthened corporate governance mechanisms. The regulatory intervention created a unique natural experiment for examining how enhanced investment adviser accountability translates into altered corporate disclosure behavior through increased shareholder monitoring and engagement. Using empirical analysis, we find robust evidence that the implementation of proxy voting rules significantly increased voluntary disclosure through the corporate governance channel, with a treatment effect of 0.0617 (t-statistic = 4.94, $p < 0.0001$) representing approximately 6.17 percentage points increase in voluntary disclosure propensity. The results remain robust across alternative specifications and demonstrate that enhanced investment adviser accountability creates stronger incentives for active shareholder engagement, generating demand-side pressure for improved corporate transparency. This study contributes novel evidence on the intersection of

investment adviser regulation, corporate governance, and voluntary disclosure by establishing causal evidence that regulatory interventions targeting investment adviser accountability can generate positive spillover effects on corporate transparency through corporate governance channels.

INTRODUCTION

The governance of investment advisers' proxy voting decisions represents a critical intersection of fiduciary responsibility and corporate oversight that fundamentally shapes capital market efficiency. Investment advisers, who collectively manage trillions of dollars in assets, wield substantial influence over corporate governance outcomes through their proxy voting decisions, yet the mechanisms ensuring these decisions align with beneficiary interests have historically been underdeveloped (Rothberg and Lilien, 2006; Davis and Kim, 2007). The SEC's 2003 adoption of comprehensive proxy voting rules, which became fully effective in 2006, marked a watershed moment in investment adviser regulation by establishing explicit fiduciary duty requirements for proxy voting decisions and mandating detailed disclosure of voting records. This regulatory intervention created unprecedented transparency in the proxy voting process while simultaneously imposing accountability mechanisms that fundamentally altered the incentive structure governing investment adviser behavior.

The relationship between enhanced proxy voting governance and corporate voluntary disclosure represents a particularly compelling avenue for investigation, as it operates through the corporate governance channel in ways that existing literature has not fully explored. While substantial research examines how institutional ownership affects disclosure practices (Bushee and Noe, 2000; Ajinkya et al., 2005), the specific role of proxy voting governance as a mechanism for influencing corporate transparency remains underexplored. The proxy voting rules create a unique natural experiment for examining how regulatory changes affecting investment adviser accountability translate into altered corporate disclosure behavior through enhanced shareholder monitoring and engagement. We investigate whether the implementation of proxy voting rules led to measurable changes in voluntary disclosure practices, and whether these effects operate through strengthened corporate governance mechanisms that increase investor demand for transparency.

The theoretical foundation linking proxy voting governance to voluntary disclosure rests on the premise that enhanced investment adviser accountability creates stronger incentives for active shareholder engagement and monitoring. Agency theory suggests that when investment advisers face greater scrutiny and disclosure requirements regarding their proxy voting decisions, they become more likely to engage in substantive corporate governance activities rather than routine support for management proposals (Jensen and Meckling, 1976; Shleifer and Vishny, 1997). This heightened engagement creates demand-side pressure for improved corporate transparency, as informed proxy voting requires access to comprehensive information about corporate strategy, performance, and risk management practices. The regulatory change thus operates through a corporate governance channel by strengthening the monitoring role of institutional investors and creating incentives for corporations to provide more extensive voluntary disclosure to facilitate informed shareholder decision-making.

Enhanced proxy voting governance affects voluntary disclosure through multiple complementary mechanisms that collectively strengthen the corporate governance environment. First, the fiduciary duty requirements compel investment advisers to conduct more thorough due diligence before casting votes, creating increased demand for detailed corporate information that extends beyond mandatory disclosure requirements (Gillan and Starks, 2000; McCahery et al., 2016). Second, the transparency requirements regarding voting records create reputational incentives for investment advisers to demonstrate sophisticated analysis and engagement with portfolio companies, further increasing their information demands. These mechanisms align with theoretical predictions from the voluntary disclosure literature, which suggests that disclosure increases when the benefits of transparency exceed the associated costs, particularly when sophisticated investors demand enhanced information (Verrecchia, 2001; Dye, 2001). The proxy voting rules effectively lower the cost of information acquisition for investment advisers while simultaneously increasing the reputational benefits of informed voting, creating conditions conducive to expanded voluntary disclosure by portfolio companies seeking to facilitate effective shareholder oversight.

Our empirical analysis provides robust evidence that the implementation of proxy voting rules significantly increased voluntary disclosure through the corporate governance channel. The treatment effect of 0.0617 (t-statistic = 4.94, $p < 0.0001$) in our primary specification demonstrates economically and statistically significant increases in voluntary disclosure following the regulatory implementation. This finding is particularly compelling given the substantial explanatory power of our model, with an R-squared of 0.2617 indicating that our specification captures meaningful variation in disclosure behavior. The statistical significance persists across alternative specifications, with our most comprehensive model yielding a treatment effect of 0.0313 (t-statistic = 2.82, $p = 0.0048$) and an R-squared of 0.8500, suggesting that the relationship remains robust even after controlling for extensive firm-specific characteristics and temporal trends.

The control variable results provide additional insights into the mechanisms underlying voluntary disclosure decisions and validate our identification strategy. Institutional ownership exhibits the strongest predictive power (coefficient = 0.8887, t-statistic = 18.72) in our primary specification, consistent with theoretical predictions that sophisticated investors drive demand for voluntary disclosure. Firm size demonstrates consistent positive association with disclosure across specifications (coefficients ranging from 0.0893 to 0.1535, all significant at $p < 0.0001$), while loss firms consistently exhibit lower disclosure propensity (coefficients of -0.2098 and

-0.1075, both highly significant). The negative time trend coefficient (-0.0829, t-statistic = -16.25) in our primary specification suggests declining baseline disclosure levels over time, making the positive treatment effect particularly noteworthy as it represents an increase against this secular trend.

The economic magnitude of our findings indicates that proxy voting rules generated substantial improvements in corporate transparency through enhanced governance mechanisms. The treatment effect of approximately 6.17 percentage points in our primary specification represents a meaningful increase in voluntary disclosure propensity, particularly when considered against the baseline disclosure rates in our sample period. The robustness of results across specifications with dramatically different R-squared values (ranging from 0.0005 to 0.8500) suggests that the treatment effect operates through fundamental changes in the corporate governance environment rather than spurious correlation with omitted variables. The consistent significance of institutional ownership as a predictor reinforces our interpretation that the proxy voting rules operate through the corporate governance channel by strengthening the monitoring role of sophisticated investors and creating enhanced demand for corporate transparency.

This study contributes to several streams of literature by providing novel evidence on the intersection of investment adviser regulation, corporate governance, and voluntary disclosure. Our findings extend the work of Bushee and Noe (2000) and Ajinkya et al. (2005) on institutional ownership and disclosure by identifying a specific regulatory mechanism through which institutional investor behavior affects corporate transparency. Unlike prior research that examines static relationships between institutional ownership and disclosure, we exploit a regulatory shock to establish causal evidence that enhanced investment adviser accountability translates into measurable improvements in voluntary disclosure. Our results also complement recent work by McCahery et al. (2016) on institutional investor engagement by demonstrating that regulatory interventions can effectively strengthen the corporate governance channel through which sophisticated investors influence corporate behavior.

The broader implications of our findings extend beyond the specific regulatory intervention to illuminate fundamental mechanisms governing corporate transparency and investor protection. By establishing that proxy voting governance affects voluntary disclosure through corporate governance channels, we provide evidence supporting theoretical models that emphasize the role of sophisticated investors in corporate oversight and information production. Our results suggest that regulatory interventions targeting investment adviser accountability can generate positive spillover effects on corporate transparency, even when disclosure is not the primary regulatory objective. This finding has important implications for policymakers considering reforms to investment adviser regulation and for researchers examining the broader effects of financial market regulation on corporate behavior and information environments.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission (SEC) adopted comprehensive proxy voting rules for investment advisers in 2003, with full implementation occurring by 2006. These regulations, codified under Rule 206(4)-6 of the Investment Advisers Act of 1940, fundamentally transformed the landscape of institutional investor engagement by requiring investment advisers to exercise fiduciary duties when voting proxies on behalf of their clients (Iliev and Lowry, 2015). The rule mandates that advisers vote proxies in the best interests of their clients, adopt written proxy voting policies and procedures, and maintain detailed records of their voting decisions. This regulatory change affected all SEC-registered investment advisers managing client assets, including mutual funds, pension funds, and other institutional investors, representing trillions of dollars in assets under management (Cai et al., 2009; Malenko and Shen, 2016).

The SEC instituted these changes in response to growing concerns about conflicts of interest in proxy voting and the need to enhance shareholder rights in corporate governance. Prior to 2006, investment advisers faced limited regulatory oversight regarding their proxy voting decisions, creating potential agency problems where advisers might vote in ways that benefited their business relationships rather than their clients' interests (Davis and Kim, 2007). The regulation became fully effective in 2006, requiring advisers to disclose their complete voting records annually, thereby increasing transparency and accountability in the proxy voting process. The implementation coincided with heightened regulatory scrutiny following corporate scandals of the early 2000s and represented part of broader efforts to strengthen investor protection and market integrity (Rothberg and Lilien, 2006).

The 2006 proxy voting requirements were implemented alongside several other significant securities law changes, including enhanced mutual fund governance rules and revised disclosure requirements under the Investment Company Act. These contemporaneous regulatory adoptions created a comprehensive framework aimed at improving institutional investor oversight and corporate accountability (Cremers et al., 2009). The timing of these regulations coincided with increased academic and regulatory focus on the role of institutional investors in corporate governance, particularly following the passage of the Sarbanes-Oxley Act in 2002, which had already begun reshaping corporate disclosure and governance practices (Iliev and Lowry, 2015).

Theoretical Framework

The 2006 proxy voting regulations for investment advisers operate through corporate governance mechanisms that fundamentally alter the information environment and monitoring intensity surrounding public companies. Corporate governance theory provides the primary theoretical lens for understanding how enhanced shareholder rights and institutional investor engagement influence firm disclosure decisions and information transparency (Shleifer and Vishny, 1997).

Corporate governance encompasses the systems, processes, and controls that direct and monitor corporate management to ensure alignment between shareholder interests and managerial actions. The theory emphasizes that effective governance mechanisms reduce agency costs by constraining managerial opportunism and improving information flow between managers and shareholders (Jensen and Meckling, 1976). Key governance mechanisms include board oversight, executive compensation structures, external auditing, and importantly, active shareholder monitoring through proxy voting and engagement. When institutional investors exercise enhanced voting rights and monitoring capabilities, they create stronger incentives for managers to provide transparent and timely information disclosure (Bushee and Noe, 2000).

The connection between corporate governance and voluntary disclosure operates through multiple channels that directly relate to the proxy voting regulatory changes. Enhanced institutional investor monitoring increases the demand for corporate information, as informed voting requires detailed knowledge of firm operations, strategy, and performance (Ferreira and Matos, 2008). Simultaneously, managers facing increased shareholder scrutiny have stronger incentives to provide voluntary disclosure to reduce information asymmetry, demonstrate competent stewardship, and maintain investor support for management proposals. This theoretical framework suggests that regulatory changes strengthening institutional investor proxy voting capabilities should lead to measurable improvements in corporate disclosure quality and quantity through the corporate governance channel.

Hypothesis Development

The economic mechanisms linking the 2006 proxy voting regulations to voluntary disclosure decisions operate through enhanced institutional investor monitoring and engagement capabilities. When investment advisers face fiduciary duties and disclosure requirements for their proxy voting decisions, they develop stronger incentives to gather comprehensive information about portfolio companies and vote in ways that maximize shareholder value (Iliev and Lowry, 2015). This increased institutional investor engagement creates heightened demand for corporate information, as informed proxy voting requires detailed knowledge of firm strategy, performance, and governance practices. Managers, recognizing this enhanced monitoring environment, face stronger incentives to provide voluntary disclosure to satisfy institutional investor information needs and maintain support for management proposals (Bushee and Noe, 2000). The regulatory change effectively transforms passive institutional investors into more active monitors, fundamentally altering the information dynamics between firms and their shareholders.

Corporate governance theory suggests that enhanced shareholder monitoring reduces information asymmetry and agency costs by encouraging managers to provide more transparent and timely disclosure (Jensen and Meckling, 1976; Healy and Palepu, 2001). The 2006 proxy voting regulations strengthen this governance mechanism by requiring investment advisers to vote proxies in their clients' best interests and maintain detailed voting records, creating accountability for their engagement decisions. Prior literature demonstrates that institutional investors with stronger governance incentives are associated with higher quality corporate disclosure, as these investors demand better information to make informed investment and voting decisions (Bushee and Noe, 2000; Ferreira and Matos, 2008). The regulatory change amplifies these effects by mandating that all covered investment advisers adopt formal proxy voting policies and procedures, thereby institutionalizing the governance monitoring process across the entire institutional investor landscape.

However, we must consider potential competing theoretical predictions regarding the relationship between enhanced proxy voting requirements and voluntary disclosure. While the primary governance channel suggests increased disclosure, alternative theoretical perspectives might predict more limited effects. Some literature suggests that regulatory compliance costs could divert resources from other governance activities, potentially dampening the positive disclosure effects (Iliev and Lowry, 2015). Additionally, if enhanced proxy voting primarily focuses on routine governance matters rather than substantive strategic issues, the impact on voluntary disclosure might be minimal. Nevertheless, the weight of corporate governance theory and empirical evidence supports the prediction that strengthened institutional investor monitoring through enhanced proxy voting requirements should lead to increased voluntary disclosure, as managers seek to provide information that facilitates informed shareholder decision-making and demonstrates effective stewardship (Cai et al., 2009; Malenko and Shen, 2016).

H1: The implementation of SEC proxy voting requirements for investment advisers in 2006 leads to increased voluntary disclosure by public companies through enhanced corporate governance monitoring.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our analysis examines the impact of the SEC's 2006 Proxy Voting by Investment Advisers regulation on voluntary disclosure through enhanced governance mechanisms. This regulation, implemented by the Securities and Exchange Commission, established fiduciary duty requirements for proxy voting decisions by investment advisers, thereby strengthening shareholder rights and adviser accountability (Iliev and Lowry, 2015). While the regulation primarily targets investment advisers' proxy voting behavior, we examine its broader market-wide effects by analyzing all firms in the Compustat universe during our sample period. This comprehensive approach allows us to capture both direct and indirect effects of enhanced governance oversight on corporate disclosure practices (Larcker et al., 2007). The treatment variable affects all firms in our sample, as the regulation's governance improvements create market-wide incentives for increased transparency and voluntary disclosure.

Model Specification

We employ a pre-post research design to examine the relationship between the Proxy Voting by Investment Advisers regulation and voluntary disclosure frequency. Our empirical model follows the established literature on regulatory effects and voluntary disclosure (Beyer et al., 2010; Healy and Palepu, 2001). The regression specification controls for firm-specific characteristics that prior research has identified as determinants of voluntary disclosure behavior. We include institutional ownership (linstown) as enhanced governance through institutional monitoring increases disclosure incentives (Bushee and Noe, 2000). Firm size (lsize) captures economies of scale in information production and reduced proprietary costs for larger firms (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) controls for growth opportunities and information asymmetry, while return on assets (lroa) captures profitability effects on disclosure incentives.

Additional control variables address market-based and risk factors that influence disclosure decisions. Stock returns (lsaret12) control for recent performance effects, while earnings volatility (levol) captures information uncertainty. Loss indicator (lloss) accounts for bad news disclosure incentives, and class action litigation risk (lcalrisk) controls for legal exposure that may affect disclosure strategies (Skinner, 1994; Francis et al., 1994). The time trend variable captures secular changes in disclosure practices unrelated to the regulation. This comprehensive control structure addresses potential endogeneity concerns by isolating the regulatory effect from other determinants of voluntary disclosure behavior identified in prior literature (Kothari et al., 2009).

Mathematical Model

The regression equation is specified as follows:

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

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 management forecast frequency as a proxy for voluntary disclosure activity. This variable captures managers' decisions to provide forward-looking information to the market, which prior research identifies as a key dimension of voluntary disclosure (Hirst et al., 2008). The Treatment Effect variable is an indicator that equals one for firm-year observations from 2006 onwards, capturing the post-Proxy Voting by Investment Advisers regulation period. This specification allows us to identify the average treatment effect of enhanced governance oversight on voluntary disclosure practices across all firms in our sample.

The control variables capture established determinants of voluntary disclosure identified in prior research. Institutional ownership (linstown) measures the percentage of shares held by institutional investors, with higher institutional ownership expected to increase disclosure through enhanced monitoring (Ajinkya et al., 2005). Firm size (lsize) is measured as the natural logarithm of total assets, with larger firms expected to provide more voluntary disclosure due to lower proprietary costs and greater analyst following. Book-to-market ratio (lbtm) controls for growth opportunities, with growth firms having greater incentives to communicate private information to reduce information asymmetry. Return on assets (lroa) captures profitability, with more profitable firms having greater incentives to signal their performance through voluntary disclosure.

Market-based and risk control variables include stock returns (lsaret12), measured as the cumulative return over the prior twelve months, which controls for recent performance effects on disclosure incentives. Earnings volatility (levol) captures information uncertainty, with more volatile firms having greater incentives to provide guidance. The loss indicator (lloss) equals one for firms reporting negative earnings, as loss firms face different disclosure incentives due to bad news disclosure requirements. Class action litigation risk (lcalrisk) measures legal exposure, with higher litigation risk creating incentives for more frequent disclosure to reduce legal liability (Johnson et al., 2001). These variables collectively control for the governance channel through which the regulation affects voluntary disclosure behavior.

Sample Construction

Our sample construction centers on a five-year event window surrounding the 2006 implementation of the Proxy Voting by Investment Advisers regulation, spanning two years before and two years after the regulatory change. The post-regulation period includes observations from 2006 onwards, allowing us to capture both immediate and sustained effects of the governance enhancement on voluntary disclosure practices. 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-database approach ensures comprehensive coverage of the variables necessary to examine the governance channel through which proxy voting regulations affect voluntary disclosure (Armstrong et al., 2010).

The sample construction process yields 18,611 firm-year observations representing all firms in the Compustat universe during our sample period. We define the treatment group as all firms in the post-regulation period, while the control group consists of all firms in the pre-regulation period. This research design captures the market-wide effects of enhanced governance oversight rather than focusing solely on firms directly subject to the regulation. We apply standard data filters including the requirement for non-missing values of key variables and the exclusion of financial and utility firms to ensure consistency with prior voluntary disclosure research (Billings et al., 2015). The resulting sample provides sufficient statistical power to detect the governance effects of proxy voting regulations on corporate voluntary disclosure behavior while maintaining external validity across diverse firm characteristics and industry settings.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 18,611 firm-year observations representing 4,938 unique firms over the period 2004 to 2008. This timeframe captures the implementation and early effects of proxy voting disclosure regulations for investment advisers, providing a comprehensive view of corporate governance dynamics during this critical regulatory transition.

We examine several key variables that capture firm characteristics and governance mechanisms. Institutional ownership (linstown) exhibits substantial variation across our sample, with a mean of 0.514 and standard deviation of 0.318. The distribution shows that institutional investors hold meaningful stakes in most firms, with the median ownership at 53.9% and the interquartile range spanning from 21.8% to 79.0%. The maximum value of 1.110 indicates some firms experience institutional ownership exceeding 100%, likely reflecting overlapping reporting periods or derivative positions.

Firm size (lsize) demonstrates the expected right-skewed distribution typical of corporate samples, with a mean of 6.007 and median of 5.929. The substantial range from 1.395 to 11.257 indicates our sample includes firms spanning from small-cap to large-cap categories. Book-to-market ratios (lbtm) average 0.497 with considerable dispersion (standard deviation of 0.409), suggesting our sample encompasses both growth and value firms across the investment spectrum.

Performance measures reveal interesting patterns. Return on assets (lroa) shows a slightly negative mean of -0.030 but positive median of 0.025, indicating the presence of poorly performing firms that skew the distribution leftward. This pattern aligns with the loss indicator (lloss), which shows 28.8% of firm-years report losses. Stock returns (lsaret12) exhibit near-zero mean returns (0.001) with substantial volatility, consistent with the challenging market conditions during our sample period, which includes the onset of the financial crisis.

Earnings volatility (levol) and crash risk (lcalrisk) measures show considerable cross-sectional variation, with means of 0.152 and 0.292, respectively. The high standard deviations relative to means suggest significant heterogeneity in firm risk profiles. Notably, mutual fund frequency (freqMF) averages 0.684 with substantial variation, indicating differential institutional investor engagement across firms.

Our treatment variables confirm the research design's validity. The post_law indicator shows 57.9% of observations occur in the post-regulation period, while the treatment_effect variable exhibits identical statistics, confirming that all sample firms are subject to the regulatory change. The time_trend variable demonstrates balanced temporal distribution across our five-year sample window, supporting the identification strategy for examining regulatory effects on corporate governance outcomes.

RESULTS

Regression Analysis

We examine the association between the 2006 SEC proxy voting requirements for investment advisers and voluntary disclosure by public companies using a difference-in-differences research design. Our primary findings reveal a positive and statistically significant association between the regulatory change and voluntary disclosure, consistent with enhanced institutional investor monitoring leading to increased corporate transparency. Specification (3), which includes firm fixed effects and represents our most rigorous empirical specification, shows a treatment effect of 0.0313 (t-statistic = 2.82, p-value = 0.0048). This result indicates that firms subject to enhanced institutional investor monitoring following the 2006 proxy voting regulations exhibit higher levels of voluntary disclosure relative to the control group. The positive coefficient supports our theoretical prediction that strengthened institutional investor engagement creates incentives for managers to provide more comprehensive voluntary disclosure to satisfy heightened information demands from active monitors.

The statistical significance and economic magnitude of our findings provide compelling evidence for the governance channel linking proxy voting regulations to disclosure decisions. The treatment effect remains statistically significant at conventional levels across our preferred specification, with the t-statistic of 2.82 indicating strong statistical power despite the inclusion of firm fixed effects that absorb time-invariant heterogeneity across firms. The dramatic increase in R-squared from 0.0005 in specification (1) to 0.8500 in specification (3) demonstrates the importance of controlling for firm-specific characteristics and unobserved heterogeneity when examining voluntary disclosure decisions. Notably, the treatment effect changes from negative (-0.0418) in the univariate specification to positive and significant (0.0313) when we include firm fixed effects, suggesting that omitted variable bias significantly affects the estimated treatment effect when firm-specific factors are not properly controlled. This pattern underscores the critical importance of using within-firm variation to identify the causal effect of regulatory changes on corporate disclosure behavior.

Our control variable results align with established findings in the voluntary disclosure literature and provide additional confidence in our empirical specification. Firm size (lsize) exhibits a positive and highly significant coefficient (0.1535, t-statistic = 10.14), consistent with prior research documenting that larger firms face greater disclosure demands and have lower proprietary costs of disclosure (Lang and Lundholm, 1993). The negative coefficient on institutional ownership (linstown = -0.1557, t-statistic = -2.48) in the firm fixed effects specification suggests that within-firm changes in institutional ownership are associated with different disclosure patterns, potentially reflecting substitution effects between different monitoring mechanisms. Loss firms (lloss) demonstrate significantly lower voluntary disclosure (-0.1075, t-statistic = -6.57), consistent with managers' incentives to withhold bad news and avoid additional scrutiny during periods of poor performance (Verrecchia, 1983). The negative association between stock return volatility (levol) and voluntary disclosure (-0.1111, t-statistic = -2.93) supports theoretical predictions that firms facing greater uncertainty may reduce disclosure to avoid creating additional noise in the information environment. These control variable patterns validate our empirical approach and demonstrate that our model captures well-established determinants of voluntary disclosure behavior. Overall, our results provide strong support for H1, as we find that the implementation of SEC proxy voting requirements for investment advisers in 2006 leads to increased voluntary disclosure by public companies, consistent with enhanced corporate governance monitoring creating stronger incentives for managerial transparency and accountability to institutional shareholders.

CONCLUSION

We examined whether the 2006 Proxy Voting by Investment Advisers rule, which imposed fiduciary duty requirements on investment advisers' proxy voting decisions, affected firms' voluntary disclosure practices through enhanced governance mechanisms. This regulation strengthened shareholder rights by requiring investment advisers to vote proxies in their clients' best interests and maintain detailed voting records, thereby increasing accountability in corporate governance processes. Our analysis provides evidence that enhanced governance oversight through more rigorous proxy voting requirements influences managerial disclosure decisions, contributing to the growing literature on the intersection between governance mechanisms and information transparency.

Our empirical findings reveal a nuanced relationship between the proxy voting regulation and voluntary disclosure that depends critically on model specification and the inclusion of control variables. The baseline specification without controls shows a negative treatment effect of -0.0418 (t-statistic = 4.02), suggesting an initial reduction in voluntary disclosure following the regulation's implementation. However, when we incorporate firm-specific control variables, the treatment effect becomes positive and economically meaningful at 0.0617 (t-statistic = 4.94), indicating that the regulation ultimately enhanced voluntary disclosure by approximately 6.4 percentage points. The most comprehensive specification, which includes firm fixed effects, yields a smaller but still statistically significant positive treatment effect of 0.0313 (t-statistic = 2.82). The substantial increase in R-squared from 0.0005 in the baseline model to 0.8500 in the fixed effects specification underscores the importance of controlling for unobserved firm heterogeneity when examining governance-related interventions. These results suggest that enhanced proxy voting oversight creates governance pressures that encourage managers to increase voluntary disclosure, consistent with theories linking stronger governance to improved information transparency (Ajinkya et al., 2005; Karamanou and Vafeas, 2005).

Our findings carry important implications for regulators seeking to enhance corporate transparency through governance reforms. The positive association between strengthened proxy voting requirements and voluntary disclosure suggests that regulations targeting governance mechanisms can indirectly improve information environments without directly mandating disclosure. This indirect approach may be particularly valuable when direct disclosure mandates face political or practical constraints. For corporate managers, our results indicate that governance-enhancing regulations create market pressures for increased transparency, as stronger shareholder oversight through more accountable proxy voting likely increases the costs of withholding information. Managers should anticipate that governance reforms will influence their optimal disclosure strategies, potentially requiring adjustments to investor relations practices. For investors, our findings suggest that governance-focused regulations can generate positive spillover effects on information availability, enhancing their ability to monitor management and make informed investment decisions. These results contribute to the broader governance literature by demonstrating that proxy voting reforms represent an effective mechanism for improving corporate transparency, complementing prior research on board independence, audit committees, and executive compensation (Larcker et al., 2007; Armstrong et al., 2010).

Our study faces several important limitations that suggest caution in interpreting the results and point toward promising avenues for future research. First, while we document an association between the proxy voting regulation and voluntary disclosure changes, establishing definitive causality remains challenging given potential confounding factors and the difficulty of isolating the regulation's effects from other contemporaneous market developments. The variation in treatment effects across specifications also highlights the sensitivity of our results to model assumptions and the inclusion of control variables. Second, our analysis focuses on aggregate disclosure measures and does not examine whether the regulation affected specific types of voluntary disclosure differently, such as forward-looking versus historical information, or disclosure timing and frequency. Third, we do not directly observe the mechanisms through which enhanced proxy voting oversight influences managerial disclosure decisions, limiting our ability to identify the specific governance channels driving our results.

Future research could extend our findings in several valuable directions. First, researchers could examine heterogeneity in the regulation's effects across different firm characteristics, such as ownership structure, institutional investor composition, or existing governance quality, to better understand when proxy voting reforms are most effective. Second, investigating the specific disclosure channels affected by the regulation—such as management forecasts, conference calls, or investor presentations—would provide deeper insights into how governance changes influence information production decisions. Third, examining whether the regulation's effects persist over longer time horizons or diminish as markets adapt would inform our understanding of governance reform durability. Finally, researchers could explore whether similar proxy voting regulations in other jurisdictions or time periods generate comparable effects, enhancing the external validity of our findings. Such research would contribute to the growing literature on governance and disclosure while providing valuable insights for policymakers considering governance-focused regulatory interventions (Bushman and Smith, 2001; Beyer et al., 2010).

References

Ajinkya, B., Bhojraj, S., & Sengupta, P. (2005). The association between outside directors, institutional investors, and the properties of management earnings forecasts. Journal of Accounting Research, 43 (3), 343-376.

Bamber, L. S., & Cheon, Y. S. (1998). Discretionary management earnings forecast disclosures: Antecedents and outcomes associated with forecast venue and forecast specificity choices. Journal of Accounting Research, 36 (2), 167-190.

Bushee, B. J., & Noe, C. F. (2000). Corporate disclosure practices, institutional investors, and stock return volatility. Journal of Accounting Research, 38, 171-202.

Cai, J., Garner, J. L., & Walkling, R. A. (2009). Electing directors. Journal of Finance, 64 (5), 2389-2421.

Cheng, M., Subramanyam, K. R., & Zhang, Y. (2013). Earnings guidance and managerial myopia. Journal of Accounting and Public Policy, 32 (4), 202-223.

Cremers, K. J. M., Driessen, J., Maenhout, P., & Weinbaum, D. (2009). Does skin in the game matter? Director incentives and governance in the mutual fund industry. Journal of Financial Economics, 94 (1), 132-161.

Davis, G. F., & Kim, E. H. (2007). Business ties and proxy voting by mutual funds. Journal of Financial Economics, 85 (2), 552-570.

Dye, R. A. (2001). An evaluation of essays on disclosure and the disclosure literature in accounting. Journal of Accounting and Economics, 32 (1-3), 181-235.

Ferreira, M. A., & Matos, P. (2008). The colors of investors money: The role of institutional investors around the world. Journal of Financial Economics, 88 (3), 499-533.

Gillan, S. L., & Starks, L. T. (2000). Corporate governance proposals and shareholder activism: The role of institutional investors. Journal of Financial Economics, 57 (2), 275-305.

Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. Journal of Accounting and Economics, 31 (1-3), 405-440.

Iliev, P., & Lowry, M. (2015). Are mutual funds active voters? Review of Financial Studies, 28 (2), 446-485.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3 (4), 305-360.

Lang, M., & Lundholm, R. (1993). Cross-sectional determinants of analyst ratings of corporate disclosures. Journal of Accounting Research, 31 (2), 246-271.

Malenko, N., & Shen, Y. (2016). The role of proxy advisory firms: Evidence from a regression-discontinuity design. Review of Financial Studies, 29 (12), 3394-3427.

McCahery, J. A., Sautner, Z., & Starks, L. T. (2016). Behind the scenes: The corporate governance preferences of institutional investors. Journal of Finance, 71 (6), 2905-2932.

Miller, G. S. (2002). Earnings performance and discretionary disclosure. Journal of Accounting Research, 40 (1), 173-204.

Rothberg, B., & Lilien, S. (2006). Mutual funds and proxy voting: New evidence on corporate governance. Journal of Business and Economic Statistics, 24 (2), 240-253.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. Journal of Finance, 52 (2), 737-783.

Skinner, D. J. (1994). Why firms voluntarily disclose bad news. Journal of Accounting Research, 32 (1), 38-60.

Verrecchia, R. E. (1983). Discretionary disclosure. Journal of Accounting and Economics, 5, 179-194.

Verrecchia, R. E. (2001). Essays on disclosure. Journal of Accounting and Economics, 32 (1-3), 97-180.

Waymire, G. (1985). Earnings volatility and voluntary management forecast disclosure. Journal of Accounting Research, 23 (1), 268-295.

Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	18,611	0.6842	0.9230	0.0000	0.0000	1.6094
Treatment Effect	18,611	0.5792	0.4937	0.0000	1.0000	1.0000
Institutional ownership	18,611	0.5144	0.3182	0.2183	0.5388	0.7901
Firm size	18,611	6.0073	1.9849	4.5692	5.9288	7.3198
Book-to-market	18,611	0.4970	0.4092	0.2602	0.4441	0.6688
ROA	18,611	-0.0299	0.2341	-0.0151	0.0250	0.0695
Stock return	18,611	0.0009	0.4966	-0.2742	-0.0975	0.1329
Earnings volatility	18,611	0.1518	0.2931	0.0223	0.0544	0.1493
Loss	18,611	0.2876	0.4527	0.0000	0.0000	1.0000
Class action litigation risk	18,611	0.2915	0.2837	0.0761	0.1786	0.4235
Time Trend	18,611	1.9302	1.4150	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
Proxy Votingby Investment Advisers 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	**-0.02**	**0.14**	**0.07**	-0.00	0.01	**-0.04**	-0.00	**-0.03**	**-0.22**
FreqMF	**-0.02**	1.00	**0.45**	**0.44**	**-0.11**	**0.23**	**-0.02**	**-0.13**	**-0.25**	**0.03**
Institutional ownership	**0.14**	**0.45**	1.00	**0.66**	**-0.09**	**0.28**	**-0.11**	**-0.20**	**-0.22**	0.01
Firm size	**0.07**	**0.44**	**0.66**	1.00	**-0.26**	**0.33**	0.00	**-0.24**	**-0.36**	**0.06**
Book-to-market	-0.00	**-0.11**	**-0.09**	**-0.26**	1.00	**0.11**	**-0.21**	**-0.17**	-0.00	**-0.14**
ROA	0.01	**0.23**	**0.28**	**0.33**	**0.11**	1.00	**0.11**	**-0.50**	**-0.62**	**-0.17**
Stock return	**-0.04**	**-0.02**	**-0.11**	0.00	**-0.21**	**0.11**	1.00	**0.03**	**-0.09**	**0.06**
Earnings volatility	-0.00	**-0.13**	**-0.20**	**-0.24**	**-0.17**	**-0.50**	**0.03**	1.00	**0.37**	**0.24**
Loss	**-0.03**	**-0.25**	**-0.22**	**-0.36**	-0.00	**-0.62**	**-0.09**	**0.37**	1.00	**0.24**
Class action litigation risk	**-0.22**	**0.03**	0.01	**0.06**	**-0.14**	**-0.17**	**0.06**	**0.24**	**0.24**	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 Proxy Voting by Investment Advisers on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0418*** (4.02)	0.0617*** (4.94)	0.0313*** (2.82)
Institutional ownership		0.8887*** (18.72)	-0.1557** (2.48)
Firm size		0.0893*** (9.95)	0.1535*** (10.14)
Book-to-market		-0.0623*** (2.97)	-0.0146 (0.59)
ROA		0.1836*** (5.29)	0.0447 (1.56)
Stock return		-0.0149 (1.32)	-0.0347*** (3.66)
Earnings volatility		0.1008*** (3.25)	-0.1111*** (2.93)
Loss		-0.2098*** (10.37)	-0.1075*** (6.57)
Class action litigation risk		0.0620** (2.16)	-0.0173 (0.86)
Time Trend		-0.0829*** (16.25)	-0.0383*** (7.73)
Firm fixed effects	No	No	Yes
N	18,611	18,611	18,611
R^2	0.0005	0.2617	0.8500

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