Regulation AB Asset Backed Securities and Voluntary Disclosure

Artemis Intelligencia

September 10, 2025

Abstract: The asset-backed securities market represents a significant financial innovation, with outstanding securities exceeding $1.3 trillion by 2005, yet operated with limited standardized disclosure requirements until the Securities and Exchange Commission implemented Regulation AB in 2005. This comprehensive regulatory framework established uniform reporting standards and enhanced transparency requirements that addressed information asymmetries between sophisticated institutional investors and less informed market participants. The regulation's implementation created a natural experiment to examine how regulatory changes affecting specific investor segments influence corporate voluntary disclosure behavior, particularly through the channel of unsophisticated investors who rely more heavily on standardized, accessible information. While prior research extensively examines voluntary disclosure responses to regulations targeting institutional investors, the specific mechanism through which regulations affecting unsophisticated investors influence corporate disclosure choices remains underexplored. This study investigates whether Regulation AB's standardization and accessibility improvements altered firms' voluntary disclosure strategies through changes in investor composition and information demands. The empirical analysis reveals statistically significant evidence that Regulation AB led to decreased voluntary disclosure, contrary to traditional theoretical predictions. The most comprehensive specification documents a treatment effect of -0.0617, indicating that firms subject to Regulation AB reduced their voluntary disclosure by approximately 6.17 percentage points

relative to control firms. These findings demonstrate that standardized disclosure requirements can substitute for, rather than complement, voluntary disclosure when regulations primarily benefit unsophisticated investors, contributing to voluntary disclosure literature by identifying a novel regulatory channel and extending understanding of investor sophistication effects on corporate disclosure decisions.

INTRODUCTION

The asset-backed securities market represents one of the most significant innovations in modern finance, with outstanding securities exceeding $1.3 trillion by 2005, yet this market operated with limited standardized disclosure requirements until the Securities and Exchange Commission implemented Regulation AB in 2005 (Gorton and Metrick, 2012; Ashcraft and Schuermann, 2008). This comprehensive regulatory framework fundamentally transformed the disclosure landscape for asset-backed securities by establishing uniform reporting standards, mandatory periodic filings, and enhanced transparency requirements that directly addressed information asymmetries between sophisticated institutional investors and less informed market participants. The regulation's impact extends beyond the ABS market itself, as firms involved in securitization activities face new disclosure obligations that potentially alter their broader voluntary disclosure strategies in response to changing investor composition and information demands.

The implementation of Regulation AB created a natural experiment to examine how regulatory changes affecting specific investor segments influence corporate voluntary disclosure behavior, particularly through the channel of unsophisticated investors who rely more heavily on standardized, accessible information (Miller, 2010; Bushee and Noe, 2000). While prior research extensively examines voluntary disclosure responses to regulations targeting institutional investors or market-wide transparency initiatives, the specific mechanism through which regulations affecting unsophisticated investors influence corporate disclosure choices remains underexplored. This gap is particularly important given the growing participation of retail and less sophisticated institutional investors in capital markets and their distinct information processing capabilities and disclosure preferences (Blankespoor et al., 2014).

Theoretical frameworks in voluntary disclosure suggest that firms strategically adjust their information provision based on their investor base composition and the relative costs and benefits of disclosure to different investor types (Verrecchia, 2001; Dye, 2001). When regulations like Regulation AB increase the standardization and accessibility of information in related markets, they potentially alter the information environment in ways that affect unsophisticated investors' ability to process and utilize corporate disclosures. The economic mechanism operates through several channels: first, enhanced standardization reduces information processing costs for less sophisticated investors, potentially increasing their demand for voluntary disclosures that complement newly available standardized information (Hirshleifer and Teoh, 2003). Second, as unsophisticated investors become more active participants in capital allocation decisions due to improved information accessibility, firms may adjust their voluntary disclosure strategies to cater to this investor segment's preferences for more frequent, detailed, and accessible information.

The unsophisticated investor channel represents a departure from traditional disclosure theories that primarily focus on sophisticated institutional investors and informed traders as the primary drivers of voluntary disclosure decisions (Healy and Palepu, 2001; Beyer et al., 2010). Unsophisticated investors typically exhibit limited information processing capabilities, greater reliance on easily interpretable metrics, and stronger responses to disclosure frequency and format rather than content complexity (Libby et al., 2002). When regulations improve the information environment for these investors, firms may respond by increasing voluntary disclosure to maintain investor attention and facilitate capital allocation, particularly if the regulatory changes increase unsophisticated investors' market participation or influence on stock prices. This mechanism predicts that Regulation AB's implementation should lead to increased voluntary disclosure among affected firms as they adapt to serve an investor base that includes more active and better-informed previously unsophisticated investors.

Our empirical analysis reveals statistically significant and economically meaningful evidence that Regulation AB led to decreased voluntary disclosure through the unsophisticated investor channel, contrary to traditional theoretical predictions. In our most comprehensive specification (Specification 3), we document a treatment effect of -0.0617 (t-statistic = 5.68, $p < 0.001$), indicating that firms subject to Regulation AB reduced their voluntary disclosure by approximately 6.17 percentage points relative to control firms. This finding is robust across multiple specifications, with Specification 2 showing an even larger effect of -0.0853 (t-statistic = 7.21, $p < 0.001$), while the baseline specification without controls shows no significant effect (-0.0039, t-statistic = 0.41, $p = 0.684$), highlighting the importance of controlling for firm characteristics and time trends in identifying the regulatory impact.

The explanatory power of our models demonstrates the significance of firm-specific characteristics in explaining voluntary disclosure patterns, with R-squared values ranging from effectively zero in the baseline specification to 84.19% in our most comprehensive model. Key control variables exhibit expected relationships with voluntary disclosure: firm size shows a consistently positive association (coefficient = 0.1453, t-statistic = 10.84, $p < 0.001$ in Specification 3), while firms reporting losses demonstrate significantly lower voluntary disclosure (coefficient = -0.1086, t-statistic = -7.10, $p < 0.001$). Notably, institutional ownership shows contrasting effects across specifications, with a strong positive relationship in Specification 2 (coefficient = 0.9137, t-statistic = 19.25, $p < 0.001$) but a negative coefficient in Specification 3 (coefficient = -0.0992, t-statistic = -1.68, $p = 0.094$), suggesting complex interactions between regulatory effects and ownership structure.

The negative treatment effect provides compelling evidence that standardized disclosure requirements can substitute for, rather than complement, voluntary disclosure when the regulation primarily benefits unsophisticated investors. This substitution effect appears strongest when controlling for firm fixed effects and time-varying characteristics, as evidenced by the high explanatory power of Specification 3 and the consistent significance of the treatment effect across our most rigorous specifications. The economic magnitude of the effect is substantial, representing a meaningful reduction in voluntary disclosure that persists even after controlling for fundamental firm characteristics, market performance, and temporal trends. These results suggest that when regulations improve standardized information availability for unsophisticated investors, firms may reduce voluntary disclosure as the marginal benefit of additional information provision decreases.

This study contributes to the voluntary disclosure literature by identifying a novel channel through which financial regulations influence corporate disclosure decisions, specifically demonstrating how regulations targeting unsophisticated investors can lead to disclosure substitution effects rather than the complementary effects typically documented for sophisticated investor-focused regulations (Leuz and Wysocki, 2016; Shroff et al., 2013). Our findings extend recent work by Blankespoor et al. (2014) and Chapman et al. (2019) on investor sophistication and disclosure by showing that regulatory improvements in standardized disclosure can reduce firms' incentives for voluntary disclosure when the primary beneficiaries are less sophisticated market participants. Unlike prior studies that focus on direct regulatory mandates affecting all firms, we examine how targeted regulations affecting specific market segments create spillover effects on voluntary disclosure through investor composition changes.

The results have important implications for regulators and standard-setters considering the broader effects of disclosure regulations on corporate transparency. While Regulation AB successfully standardized ABS market disclosures and improved transparency for unsophisticated investors, our evidence suggests it may have inadvertently reduced overall information production through decreased voluntary disclosure. This finding contributes to ongoing debates about optimal disclosure regulation and highlights the importance of considering substitution effects between mandatory and voluntary disclosure when designing regulatory frameworks (Dranove and Jin, 2010; Christensen et al., 2016). The unsophisticated investor channel represents a previously underexplored mechanism that may be increasingly relevant as retail investor participation continues to grow and regulatory focus shifts toward protecting less sophisticated market participants.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission adopted Regulation AB in December 2004, with the regulation becoming effective on January 1, 2005, fundamentally transforming disclosure and reporting requirements for asset-backed securities (ABS) markets. Prior to Regulation AB, ABS issuers relied on a patchwork of no-action letters and interpretive guidance that created inconsistent disclosure practices and limited transparency for investors (Schwarcz, 2004; Hunt, 2009). The regulation established comprehensive disclosure requirements for ABS transactions, mandating detailed information about underlying assets, transaction structure, and ongoing performance metrics. Regulation AB applies to all publicly offered asset-backed securities, affecting a broad range of financial institutions including commercial banks, investment banks, and specialty finance companies that securitize assets such as mortgages, credit card receivables, auto loans, and other consumer debt (Gorton and Souleles, 2007).

The SEC instituted Regulation AB to address growing concerns about information asymmetries in the rapidly expanding securitization market, which had grown from $78 billion in issuances in 1995 to over $900 billion by 2004 (Securities Industry and Financial Markets Association, 2005). The regulation aimed to standardize disclosure practices, enhance investor protection, and improve market efficiency by requiring issuers to provide comprehensive information about asset pools, servicer performance, and transaction structures (Ashcraft and Schuermann, 2008). Key provisions include enhanced disclosure requirements for static pool information, detailed asset-level data, and ongoing reporting obligations that significantly increased the volume and standardization of information available to market participants.

The implementation of Regulation AB occurred during a period of significant regulatory activity in securities markets. Contemporaneously, the SEC was implementing provisions of the Sarbanes-Oxley Act of 2002, including enhanced internal controls requirements under Section 404, which became effective for large accelerated filers in 2004 and accelerated filers in 2005 (Zhang, 2007; Ashbaugh-Skaife et al., 2008). Additionally, the SEC adopted amendments to proxy disclosure rules and executive compensation reporting requirements during this period, creating a regulatory environment focused on enhanced transparency and investor protection across multiple dimensions of corporate disclosure (Bebchuk and Jackson, 2005).

Theoretical Framework

Regulation AB's impact on voluntary disclosure decisions can be understood through the theoretical lens of unsophisticated investor protection and information processing capabilities. The unsophisticated investor framework recognizes that not all market participants possess equal abilities to process complex financial information, creating heterogeneous demand for simplified and standardized disclosure formats (Miller, 2010; Hirshleifer and Teoh, 2003).

The core concept underlying unsophisticated investor theory centers on bounded rationality and limited attention, where certain investor classes face constraints in processing voluminous or complex financial information. These investors benefit disproportionately from standardized disclosure formats and simplified presentation of key risk factors (Libby et al., 2002). In the context of asset-backed securities, unsophisticated investors include individual retail investors, smaller institutional investors, and investment intermediaries who lack specialized expertise in securitization structures and may rely heavily on standardized metrics and simplified risk assessments.

The connection between unsophisticated investor needs and voluntary disclosure decisions operates through firms' recognition that clearer, more accessible information can expand their investor base and reduce information processing costs for less sophisticated market participants. When regulations like Regulation AB establish standardized disclosure frameworks, firms may voluntarily provide additional information using these familiar formats to better serve unsophisticated investors and potentially access lower-cost capital from a broader investor base (Diamond and Verrecchia, 1991; Merton, 1987).

Hypothesis Development

The economic mechanism linking Regulation AB to voluntary disclosure through the unsophisticated investor channel operates through several interconnected pathways. First, Regulation AB established standardized templates and formats for ABS disclosure, creating a common language that reduces information processing costs for less sophisticated investors (Bloomfield, 2002). Prior to the regulation, ABS disclosure varied significantly across issuers and asset classes, making it difficult for unsophisticated investors to compare investments or assess relative risks. By mandating consistent presentation formats, static pool data, and standardized performance metrics, Regulation AB reduced the cognitive burden on investors who lacked specialized knowledge of securitization structures (Hirshleifer and Teoh, 2003).

This standardization effect creates incentives for firms to voluntarily adopt similar disclosure practices across their broader range of financial products, as they recognize the value of maintaining consistency with formats that unsophisticated investors have learned to navigate.

Second, Regulation AB's emphasis on ongoing reporting and performance updates established new expectations for transparency that extend beyond mandatory requirements. The regulation requires ABS issuers to provide regular updates on asset performance, delinquencies, and cash flows, creating a disclosure culture that emphasizes continuous information provision rather than point-in-time reporting (Dechow et al., 2010). Unsophisticated investors, who may lack the resources to conduct independent due diligence or sophisticated financial analysis, particularly benefit from this ongoing flow of standardized information. Firms recognize that voluntary disclosure using similar formats and frequencies can signal their commitment to transparency and attract investment from this important investor segment. The reputational benefits of being perceived as transparent and accessible to unsophisticated investors create positive feedback loops that encourage expanded voluntary disclosure (Beyer et al., 2010).

The theoretical literature suggests competing predictions regarding the ultimate direction of this relationship. On one hand, mandatory disclosure requirements might crowd out voluntary disclosure if firms view regulatory compliance as sufficient to meet investor information needs (Dye, 1985). However, the unsophisticated investor channel suggests a complementary relationship, where standardized mandatory disclosure creates templates and expectations that facilitate additional voluntary disclosure targeted at less sophisticated market participants. We expect the complementary effect to dominate because Regulation AB's standardization reduces the costs of voluntary disclosure while simultaneously increasing its benefits by making information more accessible to a broader investor base. The regulation essentially created disclosure infrastructure that firms can leverage for voluntary communication, while also demonstrating the market value of serving unsophisticated investors through clear, standardized information provision.

H1: Following the implementation of Regulation AB, firms increase their voluntary disclosure to better serve unsophisticated investors who benefit from standardized disclosure formats and enhanced transparency.

RESEARCH DESIGN

Sample Selection and Regulatory Context

We examine the impact of Regulation AB Asset-Backed Securities on voluntary disclosure through the investors channel using a comprehensive sample of all firms in the Compustat universe during our study period. The Securities and Exchange Commission (SEC) implemented Regulation AB in 2005 to establish standardized disclosure and reporting requirements for asset-backed securities, fundamentally transforming market transparency and information availability (Gorton and Metrick, 2012). While Regulation AB directly targets firms involved in asset-backed securities transactions, our analysis encompasses all publicly traded firms to capture the broader market-wide effects of enhanced disclosure standards on voluntary disclosure practices (Leuz and Wysocki, 2016). We construct our treatment variable as an indicator that affects all firms in the post-regulation period, recognizing that regulatory changes in disclosure requirements can create spillover effects across the entire capital market ecosystem through investor expectations and market discipline mechanisms (Shroff et al., 2013).

Model Specification

We employ a pre-post research design to examine how Regulation AB influences management forecast frequency through the investors channel. Our empirical model follows established voluntary disclosure literature and takes the form: FreqMF = β_0 + β_1Treatment Effect + γControls + ε, where FreqMF represents management forecast frequency, Treatment Effect captures the post-Regulation AB period, and Controls include firm-specific characteristics that prior research identifies as determinants of voluntary disclosure (Hribar and Yang, 2016; Noh et al., 2021). The coefficient β_1 captures the causal effect of Regulation AB on voluntary disclosure practices, with our identification strategy relying on the exogenous timing of regulatory implementation to address endogeneity concerns inherent in disclosure choices.

We include comprehensive control variables based on established theoretical frameworks linking firm characteristics to disclosure incentives through the investors channel (Healy and Palepu, 2001; Beyer et al., 2010). These controls account for institutional ownership effects on monitoring and information demand, firm size and complexity factors affecting disclosure costs and benefits, financial performance metrics influencing managers' disclosure incentives, and litigation risk considerations that shape voluntary disclosure strategies. Our research design addresses potential endogeneity concerns by exploiting the exogenous regulatory shock while controlling for time-invariant firm characteristics and time trends that might confound our inferences (Leuz and Wysocki, 2016).

Variable Definitions

Our dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms during each year, capturing managers' voluntary disclosure choices in response to investor information demands (Hribar and Yang, 2016). The Treatment Effect variable is an indicator variable equal to one for the post-Regulation AB period from 2005 onwards, and zero otherwise, affecting all firms in our sample to capture market-wide regulatory effects on disclosure practices.

We include several control variables that prior literature identifies as key determinants of voluntary disclosure through the investors channel. Institutional ownership (linstown) captures the monitoring role of sophisticated investors who demand higher quality information, with higher institutional ownership typically associated with increased voluntary disclosure (Ajinkya et al., 2005). Firm size (lsize) controls for the economies of scale in information production and greater analyst following that larger firms experience, generally predicting more frequent voluntary disclosure. Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, with higher ratios suggesting lower growth prospects and potentially different disclosure incentives (Skinner, 1994). Return on assets (lroa) measures firm performance, with better-performing firms typically more willing to disclose information voluntarily to signal their superior performance to investors.

Stock return (lsaret12) captures recent market performance and potential momentum effects on disclosure decisions, while earnings volatility (levol) measures the uncertainty in firm performance that may increase investor demand for voluntary guidance. Loss indicator (lloss) identifies firms with negative earnings that face different disclosure incentives due to litigation concerns and investor skepticism (Kasznik and Lev, 1995). Class action litigation risk (lcalrisk) controls for legal exposure that significantly influences managers' disclosure strategies, as firms with higher litigation risk may reduce voluntary disclosure to avoid legal liability (Rogers and Stocken, 2005). These variables collectively capture the primary channels through which firm characteristics influence voluntary disclosure decisions in response to investor information demands.

Sample Construction

We construct our sample using a five-year window centered on the implementation of Regulation AB in 2005, spanning from 2003 to 2007 to capture both pre-regulation baseline behavior and post-regulation effects. This event window allows us to observe voluntary disclosure patterns two years before and two years after regulatory implementation, with the post-regulation period defined as from 2005 onwards to include the regulation year in our treatment period (Shroff et al., 2013). We obtain financial statement data from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock market data from CRSP to construct our comprehensive dataset linking regulatory changes to voluntary disclosure outcomes.

Our sample construction process yields 19,402 firm-year observations representing all available firms in the Compustat universe during our study period, ensuring broad representation across industries and firm characteristics. We define our treatment group as all firms in the post-Regulation AB period (2005-2007) and our control group as the same firms in the pre-regulation period (2003-2004), exploiting the time-series variation in regulatory regime to identify causal effects (Leuz and Wysocki, 2016). This approach allows us to control for time-invariant firm characteristics while capturing the market-wide impact of enhanced disclosure standards on voluntary disclosure practices. We apply standard filters to remove observations with missing data for key variables and exclude financial firms when their unique regulatory environment might confound our analysis of Regulation AB's effects on general corporate disclosure practices (Noh et al., 2021).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 19,402 firm-year observations from 5,097 unique firms over the period 2003 to 2007, encompassing the years surrounding the implementation of asset-backed securities regulations affecting unsophisticated investors. This time frame captures both pre- and post-regulation periods, with our post_law indicator showing that 57.3% of observations occur in the post-regulation period.

We examine several key firm characteristics that prior literature identifies as determinants of institutional ownership and firm performance. Institutional ownership (linstown) exhibits substantial variation, with a mean of 47.5% and standard deviation of 31.1%. The distribution appears relatively symmetric, as evidenced by the similar mean and median values (47.5% versus 48.0%). The interquartile range spans from 18.3% to 74.8%, indicating considerable cross-sectional variation in institutional holdings consistent with prior studies (Bushee, 1998; Gompers and Metrick, 2001).

Firm size (lsize) shows the expected right-skewed distribution typical of corporate samples, with a mean of 5.794 and median of 5.729. The book-to-market ratio (lbtm) averages 0.552 with substantial dispersion (standard deviation of 0.512), ranging from -1.019 to 3.676. These values align with typical accounting and finance samples examining public firms during this period.

Profitability measures reveal interesting patterns. The return on assets (lroa) exhibits a slightly negative mean of -0.044, while the median remains positive at 0.021, suggesting the presence of firms with substantial losses that pull down the average. This interpretation is confirmed by our loss indicator (lloss), which shows that 30.9% of firm-years report losses. The minimum ROA of -154.2% indicates the presence of firms experiencing severe financial distress.

Stock return performance (lsaret12) shows modest negative average returns of -0.3%, with high volatility (standard deviation of 51.4%). The earnings volatility measure (levol) has a mean of 15.5% and exhibits considerable right skewness, with the maximum value of 212.9% suggesting some firms experience extreme earnings variability.

Our regulatory treatment variable (treatment_effect) mirrors the post_law indicator, confirming that 57.3% of observations occur after regulation implementation. The mutual fund frequency measure (freqMF) shows substantial variation, with many firms having zero mutual fund holdings while others exhibit significant institutional presence.

These descriptive statistics indicate our sample captures firms with diverse characteristics across size, profitability, and institutional ownership dimensions, providing appropriate variation to examine the effects of asset-backed securities regulation on institutional investment behavior.

RESULTS

Regression Analysis

We examine the association between Regulation AB implementation and voluntary disclosure using three model specifications that progressively control for firm characteristics and unobserved heterogeneity. Our results consistently show a negative treatment effect across all specifications, contradicting our hypothesis that firms would increase voluntary disclosure following the regulation's implementation. In specification (1), which presents the unconditional association, we find a treatment effect of -0.0039 that lacks statistical significance ($t = -0.41$, $p = 0.6838$). However, when we introduce firm-level control variables in specification (2), the treatment effect becomes substantially more negative at -0.0853 and highly statistically significant ($t = -7.21$, $p < 0.001$). The inclusion of firm fixed effects in specification (3) attenuates but does not eliminate this negative relationship, yielding a treatment effect of -0.0617 that remains statistically significant at conventional levels ($t = -5.68$, $p < 0.001$). These findings suggest that Regulation AB led to a significant reduction in voluntary disclosure, indicating a substitution rather than complementary relationship between mandatory and voluntary disclosure.

The statistical significance and economic magnitude of our findings provide compelling evidence against the hypothesized positive association. The treatment effects in specifications (2) and (3) demonstrate both statistical and economic significance, with the regulation associated with approximately 6-9 percentage point decreases in voluntary disclosure measures. The dramatic improvement in model fit from specification (1) to (2), with R-squared increasing from effectively zero to 27.05%, indicates that firm characteristics explain substantial variation in voluntary disclosure decisions. The further increase to 84.19% in specification (3) with firm fixed effects suggests that unobserved time-invariant firm characteristics are crucial determinants of disclosure policy. The consistency of negative treatment effects across specifications (2) and (3), despite different model assumptions, strengthens our confidence in the robustness of the substitution effect. The large sample size of 19,402 firm-year observations across 5,097 firms provides adequate statistical power to detect economically meaningful associations.

Our control variables exhibit patterns largely consistent with prior voluntary disclosure literature, though some coefficients change meaningfully across specifications. Institutional ownership (linstown) shows a strong positive association with voluntary disclosure in specification (2) (coefficient = 0.9137, t = 19.25), consistent with institutional investors' demand for information, but becomes negative in the firm fixed effects specification (coefficient = -0.0992, t = -1.68), suggesting that within-firm changes in institutional ownership may have different effects than cross-sectional differences. Firm size (lsize) consistently exhibits positive associations across specifications, supporting prior findings that larger firms engage in more voluntary disclosure. Profitability (lroa) shows a positive association in specification (2) but becomes insignificant with firm fixed effects, while loss firms (lloss) consistently provide less voluntary disclosure across all specifications. The negative time trend across specifications suggests a general decline in voluntary disclosure during our sample period, independent of the regulatory treatment. These results contradict our hypothesis that Regulation AB would increase voluntary disclosure through the unsophisticated investor channel. Instead, we find evidence supporting a crowding-out effect where mandatory disclosure requirements substitute for voluntary disclosure, consistent with theoretical predictions that firms may reduce voluntary disclosure when regulatory requirements satisfy perceived investor information needs (Dye, 1985). The standardization benefits hypothesized to encourage additional voluntary disclosure appear insufficient to overcome firms' incentives to reduce discretionary information provision following increased mandatory requirements.

CONCLUSION

This study examines how the implementation of Regulation AB Asset-Backed Securities in 2005 affected voluntary disclosure practices through the investor channel. We investigated whether the standardization of disclosure and reporting requirements for asset-backed securities influenced firms' incentives to provide voluntary information to capital market participants. Our research contributes to the growing literature on how regulatory changes in specific market segments can have spillover effects on broader corporate disclosure practices through investor demand mechanisms.

Our empirical analysis reveals a statistically significant negative association between the implementation of Regulation AB and voluntary disclosure levels. The treatment effect ranges from -0.0617 to -0.0853 across our most robust specifications (t-statistics of 5.68 and 7.21, respectively, both significant at the 1% level), suggesting that firms reduced their voluntary disclosure following the regulation's implementation. The economic magnitude of this effect is meaningful, representing approximately a 6-9% reduction in voluntary disclosure relative to pre-regulation levels. These findings are robust across multiple model specifications, with R-squared values ranging from 27% to 84%, indicating substantial explanatory power. The negative coefficient suggests that rather than complementing voluntary disclosure, the mandatory disclosure requirements introduced by Regulation AB appear to have substituted for firms' voluntary information provision. This substitution effect aligns with theoretical predictions that mandatory disclosure can crowd out voluntary disclosure when the regulatory requirements satisfy investor information demands that were previously met through voluntary channels (Dye and Sridhar, 2008; Beyer et al., 2010).

The control variables in our analysis provide additional insights into the determinants of voluntary disclosure in this context. Institutional ownership exhibits a strong positive association with disclosure (coefficient of 0.9137, t-statistic of 19.25), consistent with sophisticated investors demanding more information. Firm size also positively predicts disclosure levels, while losses and higher book-to-market ratios are associated with reduced voluntary disclosure. Notably, the inclusion of firm fixed effects in our most comprehensive specification (Specification 3) substantially increases the R-squared to 84% while maintaining the significance of our treatment effect, suggesting that our results are not driven by time-invariant firm characteristics.

Our findings have important implications for regulators considering the broader effects of disclosure mandates. The evidence suggests that policymakers should account for potential substitution effects when implementing new disclosure requirements, as mandatory rules may unintentionally reduce the overall information environment if they crowd out voluntary disclosure. This is particularly relevant for regulations targeting specific market segments, as the investor channel can transmit effects beyond the directly regulated firms or securities. Regulators might consider designing disclosure requirements that complement rather than substitute for existing voluntary disclosure practices, potentially by focusing on different types of information or requiring disclosures that firms would be unlikely to provide voluntarily (Leuz and Wysocki, 2016; Christensen et al., 2013).

For managers, our results highlight the importance of reassessing disclosure strategies following regulatory changes. The reduction in voluntary disclosure we document suggests that firms viewed the new mandatory requirements as sufficient to meet investor information demands, allowing them to reduce costly voluntary disclosure activities. However, managers should carefully consider whether this reduction optimally serves their capital market objectives, as voluntary disclosure can provide benefits beyond those achieved through mandatory compliance, such as signaling quality and reducing information asymmetry (Healy and Palepu, 2001). For investors, our findings suggest that regulatory changes in related markets can affect the information environment of their portfolio companies in unexpected ways. The reduction in voluntary disclosure following Regulation AB implementation may have implications for investment decision-making and monitoring activities, particularly for institutional investors who rely heavily on voluntary disclosures to supplement mandatory reporting.

Our study has several limitations that suggest avenues for future research. First, while we document a significant association between Regulation AB implementation and voluntary disclosure changes, establishing the precise causal mechanisms requires additional investigation. Future research could explore the specific channels through which asset-backed securities regulation affects voluntary disclosure decisions, such as changes in investor composition, analyst coverage, or capital market pressures. Second, our analysis focuses on aggregate voluntary disclosure measures, but different types of voluntary disclosure may respond differently to regulatory changes. Future studies could examine whether certain categories of voluntary disclosure (such as forward-looking information or segment reporting) are more susceptible to substitution effects than others.

Additionally, the long-term effects of this regulatory change remain unclear. Our analysis captures the immediate impact of Regulation AB implementation, but firms may adjust their disclosure strategies over time as they learn about the new regulatory environment and investor responses. Longitudinal studies examining how voluntary disclosure practices evolve in the years following regulatory implementation would provide valuable insights into the persistence of substitution effects. Finally, future research could investigate whether similar substitution effects occur following other disclosure regulations, helping to establish the generalizability of our findings and inform the development of theoretical frameworks for predicting when mandatory disclosure will complement versus substitute for voluntary disclosure practices.

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.

Ashbaugh-Skaife, H., Collins, D. W., Kinney Jr, W. R., & LaFond, R. (2008). The effect of SOX internal control deficiencies and their remediation on accrual quality. The Accounting Review, 83 (1), 217-250.

Ashcraft, A. B., & Schuermann, T. (2008). Understanding the securitization of subprime mortgage credit. Foundations and Trends in Finance, 2 (3), 191-309.

Beatty, A., Liao, S., & Weber, J. (2013). The effect of private information and monitoring on the role of accounting quality in investment decisions. Journal of Accounting and Economics, 55 (1), 3-22.

Bebchuk, L. A., & Jackson Jr, R. J. (2005). Executive pensions. Journal of Corporation Law, 30 (4), 823-855.

Beyer, A., Cohen, D. A., Lys, T. Z., & Walther, B. R. (2010). The financial reporting environment: Review of the recent literature. Journal of Accounting and Economics, 50 (2-3), 296-343.

Blankespoor, E., Miller, G. S., & White, H. D. (2014). The role of dissemination in market liquidity: Evidence from firms use of Twitter. The Accounting Review, 89 (1), 79-112.

Bloomfield, R. J. (2002). The incomplete revelation hypothesis and financial reporting. Accounting Horizons, 16 (3), 233-243.

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

Chapman, K., Miller, G. S., & White, H. D. (2019). Investor relations and information assimilation. The Accounting Review, 94 (2), 105-131.

Christensen, H. B., Hail, L., & Leuz, C. (2016). Capital-market effects of securities regulation: Prior conditions, implementation, and enforcement. The Review of Financial Studies, 29 (11), 2885-2924.

Chuk, E., Matsumoto, D., & Miller, G. S. (2013). Assessing methods of identifying management forecasts: CIG vs. researcher collected. The Accounting Review, 88 (5), 1739-1769.

Dechow, P., Ge, W., & Schrand, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. Journal of Accounting and

Economics, 50 (2-3), 344-401.

Diamond, D. W., & Verrecchia, R. E. (1991). Disclosure, liquidity, and the cost of capital. The Journal of Finance, 46 (4), 1325-1359.

Dranove, D., & Jin, G. Z. (2010). Quality disclosure and certification: Theory and practice. Journal of Economic Literature, 48 (4), 935-963.

Dye, R. A. (1985). Disclosure of nonproprietary information. Journal of Accounting Research, 23 (1), 123-145.

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.

Dye, R. A., & Sridhar, S. S. (2008). A positive theory of flexibility in accounting standards. Journal of Accounting and Economics, 46 (2-3), 312-333.

Einhorn, E., & Ziv, A. (2008). Intertemporal dynamics of corporate voluntary disclosures. Journal of Accounting Research, 46 (3), 567-589.

Gorton, G., & Metrick, A. (2012). Securitized banking and the run on repo. Journal of Financial Economics, 104 (3), 425-451.

Gorton, G., & Souleles, N. S. (2007). Special purpose vehicles and securitization. In The risks of financial institutions (pp. 549-602). University of Chicago Press.

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.

Hirshleifer, D., & Teoh, S. H. (2003). Limited attention, information disclosure, and financial reporting. Journal of Accounting and Economics, 36 (1-3), 337-386.

Hirst, D. E., Koonce, L., & Venkataraman, S. (2008). Management earnings forecasts: A review and framework. Accounting Horizons, 22 (3), 315-338.

Hunt, J. P. (2009). Credit rating agencies and the worldwide credit crisis: The limits of reputation, the insufficiency of reform, and a proposal for improvement. Columbia Business Law Review, 2009 (1), 109-209.

Leuz, C., & Wysocki, P. D. (2016). The economics of disclosure and financial reporting regulation: Evidence and suggestions for future research. Journal of Accounting Research, 54 (2), 525-622.

Libby, R., Bloomfield, R., & Nelson, M. W. (2002). Experimental research in financial accounting. Accounting, Organizations and Society, 27 (8), 775-810.

Merton, R. C. (1987). A simple model of capital market equilibrium with incomplete information. The Journal of Finance, 42 (3), 483-510.

Miller, G. S. (2010). The press as a watchdog for accounting fraud. Journal of Accounting Research, 48 (5), 1001-1033.

Rogers, J. L., & Stocken, P. C. (2005). Credibility of management forecasts. The Accounting Review, 80 (4), 1233-1260.

Schwarcz, S. L. (2004). Rethinking the disclosure paradigm in a world of complexity. University of Illinois Law Review, 2004 (1), 1-38.

Securities Industry and Financial Markets Association. (2005). US ABS Issuance and Outstanding. SIFMA Research.

Shroff, N., Verdi, R. S., & Yu, G. (2013). Information environment and the investment decisions of multinational corporations. The Accounting Review, 89 (2), 759-790.

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

Zhang, I. X. (2007). Economic consequences of the Sarbanes–Oxley Act of 2002. Journal of Accounting and Economics, 44 (1-2), 74-115.

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
Time Trend	19,402	1.9147	1.4179	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
Regulation ABAsset Backed Securities 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	-0.00	**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 Regulation AB AssetBacked Securities on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0039 (0.41)	-0.0853*** (7.21)	-0.0617*** (5.68)
Institutional ownership		0.9137*** (19.25)	-0.0992* (1.68)
Firm size		0.0861*** (10.10)	0.1453*** (10.84)
Book-to-market		-0.0371** (2.46)	0.0178 (1.16)
ROA		0.2026*** (6.56)	0.0434 (1.53)
Stock return		-0.0003 (0.02)	-0.0258*** (3.09)
Earnings volatility		0.1200*** (3.74)	-0.1032** (2.40)
Loss		-0.2227*** (11.74)	-0.1086*** (7.10)
Class action litigation risk		0.1669*** (6.43)	-0.0197 (1.12)
Time Trend		-0.0273*** (5.14)	-0.0150*** (2.92)
Firm fixed effects	No	No	Yes
N	19,402	19,402	19,402
R^2	0.0000	0.2705	0.8419

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