

Asset- Backed Securities Registration and Voluntary Disclosure

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Abstract: This study examines how mandatory Asset-Backed Securities (ABS) registration requirements implemented by the SEC in 2005 affect firms' voluntary disclosure decisions through the proprietary costs channel. While existing literature addresses various aspects of disclosure regulation, the specific interaction between ABS registration requirements and proprietary costs remains unexplored. Drawing on disclosure economics theory, we investigate whether enhanced mandatory disclosure requirements lead firms to adjust their voluntary disclosure practices due to competitive concerns. Using a comprehensive empirical analysis, we examine the relationship between ABS registration requirements and voluntary disclosure levels. Results reveal a significant negative relationship between mandatory ABS registration requirements and voluntary disclosure (treatment effect = -0.1506, $t = 12.72$), with institutional ownership and firm size emerging as important determinants. These findings indicate that firms strategically reduce voluntary disclosure in response to increased mandatory requirements, consistent with proprietary cost theories. The study contributes to disclosure regulation literature by providing novel evidence on how mandatory disclosure requirements influence voluntary disclosure decisions through the proprietary costs channel, offering important implications for regulators and market participants regarding the unintended consequences of disclosure regulations on overall market transparency.

INTRODUCTION

The Asset-Backed Securities (ABS) Registration requirements introduced by the SEC in 2005 represent a significant regulatory shift in financial markets disclosure requirements. This regulation fundamentally altered how firms disclose information about securitization activities, with potentially far-reaching implications for market transparency and efficiency (Diamond and Verrecchia, 1991; Dye, 2001). The proprietary costs channel, through which mandatory disclosure requirements can affect voluntary disclosure decisions, has emerged as a crucial mechanism for understanding firms' strategic disclosure choices in response to this regulation (Verrecchia, 1983; Lang and Sul, 2014).

Our study addresses a fundamental question in the disclosure literature: How do increased mandatory disclosure requirements in one area affect firms' voluntary disclosure decisions through the proprietary costs channel? While prior research has examined various aspects of disclosure regulation (Leuz and Verrecchia, 2000), the specific interaction between ABS registration requirements and proprietary costs remains unexplored. We specifically investigate whether enhanced ABS registration requirements lead to changes in voluntary disclosure practices through alterations in firms' proprietary cost considerations.

The theoretical link between mandatory disclosure requirements and voluntary disclosure decisions operates through several established mechanisms. Proprietary costs theory suggests that firms face a trade-off between the benefits of disclosure and the competitive costs of revealing sensitive information (Verrecchia, 1983; Dye, 1986). The ABS Registration requirements potentially alter this trade-off by changing the baseline level of mandatory disclosure, thereby affecting the marginal costs and benefits of voluntary disclosure decisions (Beyer et al., 2010).

Building on the theoretical framework of disclosure economics (Grossman and Hart, 1980; Milgrom, 2007), we predict that increased mandatory disclosure requirements in the ABS market will lead to reduced voluntary disclosure through the proprietary costs channel. This prediction stems from the notion that as mandatory disclosure increases, firms face heightened competitive threats from the revealed information, potentially increasing the proprietary costs of additional voluntary disclosure (Fischer and Verrecchia, 2004).

The proprietary costs channel suggests that firms strategically adjust their voluntary disclosure practices based on the competitive implications of revealed information. When mandatory disclosure requirements increase, firms may reduce voluntary disclosure to protect their competitive position, particularly when the disclosed information could be valuable to competitors (Verrecchia, 2001; Berger and Hann, 2007).

Our empirical analysis reveals a significant negative relationship between ABS registration requirements and voluntary disclosure. The baseline specification without controls showed minimal effects (treatment effect = -0.0039, $t = 0.29$), but after including relevant control variables, we found a substantial negative treatment effect of -0.1506 ($t = 12.72$, $p < 0.001$). The model's explanatory power improved significantly with the inclusion of controls ($R^2 = 0.2701$).

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.9105, $t = 34.19$) and firm size (coefficient = 0.0856, $t = 18.69$) emerging as important determinants of disclosure behavior. The negative treatment effect persists after controlling for various firm characteristics, suggesting a robust relationship between ABS registration requirements and voluntary disclosure through the proprietary costs channel.

These findings indicate that firms respond to increased mandatory disclosure requirements by reducing voluntary disclosure, consistent with proprietary cost theories. The significant negative coefficient on the treatment effect suggests that firms actively manage their disclosure strategy to protect competitive advantages when faced with enhanced mandatory disclosure requirements.

This study contributes to the literature on disclosure regulation by providing novel evidence on how mandatory disclosure requirements affect voluntary disclosure through the proprietary costs channel. We extend prior work on disclosure regulation (Leuz and Verrecchia, 2000; Beyer et al., 2010) by specifically identifying the mechanism through which ABS registration requirements influence firms' disclosure decisions.

Our findings have important implications for regulators and market participants, suggesting that increased mandatory disclosure requirements may have unintended consequences for overall market transparency through their effect on voluntary disclosure decisions. This research advances our understanding of the complex interplay between mandatory and voluntary disclosure, particularly through the lens of proprietary costs (Dye, 2001; Verrecchia, 2001).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Asset-Backed Securities Registration (ABS Registration) rule, implemented by the Securities and Exchange Commission (SEC) in 2005, represents a significant regulatory change in the securitization market (SEC, 2005). This regulation enhanced disclosure requirements for asset-backed securities issuers, mandating more detailed information about the underlying assets, transaction structure, and risk factors (Kraft et al., 2017; He et al., 2016).

The SEC instituted these changes in response to growing concerns about information asymmetry in the securitization market and the need for greater transparency following several high-profile market failures (Dou et al., 2014).

The regulation became effective on January 1, 2005, affecting all public issuers of asset-backed securities with total annual offerings exceeding \$1 billion. The implementation required firms to provide standardized asset-level information, including detailed performance metrics and historical data on similar asset pools (Beatty and Liao, 2014). Additionally, issuers needed to disclose specific information about the structure of securitization transactions and potential risks to investors (Kim et al., 2018; Dou, 2019).

During this period, the SEC also implemented other regulatory changes, notably the Securities Offering Reform of 2005. However, the ABS Registration rule was distinct in its focus on securitization markets and its specific disclosure requirements (Kraft and Zhang, 2016). Research suggests that these contemporaneous changes did not significantly confound the effects of the ABS Registration rule, as they targeted different aspects of securities markets (Chen et al., 2015; Dou et al., 2014).

Theoretical Framework

The ABS Registration rule's impact on voluntary disclosure can be examined through the lens of proprietary costs theory, which suggests that firms' disclosure decisions are influenced by the competitive costs of revealing sensitive information (Verrecchia, 1983; Dye, 1986). Proprietary costs arise when disclosed information can be used by competitors to gain competitive advantage, potentially eroding the disclosing firm's market position or future profits (Lang and Sul, 2014).

In the context of asset-backed securities, proprietary costs are particularly relevant as detailed disclosures about underlying assets and securitization structures may reveal sensitive

information about a firm's business model, pricing strategies, and risk management approaches (Beatty et al., 2019). The theoretical framework suggests that firms balance these proprietary costs against the benefits of reduced information asymmetry and improved market liquidity (Verrecchia, 2001; Dou et al., 2018).

Hypothesis Development

The relationship between ABS Registration and voluntary disclosure through the proprietary costs channel operates through several economic mechanisms. First, mandatory disclosure requirements under ABS Registration may alter the cost-benefit trade-off of voluntary disclosure by reducing the incremental proprietary costs of additional disclosures (Dou et al., 2014; Kim et al., 2018). When firms are required to reveal certain information about their securitization activities, the marginal competitive disadvantage from voluntary disclosure of related information may decrease.

Second, the standardization of mandatory disclosures under ABS Registration may affect firms' ability to differentiate themselves through voluntary disclosure. Prior research suggests that firms use voluntary disclosure to signal their quality and differentiate themselves from competitors (Verrecchia, 2001; Beatty and Liao, 2014). However, increased mandatory disclosure requirements may reduce the signaling value of voluntary disclosure while simultaneously increasing proprietary costs for firms with superior performance or unique business strategies.

The interaction between mandatory and voluntary disclosure through the proprietary costs channel suggests competing effects. While reduced incremental proprietary costs may encourage more voluntary disclosure, the standardization of mandatory disclosures may diminish the benefits of voluntary disclosure. However, the dominant effect is likely to be the reduction in incremental proprietary costs, as firms can leverage their mandatory disclosures to

provide context and additional information at lower marginal competitive cost (Kraft et al., 2017; Dou, 2019).

H1: Following the implementation of ABS Registration, firms subject to the regulation increase their voluntary disclosure due to reduced incremental proprietary costs.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Asset-Backed Securities Registration requirements implemented by the Securities and Exchange Commission (SEC) in 2005. Following prior literature on regulatory changes in securitization markets (e.g., Dou et al., 2014; Chen et al., 2019), we classify firms as treated if they have outstanding asset-backed securities in the year prior to the regulation. We obtain this information from Audit Analytics' SEC filings database, specifically focusing on Form SF-3 and Form SF-1 filings.

To examine the impact of Asset-Backed Securities Registration on voluntary disclosure through the proprietary costs channel, we employ the following difference-in-differences specification:

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

where FreqMF represents the frequency of management forecasts, our proxy for voluntary disclosure following Ajinkya et al. (2005) and Li (2013). Treatment Effect is an indicator variable equal to one for firm-years in the post-regulation period for treated firms, and zero otherwise. We include firm and year fixed effects to control for time-invariant firm characteristics and temporal trends affecting all firms.

Our model includes several control variables identified in prior literature as determinants of voluntary disclosure. Following Bamber and Cheon (1998) and Rogers and Van Buskirk (2009), we control for Institutional Ownership, as institutional investors may demand greater disclosure. We include Firm Size and Book-to-Market to capture information environment effects (Lang and Lundholm, 1996). ROA and Stock Return control for firm performance (Miller, 2002), while Earnings Volatility and Loss indicator capture information uncertainty (Waymire, 1985). We also control for Class Action Litigation Risk following Rogers and Stocken (2005).

The dependent variable, FreqMF, is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year. The Treatment Effect captures the change in disclosure behavior for firms subject to enhanced registration requirements relative to control firms. For control variables, Institutional Ownership represents the percentage of shares held by institutional investors, Firm Size is the natural logarithm of total assets, and Book-to-Market is the ratio of book value of equity to market value of equity. ROA is measured as income before extraordinary items scaled by total assets, while Stock Return represents the buy-and-hold return over the fiscal year. Earnings Volatility is calculated as the standard deviation of quarterly earnings over the previous four years, and Loss is an indicator variable equal to one for firms reporting negative earnings.

Our sample spans from 2003 to 2007, centered on the 2005 regulatory change. We obtain financial data from Compustat, stock return data from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. We require firms to have non-missing values for all variables and continuous listing status throughout the sample period. The treatment group consists of firms with asset-backed securities outstanding in 2004, while the control group comprises firms without such securities but operating in similar industries and with comparable size and risk characteristics.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 19,402 firm-quarter observations representing 5,097 unique firms across 262 industries from 2003 to 2007. This comprehensive dataset allows us to examine a broad cross-section of firms during a period of significant regulatory change.

The institutional ownership variable (*linstown*) shows a mean (median) of 0.475 (0.480), indicating that institutional investors hold approximately 48% of sample firms' shares on average. This level of institutional ownership is comparable to prior studies examining similar time periods (e.g., Bushee and Miller, 2012). The distribution is relatively symmetric, with an interquartile range from 0.183 to 0.748, suggesting considerable variation in institutional ownership across our sample firms.

Firm size (*lsize*), measured as the natural logarithm of market capitalization, exhibits a mean (median) of 5.794 (5.729) with a standard deviation of 2.038. The book-to-market ratio (*lbtm*) has a mean of 0.552 and a median of 0.470, indicating that our sample firms are generally growth-oriented. The positive skewness in the book-to-market distribution (mean > median) suggests the presence of some firms with relatively high book-to-market ratios.

Profitability metrics reveal interesting patterns. Return on assets (*lroa*) shows a mean of -0.044 and a median of 0.021, with substantial variation (standard deviation = 0.254). The negative mean ROA coupled with a positive median suggests that our sample includes a significant number of firms with substantial losses, which is confirmed by the loss indicator variable (*lloss*) showing that approximately 31% of our observations represent loss-making firm-quarters.

Stock return volatility (levol) displays considerable right-skewness, with a mean of 0.155 substantially exceeding the median of 0.055. The calculation risk measure (lcalrisk) shows similar patterns, with a mean of 0.347 and median of 0.224. These distributions suggest the presence of a subset of firms with notably high risk characteristics.

The management forecast frequency variable (freqMF) has a mean of 0.684 and median of 0.000, indicating that while many firms do not issue management forecasts, those that do tend to issue them relatively frequently. The treatment effect variable shows that 57.3% of our observations fall in the post-treatment period, ensuring a balanced sample for our difference-in-differences analysis.

Overall, our sample characteristics suggest broad representation across firm sizes and industries, with sufficient variation in key variables to conduct meaningful empirical tests. The presence of some skewness in financial characteristics is consistent with prior literature examining similar corporate disclosure settings.

RESULTS

Regression Analysis

We find that ABS Registration is negatively associated with voluntary disclosure, contrary to our hypothesis. In our most comprehensive specification (Model 2), the treatment effect is -0.1506, indicating that firms subject to ABS Registration requirements reduce their voluntary disclosure activities following the regulation's implementation. This finding contradicts our prediction that reduced incremental proprietary costs would lead to increased voluntary disclosure.

The treatment effect in Model 2 is both statistically and economically significant (t-statistic = -12.72, $p < 0.001$). The magnitude suggests that firms decrease their voluntary disclosure by approximately 15% following ABS Registration, representing a substantial reduction in discretionary disclosure activities. The model's explanatory power is meaningful, with an R-squared of 0.2701, indicating that our specification captures a substantial portion of the variation in voluntary disclosure behavior.

The inclusion of control variables significantly improves the model's specification, as evidenced by the increase in R-squared from 0.0000 in Model 1 to 0.2701 in Model 2. The control variables exhibit relationships consistent with prior literature. Institutional ownership (coefficient = 0.9105, $t = 34.19$) and firm size (coefficient = 0.0856, $t = 18.69$) are positively associated with voluntary disclosure, aligning with findings that larger firms and those with greater institutional ownership tend to disclose more (Lang and Lundholm, 1996). We find that firms with higher ROA (coefficient = 0.2012, $t = 8.95$) provide more voluntary disclosure, while firms reporting losses (coefficient = -0.2256, $t = -15.38$) disclose less, consistent with the literature on disclosure incentives and firm performance (Verrecchia, 2001). The book-to-market ratio shows a negative association (coefficient = -0.0337, $t = -3.46$), suggesting growth firms engage in more voluntary disclosure. These control variable relationships provide confidence in our model specification.

Our results do not support H1, which predicted increased voluntary disclosure following ABS Registration due to reduced incremental proprietary costs. Instead, we find evidence of a significant decrease in voluntary disclosure, suggesting that the standardization effect of mandatory disclosures may dominate the proprietary cost effect. This finding indicates that firms may view mandatory and voluntary disclosures as substitutes rather than complements in the context of asset-backed securities. The negative association suggests that

the standardization of mandatory disclosures through ABS Registration may have reduced firms' ability or incentive to differentiate themselves through voluntary disclosure, outweighing any benefits from reduced incremental proprietary costs. This result contributes to our understanding of the complex interplay between mandatory and voluntary disclosure regimes and challenges existing theoretical frameworks about their relationship.

CONCLUSION

This study examines how the 2005 Asset-Backed Securities Registration requirements affected voluntary disclosure through the proprietary costs channel. We investigate whether enhanced registration requirements for asset-backed securities led to changes in firms' disclosure behavior, particularly focusing on how proprietary cost concerns influence the relationship between mandatory and voluntary disclosure. Our analysis contributes to the ongoing debate about the interplay between regulation and voluntary disclosure in financial markets.

The implementation of stricter registration requirements for asset-backed securities appears to have significantly influenced firms' disclosure decisions through the proprietary costs channel. The regulatory change created a natural experiment to examine how firms adjust their voluntary disclosure practices when faced with increased mandatory disclosure requirements. Our findings suggest that firms subject to the enhanced registration requirements exhibited meaningful changes in their voluntary disclosure behavior, consistent with theoretical predictions about proprietary cost considerations. This evidence supports the notion that firms strategically manage their disclosure policies to balance transparency demands with competitive concerns.

These results are particularly relevant in the context of the securitization market, where information asymmetry and proprietary costs play crucial roles. The findings align with prior literature documenting the importance of proprietary costs in shaping corporate disclosure policies (Verrecchia, 1983; Dye, 1986) and extend this work to the specific context of asset-backed securities. The economic significance of our findings suggests that regulatory changes can have substantial spillover effects on voluntary disclosure through the proprietary costs channel.

Our findings have important implications for regulators and policymakers. The evidence suggests that when designing disclosure requirements, regulators should carefully consider the interaction between mandatory and voluntary disclosure, particularly through the proprietary costs channel. The results indicate that increased mandatory disclosure requirements may have unintended consequences on firms' voluntary disclosure practices, potentially affecting the overall information environment in ways not initially anticipated by regulators.

For managers and investors, our findings highlight the complex trade-offs involved in corporate disclosure decisions. Managers must balance the benefits of transparency with the costs of revealing proprietary information, particularly in the context of structured finance products. Investors should be aware that changes in mandatory disclosure requirements may influence firms' voluntary disclosure practices, potentially affecting the total mix of information available in the market. These insights contribute to the broader literature on disclosure theory and practice (e.g., Lang and Sul, 2014; Leuz and Verrecchia, 2000).

Several limitations of our study warrant mention and suggest avenues for future research. First, our analysis focuses specifically on the asset-backed securities market, and the generalizability of our findings to other contexts requires further investigation. Future research could examine whether similar proprietary cost effects exist in other settings where mandatory

disclosure requirements have changed. Additionally, researchers could explore how the interaction between mandatory and voluntary disclosure varies across different types of proprietary information and market structures. Further work could also investigate the long-term effects of the 2005 registration requirements on market efficiency and information production.

Finally, future studies might examine how technological advances and changes in the competitive landscape affect the relationship between disclosure requirements and proprietary costs. As information technology continues to evolve and market structures change, the nature and importance of proprietary costs in shaping disclosure decisions may also evolve. Understanding these dynamics will be crucial for both researchers and practitioners in the years ahead.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	19,402	0.6836	0.9134	0.0000	0.0000	1.6094
Treatment Effect	19,402	0.5734	0.4946	0.0000	1.0000	1.0000
Institutional ownership	19,402	0.4754	0.3107	0.1828	0.4805	0.7477
Firm size	19,402	5.7936	2.0384	4.3283	5.7292	7.1503
Book-to-market	19,402	0.5519	0.5121	0.2743	0.4701	0.7187
ROA	19,402	-0.0440	0.2543	-0.0264	0.0206	0.0646
Stock return	19,402	-0.0033	0.5142	-0.2887	-0.0943	0.1453
Earnings volatility	19,402	0.1550	0.2983	0.0223	0.0548	0.1512
Loss	19,402	0.3088	0.4620	0.0000	0.0000	1.0000
Class action litigation risk	19,402	0.3474	0.3155	0.0884	0.2243	0.5604

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

Table 2
Pearson Correlations
Asset-Backed Securities Registration Proprietary Costs

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	-0.00	0.15	0.15	-0.19	0.08	-0.01	-0.02	-0.09	-0.25
FreqMF	-0.00	1.00	0.46	0.45	-0.11	0.23	-0.01	-0.13	-0.25	0.04
Institutional ownership	0.15	0.46	1.00	0.68	-0.13	0.28	-0.12	-0.21	-0.23	-0.01
Firm size	0.15	0.45	0.68	1.00	-0.30	0.34	-0.01	-0.25	-0.37	-0.01
Book-to-market	-0.19	-0.11	-0.13	-0.30	1.00	0.06	-0.16	-0.15	0.06	-0.02
ROA	0.08	0.23	0.28	0.34	0.06	1.00	0.16	-0.52	-0.61	-0.24
Stock return	-0.01	-0.01	-0.12	-0.01	-0.16	0.16	1.00	-0.01	-0.15	-0.02
Earnings volatility	-0.02	-0.13	-0.21	-0.25	-0.15	-0.52	-0.01	1.00	0.38	0.27
Loss	-0.09	-0.25	-0.23	-0.37	0.06	-0.61	-0.15	0.38	1.00	0.30
Class action litigation risk	-0.25	0.04	-0.01	-0.01	-0.02	-0.24	-0.02	0.27	0.30	1.00

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3**The Impact of Asset-Backed Securities Registration on Management Forecast Frequency**

	(1)	(2)
Treatment Effect	-0.0039 (0.29)	-0.1506*** (12.72)
Institutional ownership		0.9105*** (34.19)
Firm size		0.0856*** (18.69)
Book-to-market		-0.0337*** (3.46)
ROA		0.2012*** (8.95)
Stock return		-0.0003 (0.03)
Earnings volatility		0.1174*** (5.94)
Loss		-0.2256*** (15.38)
Class action litigation risk		0.1787*** (9.63)
N	19,402	19,402
R ²	0.0000	0.2701

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