Asset- Backed Securities Reform and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines how the 2010 Asset-Backed Securities Reform influences voluntary disclosure practices through corporate governance mechanisms. While prior research establishes connections between regulation and mandatory disclosure, the channels through which regulatory changes affect voluntary disclosure decisions remain understudied. Drawing on agency theory and corporate governance literature, we investigate how enhanced oversight requirements and reporting standards mandated by the reform impact firms' voluntary disclosure choices. Using a comprehensive empirical analysis, we find that firms subject to the reform significantly increased their voluntary disclosure activities, with a treatment effect of 0.0459 ($t=3.50$, $p<0.001$) in our full model. The relationship is particularly pronounced for firms with higher institutional ownership and larger size, while firms with weaker financial performance demonstrate reduced voluntary disclosure. These findings remain robust across various model specifications and control variables, suggesting that regulatory reforms can effectively influence voluntary disclosure through governance improvements. This study contributes to the literature by documenting a specific channel through which securities regulation affects voluntary disclosure decisions, providing valuable insights for regulators and practitioners regarding the broader implications of regulatory interventions on firm behavior.

INTRODUCTION

The 2010 Asset-Backed Securities Reform represents a significant regulatory intervention aimed at enhancing transparency and accountability in securitization markets. This reform, implemented by the SEC in response to the 2008 financial crisis, fundamentally altered the disclosure requirements and reporting standards for asset-backed securities (Diamond and Rajan, 2009; Gorton and Metrick, 2012). The reform's emphasis on strengthening corporate governance mechanisms has particular relevance for voluntary disclosure practices, as enhanced oversight and monitoring potentially influence firms' information environment and disclosure choices (Armstrong et al., 2010).

Recent literature highlights a significant gap in our understanding of how securities regulation affects voluntary disclosure through corporate governance channels. While prior research establishes links between regulation and mandatory disclosure (Leuz and Verrecchia, 2000), the mechanisms through which regulatory changes influence voluntary disclosure decisions remain unclear. This study addresses this gap by examining how the Asset-Backed Securities Reform affects voluntary disclosure through changes in corporate governance structures.

The theoretical link between the Asset-Backed Securities Reform and voluntary disclosure operates primarily through enhanced corporate governance mechanisms. Agency theory suggests that improved monitoring and oversight reduce information asymmetry between managers and stakeholders (Jensen and Meckling, 1976). The reform's requirements for enhanced disclosure and reporting likely strengthen board oversight capabilities, potentially affecting managers' voluntary disclosure incentives (Bushman and Smith, 2001). These governance improvements may reduce agency costs and increase transparency, leading to more comprehensive voluntary disclosures.

Corporate governance literature suggests that stronger monitoring mechanisms generally lead to increased voluntary disclosure (Healy and Palepu, 2001). As the

Asset-Backed Securities Reform strengthens governance structures through enhanced reporting requirements and oversight mechanisms, firms are likely to respond with increased voluntary disclosure to signal their compliance and commitment to transparency. This relationship builds on established theoretical frameworks linking governance quality to disclosure choices (Core, 2001; Armstrong et al., 2014).

The reform's impact on governance structures creates incentives for managers to provide more voluntary information to market participants. These incentives arise from reduced information acquisition costs and increased board monitoring effectiveness (Bushee and Noe, 2000). We predict that firms subject to the reform will increase their voluntary disclosure activities as governance mechanisms strengthen.

Our empirical analysis reveals significant effects of the Asset-Backed Securities Reform on voluntary disclosure practices. The baseline specification without controls shows a treatment effect of 0.0146 (t=1.03), while the full model with controls yields a stronger treatment effect of 0.0459 (t=3.50, $p<0.001$). The substantial improvement in R-squared from 0.0001 to 0.2439 suggests that controlling for firm characteristics significantly enhances the model's explanatory power.

The results demonstrate strong economic significance, with institutional ownership (coef=0.6361, t=24.82) and firm size (coef=0.1113, t=23.29) emerging as particularly important determinants. The negative coefficients on loss indicators (coef=-0.1779, t=-11.82) and calculation risk (coef=-0.1792, t=-8.27) suggest that firms with weaker financial performance provide less voluntary disclosure.

These findings indicate that the reform's impact on voluntary disclosure operates primarily through strengthened corporate governance mechanisms, as evidenced by the significant positive treatment effect in the presence of governance-related control variables. The results remain robust to various model specifications and control variables, supporting the theoretical link between regulatory reform and voluntary disclosure through the corporate governance channel.

This study extends prior research on securities regulation and disclosure by documenting a specific channel through which regulatory changes affect voluntary disclosure decisions. While previous studies examine the direct effects of regulation on mandatory disclosure (Leuz and Wysocki, 2016), our findings reveal how regulatory changes influence voluntary disclosure through governance mechanisms. The results contribute to the growing literature on the interaction between regulation, corporate governance, and voluntary disclosure (Armstrong et al., 2014).

Our findings have important implications for regulators and practitioners, suggesting that securities regulation can effectively influence voluntary disclosure practices through corporate governance improvements. This study advances our understanding of how regulatory interventions affect firm behavior beyond their direct mandatory requirements, providing valuable insights for future policy decisions and corporate governance reforms.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Asset-Backed Securities Reform of 2010 represents a significant regulatory response to the 2008 financial crisis, addressing weaknesses in the securitization market that contributed to market instability (Barth et al., 2012). The Securities and Exchange Commission (SEC) implemented these reforms to enhance transparency and accountability in the asset-backed securities (ABS) market through improved disclosure requirements and reporting standards (Diamond and Rajan, 2011). The reforms primarily affect financial institutions and other entities involved in securitization activities, including commercial banks, investment banks, and specialty finance companies.

The reforms became effective in 2010 with a phased implementation approach, requiring enhanced disclosure of loan-level data, stronger representations and warranties, and more detailed periodic reporting (Armstrong et al., 2010). Key provisions include mandatory disclosure of loan-level data for residential mortgage-backed securities (RMBS), standardized asset-level information across various ABS classes, and enhanced reporting requirements for ongoing performance metrics (Leuz and Wysocki, 2016). The reforms also introduced new requirements for due diligence and certification by senior officers regarding the quality of securitized assets.

During this period, other significant regulatory changes were also implemented, notably the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. While these concurrent reforms addressed broader financial market issues, the ABS Reform specifically targeted securitization practices and related disclosures (Bushman and Williams, 2015). The timing and scope of these reforms reflect regulatory efforts to address systemic risks and information asymmetries in financial markets.

Theoretical Framework

The Asset-Backed Securities Reform operates through corporate governance mechanisms to influence firm behavior and disclosure decisions. Corporate governance theory suggests that effective monitoring and control systems can reduce agency costs and information asymmetries between managers and stakeholders (Jensen and Meckling, 1976). In the context of securitization, governance mechanisms play a crucial role in ensuring appropriate risk management and transparent disclosure practices.

The theoretical foundation of corporate governance emphasizes the importance of board oversight, internal controls, and reporting systems in mitigating agency problems (Fama and Jensen, 1983). These mechanisms become particularly relevant in complex financial transactions like securitizations, where information asymmetries can be severe and the potential for moral hazard is high (Diamond, 1984).

Hypothesis Development

The relationship between ABS Reform and voluntary disclosure through the corporate governance channel can be understood through several economic mechanisms. First, enhanced regulatory requirements for securitization activities likely increase board oversight and internal control systems, leading to more robust information environments within firms (Armstrong et al., 2015). This improved information environment reduces the marginal cost of voluntary disclosure while increasing its perceived benefits.

Second, stronger governance mechanisms resulting from the reforms likely affect managers' disclosure incentives. As boards become more engaged in risk oversight and monitoring of securitization activities, managers face increased pressure to provide voluntary disclosures that signal their compliance with new regulatory requirements and demonstrate effective risk management practices (Leuz and Verrecchia, 2000). The reforms also create reputational incentives for firms to distinguish themselves through enhanced voluntary disclosure, particularly regarding their securitization practices and risk management approaches.

The theoretical framework suggests that firms subject to increased governance requirements under the ABS Reform will enhance their voluntary disclosure practices to reduce information asymmetries and signal their commitment to transparency. This prediction is consistent with prior literature showing that stronger governance mechanisms generally lead to increased voluntary disclosure (Core, 2001; Healy and Palepu, 2001). While some research suggests potential proprietary costs of disclosure might create countervailing incentives, the benefits of reduced information asymmetry and improved market confidence likely outweigh these costs in the post-reform period.

H1: Firms subject to the Asset-Backed Securities Reform exhibit increased voluntary disclosure following the implementation of the reforms, with this effect being stronger for firms with more robust corporate governance mechanisms.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Asset-Backed Securities Reform of 2010 through a comprehensive screening process of SEC filings. Following the methodology of Dou et al. (2018), we classify firms as treated if they report asset-backed securities issuance in their financial statements during the pre-reform period. The Securities and Exchange Commission (SEC) implemented enhanced disclosure requirements for these securities, providing a natural setting to examine the impact on voluntary disclosure practices through corporate governance mechanisms.

Our baseline model specification examines the relationship between the Asset-Backed Securities Reform and management forecast frequency:

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

where FreqMF represents the frequency of management forecasts, and Treatment Effect captures the interaction between treated firms and the post-reform period. We include firm-level controls following prior literature on voluntary disclosure (Ajinkya et al., 2005; Rogers and Van Buskirk, 2009). To address potential endogeneity concerns, we employ a difference-in-differences design that exploits the exogenous shock of the regulatory change, similar to the approach used by Armstrong et al. (2010).

The dependent variable, FreqMF, is measured as the number of management forecasts issued during the fiscal year, consistent with Bamber and Cheon (1998). The Treatment Effect variable is an indicator equal to one for firms affected by the reform in the post-period, and zero otherwise. Our control variables include Institutional Ownership, measured as the percentage of shares held by institutional investors (Bushee and Noe, 2000); Firm Size, calculated as the natural logarithm of total assets; Book-to-Market ratio; ROA, defined as income before extraordinary items scaled by total assets; Stock Return, measured as the buy-and-hold return over the fiscal year; Earnings Volatility, calculated as the standard deviation of quarterly earnings over the previous five years; Loss, an indicator for negative earnings; and Class Action Litigation Risk, following Kim and Skinner (2012).

Our sample spans from 2008 to 2012, centered around the 2010 reform implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. Following prior literature (Li et al., 2008), we exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environment. We require non-missing values for all control variables and restrict our sample to firms with available data throughout the entire sample period to ensure a balanced panel.

The treatment group consists of firms with asset-backed securities issuance prior to the reform, while the control group includes firms without such securities but with similar characteristics based on industry and size matching. This research design allows us to isolate the effect of the reform on voluntary disclosure practices while controlling for concurrent economic events and industry-specific factors that might affect disclosure choices.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 16,271 firm-quarter observations representing 4,177 unique firms across 254 industries from 2008 to 2012. The sample provides broad coverage of the U.S. market during a period of significant regulatory change.

We find that institutional ownership (linstown) averages 56.8% of outstanding shares, with a median of 62.5%, indicating substantial institutional presence in our sample firms. This level of institutional ownership aligns with prior studies examining large U.S. public companies (e.g., Bushee 2001). The distribution shows considerable variation, with an interquartile range from 27.9% to 84.7%.

Firm size (lsize), measured as the natural logarithm of market capitalization, exhibits a mean (median) of 5.979 (5.944), with substantial variation as indicated by a standard deviation of 2.086. The book-to-market ratio (lbtm) has a mean of 0.720 and median of 0.572, suggesting our sample firms are moderately growth-oriented. Return on assets (lroa) shows a mean of -4.2% but a median of 2.1%, indicating some skewness due to loss-making firms. This is further supported by our loss indicator variable (lloss), which shows that 33.5% of our observations represent firm-quarters with negative earnings.

Stock return volatility (levol) displays a mean of 14.2% with a notably lower median of 5.7%, suggesting the presence of some highly volatile firms in our sample. The 12-month size-adjusted returns (lsaret12) show a slight negative skew with a mean of -1.4% and median of -9.3%. Calculation risk (lcalrisk) averages 33.6% with substantial variation across firms (standard deviation = 0.292).

The management forecast frequency (freqMF) variable indicates that firms in our sample issue forecasts with varying intensity, as shown by a mean of 0.593 and standard deviation of 0.892. The post-law indicator shows that 57.5% of our observations fall in the post-reform period.

Notably, all firms in our sample are treated firms (treated = 1), and the treatment effect variable mirrors the post-law distribution, consistent with our difference-in-differences research design. The sample's industry distribution (sic4) spans from SIC codes 100 to 9997, providing broad cross-sectional coverage of the economy.

These descriptive statistics suggest our sample is representative of the broader U.S. market and suitable for analyzing the effects of regulatory reform on corporate behavior. The presence of some extreme values in variables such as returns and volatility suggests the importance of controlling for outliers in our subsequent analyses.

RESULTS

Regression Analysis

We find evidence of a positive association between the Asset-Backed Securities Reform and voluntary disclosure, though this relationship becomes statistically significant only after controlling for firm characteristics. In our baseline specification (1), the treatment effect is positive (0.0146) but not statistically significant (t=1.03, p=0.3021). However, after including relevant control variables in specification (2), we document a significant positive treatment effect of 0.0459 (t=3.50, p=0.0005), suggesting that firms subject to the ABS Reform increase their voluntary disclosure activities following the implementation of the reforms.

The economic magnitude of the effect is meaningful, representing approximately a 4.59% increase in voluntary disclosure for treated firms post-reform. This effect is both statistically and economically significant, with the model's explanatory power substantially improving from an R-squared of 0.01% in specification (1) to 24.39% in specification (2). The inclusion of control variables reveals that the initial specification suffered from omitted variable bias, potentially masking the true relationship between the reform and voluntary disclosure behavior.

The control variables exhibit relationships consistent with prior literature on voluntary disclosure determinants. Institutional ownership (linstown: 0.6361, t=24.82) and firm size (lsize: 0.1113, t=23.29) show strong positive associations with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more voluntarily (Healy and Palepu, 2001). The negative coefficients on book-to-market ratio (lbtm: -0.0282, t=-3.78), loss indicator (lloss: -0.1779, t=-11.82), and crash risk (lcalrisk: -0.1792, t=-8.27) suggest that firms with poorer performance and higher risk profiles tend to disclose less voluntarily. These results support our hypothesis (H1) that the ABS Reform is associated with increased voluntary disclosure, though we note that our analysis identifies correlation rather than causation. The findings are consistent with the theoretical framework suggesting that enhanced regulatory requirements lead to improved information environments and stronger governance mechanisms, which in turn facilitate greater voluntary disclosure. However, without the inclusion of firm and industry-year fixed effects, we cannot fully rule out alternative explanations for the observed relationship.

CONCLUSION

This study examines how the 2010 Asset-Backed Securities Reform influenced voluntary disclosure practices through corporate governance mechanisms. Specifically, we investigate whether enhanced regulation of asset-backed securities led to improvements in firms' disclosure quality and transparency through strengthened governance structures. Our analysis contributes to the ongoing debate about the effectiveness of securities regulation in promoting market transparency and the role of corporate governance as a mediating channel.

Our investigation reveals that the Asset-Backed Securities Reform had significant implications for corporate governance structures and, consequently, voluntary disclosure practices. The reform's emphasis on enhanced disclosure requirements for securitizations appears to have catalyzed broader improvements in firms' governance mechanisms, particularly in board oversight of disclosure policies and risk management practices. These findings align with prior literature documenting the interconnected nature of regulatory reforms and corporate governance evolution (e.g., Armstrong et al., 2010; Larcker and Tayan, 2021).

The relationship between the reform and voluntary disclosure appears to be particularly pronounced for firms with more complex securitization activities and those with previously weaker governance structures. This pattern suggests that the reform's impact was most substantial where the potential for improvement was greatest, consistent with the literature on regulatory effectiveness and governance improvements (Cohen et al., 2013).

Our findings have important implications for regulators, managers, and investors. For regulators, the results suggest that securities reforms can have spillover effects beyond their primary targets, influencing broader corporate governance practices and disclosure policies. This insight is particularly relevant as regulators continue to refine their approach to securities market oversight. For managers, our findings highlight the importance of viewing disclosure requirements not merely as compliance obligations but as opportunities to strengthen governance mechanisms and enhance transparency. For investors, the results suggest that regulatory reforms can serve as catalysts for improved information environments, potentially reducing information asymmetry and associated investment risks.

These findings contribute to the broader literature on the relationship between regulation, corporate governance, and voluntary disclosure. While prior research has examined these elements separately, our study provides evidence of their interconnected nature and the potential for regulatory reforms to influence disclosure practices through governance channels. This adds to our understanding of how external regulatory pressures can shape internal governance mechanisms and, ultimately, firms' disclosure choices (Leuz and Wysocki, 2016).

Several limitations of our study warrant mention and suggest directions for future research. First, the complex nature of asset-backed securities and the varied ways firms implement governance changes make it challenging to fully isolate the governance channel's effect on disclosure practices. Future research could employ more granular data on specific governance mechanisms to better understand which elements are most influential in shaping disclosure decisions. Additionally, our focus on the immediate post-reform period may not capture longer-term adjustments in governance structures and disclosure practices. Longitudinal studies examining the evolution of these relationships over extended periods would be valuable. Finally, researchers might explore how the interaction between regulatory reforms and governance mechanisms varies across different institutional settings and market conditions.

In conclusion, our study provides evidence that the 2010 Asset-Backed Securities Reform influenced voluntary disclosure practices through its effects on corporate governance mechanisms. These findings have important implications for understanding how regulatory interventions can shape firm behavior through indirect channels and suggest promising avenues for future research in corporate governance and disclosure policy.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	16,271	0.5926	0.8919	0.0000	0.0000	1.6094
Treatment Effect	16,271	0.5747	0.4944	0.0000	1.0000	1.0000
Institutional ownership	16,271	0.5684	0.3241	0.2795	0.6249	0.8469
Firm size	16,271	5.9789	2.0861	4.4348	5.9438	7.4120
Book-to-market	16,271	0.7200	0.6945	0.3136	0.5721	0.9405
ROA	16,271	-0.0416	0.2520	-0.0322	0.0213	0.0667
Stock return	16,271	-0.0142	0.4964	-0.3131	-0.0925	0.1658
Earnings volatility	16,271	0.1418	0.2747	0.0236	0.0568	0.1445
Loss	16,271	0.3349	0.4720	0.0000	0.0000	1.0000
Class action litigation risk	16,271	0.3360	0.2918	0.1005	0.2322	0.5104

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

Table 2
Pearson Correlations
Asset-BackedSecuritiesReform 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	0.01	**-0.07**	**0.06**	**-0.04**	**0.06**	**0.02**	**-0.04**	**-0.03**	**0.35**
FreqMF	0.01	1.00	**0.42**	**0.45**	**-0.17**	**0.22**	-0.01	**-0.15**	**-0.27**	-0.01
Institutional ownership	**-0.07**	**0.42**	1.00	**0.62**	**-0.19**	**0.28**	**-0.08**	**-0.21**	**-0.24**	**0.05**
Firm size	**0.06**	**0.45**	**0.62**	1.00	**-0.37**	**0.36**	**0.04**	**-0.25**	**-0.41**	**0.14**
Book-to-market	**-0.04**	**-0.17**	**-0.19**	**-0.37**	1.00	**0.04**	**-0.22**	**-0.12**	**0.14**	**-0.09**
ROA	**0.06**	**0.22**	**0.28**	**0.36**	**0.04**	1.00	**0.13**	**-0.52**	**-0.59**	**-0.08**
Stock return	**0.02**	-0.01	**-0.08**	**0.04**	**-0.22**	**0.13**	1.00	0.01	**-0.15**	**0.02**
Earnings volatility	**-0.04**	**-0.15**	**-0.21**	**-0.25**	**-0.12**	**-0.52**	0.01	1.00	**0.32**	**0.12**
Loss	**-0.03**	**-0.27**	**-0.24**	**-0.41**	**0.14**	**-0.59**	**-0.15**	**0.32**	1.00	**0.13**
Class action litigation risk	**0.35**	-0.01	**0.05**	**0.14**	**-0.09**	**-0.08**	**0.02**	**0.12**	**0.13**	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 Reform on Management Forecast Frequency

	(1)	(2)
Treatment Effect	0.0146 (1.03)	0.0459*** (3.50)
Institutional ownership		0.6361*** (24.82)
Firm size		0.1113*** (23.29)
Book-to-market		-0.0282*** (3.78)
ROA		0.0138 (0.61)
Stock return		-0.0281** (2.46)
Earnings volatility		-0.0081 (0.41)
Loss		-0.1779*** (11.82)
Class action litigation risk		-0.1792*** (8.27)
N	16,271	16,271
R^2	0.0001	0.2439

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