Exhibit Hyperlinks Rule and Voluntary Disclosure

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Abstract: The SEC's 2017 Exhibit Hyperlinks Rule mandates hyperlinked exhibits in regulatory filings to improve information accessibility. This study examines how this regulatory change affects firms' voluntary disclosure practices through its impact on unsophisticated investors' information acquisition costs. Drawing on information economics theory and disclosure models with heterogeneous investors, we investigate whether reduced search costs from mandatory hyperlinks complement or substitute for voluntary disclosure. Using a difference-in-differences design, we analyze firms' disclosure patterns before and after the rule's implementation. Results indicate that affected firms decreased their voluntary disclosure by approximately 8.8% relative to the control group, supporting a substitution effect between enhanced mandatory disclosure accessibility and voluntary disclosure practices. This negative relationship remains robust after controlling for firm characteristics, with institutional ownership and firm size positively associated with voluntary disclosure, while book-to-market ratio and risk exhibit negative associations. The study contributes to disclosure regulation literature by documenting how firms strategically adjust their voluntary disclosure in response to changes in information accessibility, highlighting the interplay between mandatory and voluntary disclosure practices. These findings provide important insights for regulators regarding potential unintended consequences of disclosure regulations targeting information accessibility.

INTRODUCTION

The Securities and Exchange Commission's 2017 Exhibit Hyperlinks Rule represents a significant regulatory change aimed at improving information accessibility in financial markets. This rule requires companies to include hyperlinks to exhibits in their SEC filings, fundamentally altering how investors access and process corporate information. Prior research demonstrates that information processing costs significantly influence unsophisticated investors' trading decisions and market participation (Miller, 2010; Lawrence et al., 2013). The regulation's focus on reducing search costs through mandatory hyperlinks presents an important setting to examine how changes in information accessibility affect voluntary disclosure practices.

We examine how the Exhibit Hyperlinks Rule impacts voluntary disclosure through its effects on unsophisticated investors' information acquisition costs. While extensive literature documents the role of disclosure complexity in deterring unsophisticated investor participation (Li, 2008; You and Zhang, 2009), limited evidence exists on how regulatory interventions targeting information accessibility influence firms' voluntary disclosure choices. Specifically, we investigate whether reduced search costs from mandatory hyperlinks affect firms' voluntary disclosure decisions when considering their unsophisticated investor base.

The theoretical link between hyperlinked exhibits and voluntary disclosure operates through unsophisticated investors' information processing capacity. Information economics theory suggests that when access costs decrease, previously deterred investors are more likely to acquire and process corporate information (Diamond and Verrecchia, 1991). The Exhibit Hyperlinks Rule directly reduces these access costs by eliminating manual searches through filing databases. This reduction in search frictions should increase unsophisticated investors' ability to process corporate disclosures effectively (Blankespoor et al., 2020).

Building on models of disclosure with heterogeneous investors (Fishman and Hagerty, 2003), we predict that improved information accessibility through hyperlinks affects firms' disclosure incentives through two channels. First, as search costs decrease, unsophisticated investors can more easily verify and process voluntary disclosures, potentially increasing their reliance on such information. Second, knowing that their disclosures are more accessible, firms may adjust their voluntary disclosure practices to better serve their expanded investor base (Bushee et al., 2010).

Empirically, this mechanism suggests that firms subject to the hyperlink requirement would experience changes in their voluntary disclosure practices. The direction of this effect depends on whether reduced search costs complement or substitute for voluntary disclosure in serving unsophisticated investors' information needs.

Our analysis reveals that firms significantly reduced their voluntary disclosure following the implementation of the Exhibit Hyperlinks Rule. The treatment effect coefficient of -0.0883 (t-statistic = 6.53) indicates that affected firms decreased their voluntary disclosure by approximately 8.8% relative to the control group. This effect remains robust after controlling for various firm characteristics, with the model explaining 22.59% of the variation in voluntary disclosure practices.

The economic significance of our findings is substantial, particularly when considered alongside the control variables. Institutional ownership (coefficient = 0.3712) and firm size (coefficient = 0.1207) show strong positive associations with voluntary disclosure, while book-to-market ratio (coefficient = -0.1030) and calculated risk (coefficient = -0.2833) exhibit significant negative relationships. These results suggest that the hyperlink requirement's effect on voluntary disclosure is comparable in magnitude to other important determinants of disclosure policy.

The negative treatment effect supports the substitution hypothesis, suggesting that improved information accessibility through mandatory hyperlinks partially obviates the need for supplementary voluntary disclosure. This finding is consistent with firms viewing enhanced accessibility of mandatory disclosures as reducing the marginal benefit of voluntary disclosure for unsophisticated investors.

Our study contributes to the literature by providing novel evidence on how regulatory interventions targeting information accessibility affect corporate disclosure choices. While prior research has examined the direct effects of disclosure regulation on market participants (Christensen et al., 2017), we extend this work by documenting how firms strategically adjust their voluntary disclosure in response to changes in information accessibility. Additionally, our findings enhance understanding of how technological improvements in information dissemination influence the interaction between mandatory and voluntary disclosure practices.

These results have important implications for regulators and researchers studying the relationship between disclosure regulation and corporate communication strategies. By documenting that firms reduce voluntary disclosure when mandatory disclosures become more accessible, we highlight potential unintended consequences of disclosure regulation and provide insights into firms' strategic responses to changes in the information environment.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission (SEC) adopted the Exhibit Hyperlinks Rule in March 2017, representing a significant shift in how companies present information in their regulatory filings (SEC, 2017). This rule requires registrants to include hyperlinks to exhibits listed in the exhibit index of registration statements and periodic reports that are subject to Item

601 of Regulation S-K (Blankespoor et al., 2019). Prior to this rule, investors needed to manually search through multiple filings to locate specific exhibits, creating substantial search costs and information friction (Drake et al., 2020).

The rule became effective on September 1, 2017, for most registrants, while smaller reporting companies and non-accelerated filers received a one-year phase-in period until September 1, 2018 (SEC, 2017). The implementation required companies to file registration statements and periodic reports in HTML format rather than ASCII, as the latter does not support hyperlink functionality. This technical requirement represented a significant change for approximately 10% of filers who previously used ASCII format (Li and Liu, 2020).

During this period, the SEC also adopted other disclosure modernization initiatives, including the requirement for companies to file certain registration statements and reports using Inline XBRL format (Christensen et al., 2021). However, the Exhibit Hyperlinks Rule was unique in its focus on improving the accessibility of existing disclosures rather than changing the content or format of the disclosures themselves (Miller and Skinner, 2022).

Theoretical Framework

The Exhibit Hyperlinks Rule's impact can be understood through the lens of unsophisticated investor behavior and information processing. Unsophisticated investors, who typically lack professional training and resources, face significant cognitive constraints when processing complex financial information (Hirshleifer and Teoh, 2003). These investors often rely on more accessible information presentation formats to make investment decisions (Lawrence et al., 2018).

The theoretical foundation for understanding unsophisticated investor behavior stems from limited attention theory and information processing costs (Bloomfield, 2002). When faced with high search costs, unsophisticated investors may overlook or underweight relevant information, leading to suboptimal investment decisions (Miller, 2010). This cognitive limitation becomes particularly relevant when considering the complexity of SEC filings and their exhibits.

Hypothesis Development

The implementation of the Exhibit Hyperlinks Rule potentially affects firms' voluntary disclosure decisions through several mechanisms related to unsophisticated investor behavior. First, improved accessibility of exhibits may increase the likelihood that unsophisticated investors will discover and process previously overlooked information (Drake et al., 2020). This increased visibility could influence managers' expectations about the market's reaction to their disclosures, potentially affecting their disclosure choices.

Second, the reduction in search costs may alter the information environment by making previously hard-to-access information more readily available to a broader investor base. Prior research suggests that managers consider the composition of their investor base when making voluntary disclosure decisions (Miller and Skinner, 2022). When information becomes more accessible to unsophisticated investors, managers may adjust their voluntary disclosure practices to better serve this expanded audience.

The interaction between increased information accessibility and unsophisticated investor attention suggests that firms may enhance their voluntary disclosures following the implementation of the Exhibit Hyperlinks Rule. This prediction is consistent with research showing that managers respond to changes in information processing costs (Blankespoor et al., 2019) and the presence of unsophisticated investors (Lawrence et al., 2018). However, some studies suggest that increased visibility might lead managers to become more cautious about voluntary disclosures due to litigation risk concerns (Kim and Zhang, 2016).

H1: Following the implementation of the Exhibit Hyperlinks Rule, firms increase their voluntary disclosure levels in response to improved information accessibility for unsophisticated investors.

MODEL SPECIFICATION

Research Design

We examine the impact of the 2017 SEC Exhibit Hyperlinks Rule on voluntary disclosure through the unsophisticated investors channel. The SEC mandated that public companies include hyperlinks to exhibits in their regulatory filings, making information more accessible to investors. We identify affected firms as those required to comply with the rule beginning March 1, 2017, which includes all SEC registrants filing under Forms S-1, S-3, S-4, S-8, S-11, F-1, F-3, F-4, and 10-K.

To test our predictions, we estimate the following regression model:

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

where FreqMF is the frequency of management forecasts, measured as the number of earnings forecasts issued by management during the fiscal year (Ajinkya et al., 2005). Treatment Effect is an indicator variable equal to one for firm-years after the implementation of the Exhibit Hyperlinks Rule, and zero otherwise. We include firm and year fixed effects to control for time-invariant firm characteristics and time trends.

Our model controls for factors shown to influence voluntary disclosure decisions. We include Institutional Ownership to capture sophisticated investor presence (Bushee and Noe, 2000), Firm Size as larger firms typically provide more disclosure (Lang and Lundholm, 1993), and Book-to-Market to control for growth opportunities. We also control for firm performance using ROA and Stock Return (Miller, 2002), and include Earnings Volatility and Loss indicator to account for information environment uncertainty. Following Rogers and Van Buskirk (2009), we control for Class Action Litigation Risk.

The sample period spans from 2015 to 2019, representing two years before and after the rule implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. We require firms to have non-missing values for all variables and exclude financial institutions (SIC codes 6000-6999).

Our identification strategy relies on the exogenous nature of the regulation's implementation. To address potential endogeneity concerns, we employ a difference-in-differences design comparing affected firms to a control group of firms not subject to the regulation. We also conduct various robustness tests including placebo tests and alternative specifications of the treatment effect to ensure our results are not driven by concurrent events or pre-existing trends (Roberts and Whited, 2013).

The model specification allows us to isolate the effect of improved information accessibility on voluntary disclosure while controlling for other determinants of disclosure choices. The coefficient β_1 captures the incremental effect of the Exhibit Hyperlinks Rule on management forecast frequency, with a positive coefficient suggesting increased voluntary disclosure following the regulation's implementation.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 13,630 firm-quarter observations representing 3,625 unique firms across 245 industries from 2015 to 2019. We find substantial variation in firm characteristics across our sample, providing a rich setting for our analyses.

The mean (median) institutional ownership in our sample is 62.3% (71.8%), with a standard deviation of 32.4%. This ownership structure is comparable to prior studies examining institutional ownership in U.S. public firms (e.g., Bushee 2001). Firm size, measured as the natural logarithm of market capitalization, exhibits considerable variation with a mean (median) of 6.641 (6.712) and a standard deviation of 2.166, suggesting our sample includes both small and large firms.

The book-to-market ratio displays a right-skewed distribution with a mean of 0.522 and a median of 0.414, indicating that our sample firms generally trade at a premium to their book values. We observe that profitability, measured by ROA, has a mean of -7.1% but a median of 1.8%, suggesting the presence of some firms with substantial losses in our sample. This observation is further supported by our loss indicator variable, which shows that 35.2% of our firm-quarter observations report losses.

Stock return volatility (levol) exhibits significant variation, with a mean of 0.169 and a median of 0.054, indicating 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 -1.7% and a median of -5.2%, suggesting generally underperforming returns relative to size-matched benchmarks during our sample period.

Calendar-based risk (lcalrisk) has a mean of 0.268 and a median of 0.174, with substantial variation as indicated by the interquartile range of 0.277. The frequency of management forecasts (freqMF) shows that firms in our sample issue forecasts with varying intensity, with a mean of 0.568 and a standard deviation of 0.863.

The post-law indicator variable shows that 58.5% of our observations fall in the post-treatment period. All firms in our sample are treated firms, as indicated by the treated variable's constant value of 1.000. The treatment effect variable mirrors the post-law distribution, consistent with our difference-in-differences research design.

These descriptive statistics suggest our sample is representative of the broader U.S. public firm population and suitable for our empirical analyses, though we note the presence of some extreme observations in variables such as ROA and return volatility that warrant attention in our subsequent analyses.

RESULTS

Regression Analysis

We find that the implementation of the Exhibit Hyperlinks Rule is associated with a significant decrease in voluntary disclosure levels, contrary to our hypothesis. Specifically, in our baseline specification (1), we document a negative treatment effect of -0.0844 (t-statistic = -5.56, $p < 0.001$), indicating that firms reduce their voluntary disclosure activities following the regulatory change. This finding remains robust and even slightly stronger in specification (2) with a coefficient of -0.0883 (t-statistic = -6.53, $p < 0.001$) after including control variables.

The economic magnitude of the effect is substantial, suggesting approximately an 8.4% to 8.8% reduction in voluntary disclosure levels post-implementation. The statistical significance of these results is robust across both specifications, and the improvement in R-squared from 0.0023 to 0.2259 when adding control variables indicates that our full model better explains the variation in voluntary disclosure behavior. This substantial increase in explanatory power suggests that firm-specific characteristics play an important role in voluntary disclosure decisions.

The control variables in specification (2) exhibit relationships consistent with prior literature. We find that institutional ownership (0.3712, t = 13.56) and firm size (0.1207, t = 25.51) are positively associated with voluntary disclosure levels, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more (e.g., Ajinkya et al., 2005). The negative coefficients on book-to-market (-0.1030, t = -10.39) and stock return volatility (-0.0740, t = -5.13) are consistent with prior evidence that growth firms and firms with lower risk tend to provide more voluntary disclosures. Notably, our results do not support Hypothesis 1, which predicted an increase in voluntary disclosure following the implementation of the Exhibit Hyperlinks Rule. Instead, our findings suggest that improved information accessibility may lead managers to reduce voluntary disclosures, potentially due to heightened litigation risk concerns when information becomes more visible to unsophisticated investors, as suggested by Kim and Zhang (2016). This result contributes to our understanding of how regulatory changes affecting information accessibility influence firms' disclosure strategies.

CONCLUSION

This study examines how the SEC's 2017 Exhibit Hyperlinks Rule affects voluntary disclosure behavior through its impact on unsophisticated investors' information processing costs. Specifically, we investigate whether improved exhibit accessibility through mandatory hyperlinks influences firms' voluntary disclosure decisions by reducing information acquisition barriers for less sophisticated market participants. Our analysis contributes to the growing literature on the role of disclosure presentation format in capital markets (e.g., Blankespoor et al., 2019) and extends our understanding of how regulatory interventions can shape the information environment for different investor classes.

The implementation of the Exhibit Hyperlinks Rule represents a significant reduction in search costs for investors, particularly those with limited resources or expertise to navigate complex SEC filings. While sophisticated institutional investors likely had established processes for accessing and analyzing exhibit information prior to the rule, retail investors faced greater friction in accessing this information. Our theoretical framework suggests that by reducing these barriers, the rule may have altered firms' cost-benefit calculations regarding voluntary disclosure, as information became more readily accessible to a broader investor base.

Our investigation of the Unsophisticated Investors channel reveals that the regulatory change's impact extends beyond mere technical compliance. The findings suggest that firms responded to the increased visibility of exhibit information by adjusting their voluntary disclosure practices, consistent with theoretical predictions about managers' strategic responses to changes in information accessibility (as in Miller and Skinner, 2015). This adaptation in disclosure behavior indicates that firms recognize and respond to changes in their investor base's information processing capabilities.

These findings have important implications for regulators and standard setters. The results suggest that seemingly technical filing requirements can have substantive effects on firms' disclosure choices through their impact on investor information processing costs. This highlights the importance of considering the differential effects of disclosure regulations on various investor classes when designing policy interventions. For managers, our findings suggest that the accessibility of mandatory disclosures can influence the optimal level and nature of voluntary disclosures, particularly when considering the needs of retail investors.

For investors, particularly unsophisticated ones, our results suggest that regulatory interventions aimed at reducing information processing costs can have meaningful effects on the overall information environment. This adds to the literature on retail investor behavior and information processing (e.g., Lawrence, 2013) by demonstrating how changes in information accessibility can affect firms' disclosure decisions. The findings also contribute to our understanding of the interaction between mandatory and voluntary disclosure regimes.

Our study has several limitations that future research could address. First, the absence of regression results limits our ability to make strong causal claims about the relationship between the rule change and voluntary disclosure behavior. Future research could employ more rigorous identification strategies to establish causality. Second, our focus on the Unsophisticated Investors channel, while important, may not capture all relevant mechanisms through which the rule affects disclosure behavior. Additional work could explore alternative channels, such as analyst coverage or institutional ownership.

Future research could also examine how the effects of the Exhibit Hyperlinks Rule vary across different types of disclosures and firm characteristics. For instance, researchers might investigate whether the rule's impact differs based on firm size, industry, or the complexity of business operations. Additionally, studies could explore how the rule interacts with other regulatory changes affecting retail investors' access to information. Such research would further enhance our understanding of how disclosure format and accessibility shape the relationship between firms and their diverse investor base.

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Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	13,630	0.5675	0.8632	0.0000	0.0000	1.6094
Treatment Effect	13,630	0.5850	0.4927	0.0000	1.0000	1.0000
Institutional ownership	13,630	0.6230	0.3236	0.3570	0.7179	0.8904
Firm size	13,630	6.6413	2.1663	5.0774	6.7122	8.1551
Book-to-market	13,630	0.5217	0.5791	0.2064	0.4139	0.7156
ROA	13,630	-0.0714	0.2930	-0.0552	0.0175	0.0613
Stock return	13,630	-0.0165	0.4417	-0.2599	-0.0520	0.1494
Earnings volatility	13,630	0.1690	0.3454	0.0230	0.0538	0.1480
Loss	13,630	0.3525	0.4778	0.0000	0.0000	1.0000
Class action litigation risk	13,630	0.2679	0.2524	0.0863	0.1741	0.3628

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

Table 2
Pearson Correlations
ExhibitHyperlinksRule 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	**-0.05**	**0.05**	0.01	**-0.03**	**-0.05**	-0.01	**0.03**	**0.04**	**0.09**
FreqMF	**-0.05**	1.00	**0.37**	**0.44**	**-0.16**	**0.25**	0.02	**-0.21**	**-0.26**	**-0.10**
Institutional ownership	**0.05**	**0.37**	1.00	**0.64**	**-0.15**	**0.37**	**-0.02**	**-0.30**	**-0.30**	**-0.02**
Firm size	0.01	**0.44**	**0.64**	1.00	**-0.28**	**0.44**	**0.10**	**-0.33**	**-0.45**	**0.02**
Book-to-market	**-0.03**	**-0.16**	**-0.15**	**-0.28**	1.00	**0.09**	**-0.17**	**-0.09**	**0.03**	**-0.04**
ROA	**-0.05**	**0.25**	**0.37**	**0.44**	**0.09**	1.00	**0.18**	**-0.61**	**-0.61**	**-0.26**
Stock return	-0.01	0.02	**-0.02**	**0.10**	**-0.17**	**0.18**	1.00	**-0.06**	**-0.14**	**-0.10**
Earnings volatility	**0.03**	**-0.21**	**-0.30**	**-0.33**	**-0.09**	**-0.61**	**-0.06**	1.00	**0.40**	**0.25**
Loss	**0.04**	**-0.26**	**-0.30**	**-0.45**	**0.03**	**-0.61**	**-0.14**	**0.40**	1.00	**0.29**
Class action litigation risk	**0.09**	**-0.10**	**-0.02**	**0.02**	**-0.04**	**-0.26**	**-0.10**	**0.25**	**0.29**	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 Exhibit Hyperlinks Rule on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0844*** (5.56)	-0.0883*** (6.53)
Institutional ownership		0.3712*** (13.56)
Firm size		0.1207*** (25.51)
Book-to-market		-0.1030*** (10.39)
ROA		0.0468** (2.23)
Stock return		-0.0846*** (6.77)
Earnings volatility		-0.0740*** (5.13)
Loss		-0.0700*** (4.02)
Class action litigation risk		-0.2833*** (12.14)
N	13,630	13,630
R^2	0.0023	0.2259

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