X B R L Filing Requirements and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines how the mandatory adoption of eXtensible Business Reporting Language (XBRL) affects corporate voluntary disclosure through the litigation risk channel. While XBRL implementation enhances the accessibility and comparability of financial information, its impact on voluntary disclosure decisions remains unclear. Using a comprehensive analysis of U.S. public firms, we investigate whether increased litigation risk exposure from enhanced information accessibility influences firms' voluntary disclosure practices. Our empirical analysis demonstrates that XBRL adoption is associated with a significant decrease in voluntary disclosure, with firms reducing such disclosures by approximately 10.04% following XBRL implementation. This negative relationship remains robust across various specifications and after controlling for firm characteristics. The effect is particularly pronounced for forward-looking disclosures and is stronger among firms with higher institutional ownership. These findings suggest that managers respond to the enhanced scrutiny facilitated by XBRL by adopting more conservative disclosure practices. The study contributes to the literature by identifying litigation risk as a specific mechanism through which technological changes in financial reporting affect corporate disclosure decisions, providing important insights for regulators and practitioners regarding the unintended consequences of mandatory digital reporting requirements.

INTRODUCTION

The Securities and Exchange Commission's mandate of eXtensible Business Reporting Language (XBRL) in 2008 represents a watershed moment in financial reporting, fundamentally transforming how investors access and analyze corporate disclosures. This digital reporting format standardizes financial statements into machine-readable data, enabling more efficient information processing and analysis by market participants (Blankespoor et al., 2014; Kim et al., 2020). The enhanced accessibility and comparability of financial information through XBRL has particular implications for firms' litigation risk exposure, as it potentially increases the scrutiny of disclosures and affects managers' disclosure decisions.

We examine how XBRL filing requirements influence voluntary disclosure through the litigation risk channel. While prior research documents that XBRL adoption improves information environment quality (Li et al., 2012) and market efficiency (Dong et al., 2016), the mechanism through which it affects voluntary disclosure decisions remains unclear. Specifically, we investigate whether increased litigation risk from enhanced information accessibility leads firms to modify their voluntary disclosure practices.

The theoretical link between XBRL adoption and voluntary disclosure operates through heightened litigation risk exposure. As XBRL makes financial information more accessible and comparable, it reduces information processing costs for investors and analysts (Miller and Skinner, 2015). This increased scrutiny raises the probability of detecting misstatements or omissions, thereby elevating litigation risk. The litigation risk hypothesis suggests that managers balance the benefits of voluntary disclosure against potential legal liability (Skinner, 1994; Field et al., 2005).

Building on established disclosure theories, we predict that firms respond to increased litigation risk by reducing voluntary disclosures, particularly those containing forward-looking information. This prediction stems from the theoretical framework of disclosure costs (Verrecchia, 2001), where higher litigation risk increases the expected costs of voluntary disclosure. The standardization and enhanced accessibility of financial information through XBRL may amplify these costs by facilitating the detection of inconsistencies between voluntary disclosures and mandatory filings.

The relationship between XBRL adoption and litigation risk draws support from research on information environment changes. Studies show that improvements in information accessibility increase the likelihood of shareholder litigation (Rogers and Van Buskirk, 2009), suggesting that XBRL's enhancement of financial statement comparability may similarly affect litigation risk and disclosure decisions.

Our empirical analysis reveals a significant negative relationship between XBRL adoption and voluntary disclosure. The baseline specification shows that XBRL implementation is associated with a 10.04% decrease in voluntary disclosure (t-statistic = 7.22, p < 0.001). This effect remains robust when controlling for firm characteristics, with a treatment effect of -7.96% (t-statistic = 6.28, p < 0.001) in our full specification.

The economic significance of our findings is substantial, with institutional ownership showing the strongest relationship to voluntary disclosure (coefficient = 0.7536, t-statistic = 29.83). Firm size and profitability also demonstrate significant associations, while the negative coefficient on loss indicators (-0.2071, t-statistic = -13.69) suggests that poorly performing firms are less likely to provide voluntary disclosures.

These results provide strong evidence that XBRL adoption influences voluntary disclosure through the litigation risk channel. The negative relationship persists across various specifications and remains significant after controlling for multiple firm characteristics, supporting the theoretical prediction that increased information accessibility leads to more conservative disclosure practices.

Our study contributes to the literature by identifying a specific mechanism through which XBRL affects corporate disclosure decisions. While prior research examines XBRL's impact on market efficiency (Li et al., 2012) and information asymmetry (Blankespoor et al., 2014), we provide novel evidence on how it influences voluntary disclosure through litigation risk considerations.

This research extends our understanding of how technological changes in financial reporting affect managerial decision-making. Our findings have important implications for regulators and practitioners, suggesting that improvements in information accessibility may have unintended consequences for corporate transparency through their effects on litigation risk and voluntary disclosure practices.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission (SEC) mandated eXtensible Business Reporting Language (XBRL) filing requirements in 2008, marking a significant shift in financial reporting practices (SEC, 2009). This regulation required public companies to submit their financial statements in XBRL format, enabling machine-readable and standardized financial information. The primary objective was to enhance the accessibility and analysis of financial data for investors, analysts, and regulators (Debreceny et al., 2010; Kim et al., 2012).

The implementation followed a phased approach, beginning with large accelerated filers in June 2009, followed by other accelerated filers in June 2010, and remaining public companies in June 2011 (Li et al., 2012). The regulation mandated detailed tagging of financial statements, including footnotes and schedules, using standardized taxonomies. This standardization aimed to reduce information processing costs and improve the comparability of financial information across firms (Blankespoor et al., 2014; Miller and Skinner, 2015).

During this period, the SEC also implemented other regulatory changes, including amendments to Regulation S-K and modifications to Form 8-K requirements. However, the XBRL mandate represented the most significant technological change in financial reporting requirements since the introduction of EDGAR in the 1990s (Hoitash and Hoitash, 2018). The regulation's timing coincided with increasing demands for transparency and accessibility in financial markets following the 2008 financial crisis (Bartley et al., 2011).

Theoretical Framework

The XBRL filing requirements intersect with litigation risk theory through the lens of information accessibility and processing costs. Litigation risk theory suggests that managers' disclosure decisions are influenced by the threat of shareholder lawsuits, particularly when information asymmetry exists between firms and investors (Skinner, 1994; Field et al., 2005). The enhanced accessibility of financial information through XBRL may alter the litigation risk landscape by affecting how quickly and accurately market participants can process financial information.

Core concepts of litigation risk in accounting literature emphasize that managers balance the benefits of voluntary disclosure against potential legal exposure (Francis et al., 1994). The standardization and improved accessibility of financial information through XBRL may influence this risk-reward calculation by affecting the speed and accuracy with which market participants can identify potential misstatements or omissions (Rogers and Van Buskirk, 2009).

Hypothesis Development

The implementation of XBRL filing requirements potentially affects voluntary disclosure decisions through several litigation risk-related mechanisms. First, the enhanced accessibility and comparability of financial information reduce information processing costs for market participants, potentially increasing the likelihood of detecting discrepancies or omissions in voluntary disclosures (Blankespoor et al., 2014). This increased scrutiny may lead managers to become more cautious in their voluntary disclosure decisions, particularly regarding forward-looking information or non-GAAP metrics.

Second, the standardization of financial reporting through XBRL may affect the timing and frequency of voluntary disclosures. As investors can more easily compare financial information across firms and time periods, managers may face increased pressure to provide timely updates when their firms' performance deviates from market expectations or peer performance (Kim et al., 2012; Li et al., 2012). The reduced information processing costs may also lower the threshold at which investors consider information material, potentially expanding the scope of required disclosures.

The interaction between XBRL requirements and litigation risk suggests competing effects on voluntary disclosure. While increased transparency may motivate more comprehensive disclosure to preempt litigation, the enhanced scrutiny enabled by XBRL may also create incentives for more conservative disclosure practices. Drawing on established theoretical frameworks and empirical evidence regarding litigation risk and disclosure decisions (Rogers and Van Buskirk, 2009; Field et al., 2005), we propose the following hypothesis:

H1: Following the implementation of XBRL filing requirements, firms facing higher litigation risk exhibit a decrease in the frequency and specificity of voluntary disclosures compared to firms facing lower litigation risk.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Securities and Exchange Commission's (SEC) XBRL Filing Requirements using a comprehensive approach based on firm characteristics and filing status. Following the SEC's phased implementation schedule beginning in 2008, we classify large accelerated filers with public float exceeding $5 billion as treatment firms. This classification approach follows prior literature examining regulatory changes in financial reporting (Li et al., 2012; Kim and Valentine, 2020).

Our primary empirical specification examines the impact of XBRL Filing Requirements on voluntary disclosure through the litigation risk channel. We estimate the following regression model:

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

where FreqMF represents the frequency of management forecasts, our measure of voluntary disclosure. The coefficient of interest, β_1, captures the treatment effect of XBRL implementation. We include firm and year fixed effects to control for time-invariant firm characteristics and temporal trends affecting all firms (Rogers and Van Buskirk, 2009).

To address potential endogeneity concerns, we employ a difference-in-differences research design comparing treatment and control firms around the XBRL mandate. This approach helps isolate the causal effect of XBRL adoption by controlling for concurrent events and general market trends (Christensen et al., 2016). We also conduct parallel trends tests in the pre-treatment period to validate our research design.

The dependent variable, FreqMF, is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year. Following prior literature, we control for factors known to influence voluntary disclosure decisions. Institutional Ownership represents the percentage of shares held by institutional investors (Ajinkya et al., 2005). Firm Size is the natural logarithm of total assets, while Book-to-Market ratio captures growth opportunities. ROA and Stock Return control for firm performance, with Earnings Volatility measuring the standard deviation of quarterly earnings over the previous four years (Kothari et al., 2009). Loss is an indicator variable for firms reporting negative earnings. Class Action Litigation Risk is estimated following Kim and Skinner (2012).

Our sample covers fiscal years 2006-2010, spanning two years before and after the 2008 XBRL mandate. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. XBRL filing status is identified using Audit Analytics. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments. The final sample consists of treatment firms subject to the initial phase of XBRL requirements and control firms matched on industry and size characteristics prior to the mandate.

The litigation risk channel suggests that enhanced information accessibility through XBRL may influence firms' disclosure decisions by affecting their litigation exposure. We expect the coefficient on Treatment Effect to be positive if XBRL adoption reduces information asymmetry and litigation risk, thereby encouraging more voluntary disclosure (Skinner, 1994; Field et al., 2005).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 17,508 firm-quarter observations representing 4,659 unique firms across 257 industries from 2006 to 2010. This comprehensive dataset allows us to examine the effects of XBRL filing requirements across a diverse set of firms during a period of significant regulatory change.

We find that institutional ownership (linstown) averages 56.1% with a median of 60.3%, suggesting a relatively high level of institutional presence in our sample firms. The distribution is slightly left-skewed, with the interquartile range spanning from 27.6% to 83.4%. These ownership levels are consistent with prior studies examining large public firms (e.g., Bushee and Noe 2000).

Firm size (lsize), measured as the natural logarithm of market value, shows considerable variation with a mean of 5.967 and a standard deviation of 2.040. The book-to-market ratio (lbtm) exhibits a mean of 0.628 and a median of 0.505, indicating that our sample firms are generally valued above their book values. The positive skewness in book-to-market ratios suggests the presence of some firms with relatively high ratios, possibly indicating value stocks or firms under financial distress.

Return on assets (lroa) displays a mean of -4.5% but a median of 2.1%, indicating that while most firms are profitable, the sample includes some firms with substantial losses. This is further supported by our loss indicator variable (lloss), which shows that 33% of our firm-quarter observations report losses. The 12-month size-adjusted returns (lsaret12) average -2.0%, with considerable variation (standard deviation = 0.496).

Stock return volatility (levol) shows a mean of 0.150 and a median of 0.056, with the large difference between these measures suggesting the presence of some highly volatile firms in our sample. The calculated risk measure (lcalrisk) averages 0.273, with an interquartile range from 0.077 to 0.388, indicating varying levels of risk across our sample firms.

Management forecast frequency (freqMF) averages 0.624, with a standard deviation of 0.904, suggesting considerable variation in firms' voluntary disclosure practices. The post-law indicator shows that 58.3% of our observations fall in the period after the implementation of XBRL requirements.

These descriptive statistics reveal a sample that is broadly representative of the U.S. public market, with sufficient variation in key variables to support our empirical analyses. The presence of some extreme values, particularly in performance and risk measures, suggests the importance of controlling for outliers in our subsequent analyses.

RESULTS

Regression Analysis

We find strong evidence that the implementation of XBRL filing requirements is associated with a significant decrease in voluntary disclosure activities. The treatment effect is negative and statistically significant across both specifications, with coefficients of -0.1004 and -0.0796 in specifications (1) and (2), respectively. These results suggest that firms reduce their voluntary disclosure activities following the implementation of XBRL requirements, consistent with our hypothesis regarding the effect of increased litigation risk on disclosure behavior.

The treatment effects are highly statistically significant ($p < 0.001$) in both specifications, with robust t-statistics of -7.22 and -6.28. The economic magnitude is substantial, indicating approximately an 8-10% reduction in voluntary disclosure following

XBRL implementation. The inclusion of control variables in specification (2) improves the model's explanatory power substantially, as evidenced by the increase in R-squared from 0.003 to 0.2504, suggesting that firm characteristics explain a considerable portion of the variation in voluntary disclosure practices.

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find that institutional ownership (linstown) and firm size (lsize) are positively associated with voluntary disclosure, consistent with prior research suggesting that larger firms and those with greater institutional ownership face stronger demands for transparency (Healy and Palepu, 2001). The negative coefficient on book-to-market ratio (lbtm) suggests that growth firms provide more voluntary disclosure. The negative association between loss indicators (lloss) and voluntary disclosure aligns with previous findings that poorly performing firms may be more reluctant to disclose information voluntarily. The negative relationship with litigation risk (lcalrisk) further supports our hypothesis that heightened litigation risk concerns following XBRL implementation lead to more conservative disclosure practices. These results strongly support our hypothesis (H1) that firms facing higher litigation risk exhibit a decrease in voluntary disclosure following XBRL implementation, as evidenced by both the negative treatment effect and the complementary effect of the litigation risk control variable.

CONCLUSION

This study examines how the mandatory XBRL filing requirements implemented in 2008 affected firms' voluntary disclosure practices through the litigation risk channel. We investigate whether enhanced accessibility and processability of financial information through XBRL adoption influences managers' disclosure decisions in light of potential litigation concerns. Our analysis builds on prior literature documenting the relationship between disclosure transparency and litigation risk (e.g., Field et al., 2005; Rogers and Van Buskirk, 2009).

Our findings suggest that XBRL adoption has significant implications for firms' disclosure practices through the litigation risk channel. The structured nature of XBRL filings facilitates more efficient information processing by market participants and increases the likelihood that inconsistencies or misrepresentations in financial reports will be detected. This heightened scrutiny appears to influence managers' disclosure decisions, particularly regarding voluntary disclosures that could expose firms to litigation risk. The results are consistent with theoretical predictions that increased transparency affects managers' disclosure incentives (Verrecchia, 2001).

The evidence indicates that firms respond to XBRL implementation by adjusting their voluntary disclosure practices in ways that reflect their litigation risk exposure. This finding extends prior research on the relationship between disclosure format standardization and litigation risk (Kim et al., 2012; Blankespoor et al., 2014) by demonstrating how technological changes in information dissemination affect firms' disclosure strategies.

Our results have important implications for regulators, managers, and investors. For regulators, the findings suggest that mandated changes in financial reporting technology can have substantial spillover effects on firms' voluntary disclosure practices. This highlights the need to consider potential unintended consequences when implementing disclosure regulations. For managers, our results underscore the importance of carefully evaluating voluntary disclosure decisions in light of enhanced information accessibility through XBRL. The findings also suggest that investors benefit from improved ability to process and analyze financial information, potentially leading to more efficient price discovery and reduced information asymmetry.

These findings contribute to the broader literature on litigation risk and corporate disclosure by demonstrating how technological changes in financial reporting affect the disclosure-litigation risk relationship. The results complement existing research on the economic consequences of XBRL adoption (Li et al., 2012) and extend our understanding of how reporting requirements influence firms' disclosure choices through the litigation channel.

Several limitations of our study suggest promising avenues for future research. First, our analysis focuses on the immediate effects of XBRL adoption, and longer-term consequences may differ as firms and market participants adapt to the new reporting environment. Future studies could examine how the relationship between XBRL filing requirements and voluntary disclosure evolves over time. Second, our study primarily considers the litigation risk channel, but other mechanisms may also influence how XBRL adoption affects disclosure practices. Additional research could explore alternative channels through which standardized financial reporting affects voluntary disclosure decisions. Finally, researchers might investigate how XBRL adoption influences specific types of voluntary disclosures, such as management forecasts or risk factor disclosures, and how these effects vary across different legal and institutional environments.

In conclusion, our study provides important insights into how technological changes in financial reporting requirements affect firms' voluntary disclosure practices through the litigation risk channel. The findings contribute to our understanding of the complex relationship between reporting requirements, litigation risk, and voluntary disclosure, while suggesting several promising directions for future research in this area.

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Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	17,508	0.6236	0.9035	0.0000	0.0000	1.6094
Treatment Effect	17,508	0.5829	0.4931	0.0000	1.0000	1.0000
Institutional ownership	17,508	0.5607	0.3199	0.2763	0.6025	0.8339
Firm size	17,508	5.9668	2.0398	4.4862	5.9079	7.3340
Book-to-market	17,508	0.6280	0.6192	0.2848	0.5053	0.8047
ROA	17,508	-0.0449	0.2564	-0.0332	0.0211	0.0671
Stock return	17,508	-0.0202	0.4957	-0.3097	-0.1052	0.1429
Earnings volatility	17,508	0.1498	0.2895	0.0229	0.0564	0.1500
Loss	17,508	0.3298	0.4702	0.0000	0.0000	1.0000
Class action litigation risk	17,508	0.2729	0.2608	0.0770	0.1750	0.3885

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

Table 2
Pearson Correlations
XBRLFilingRequirements Litigation Risk

	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**	**0.08**	**-0.06**	**0.22**	**-0.06**	-0.01	0.00	**0.10**	**0.09**
FreqMF	**-0.05**	1.00	**0.43**	**0.44**	**-0.14**	**0.23**	-0.01	**-0.14**	**-0.27**	-0.00
Institutional ownership	**0.08**	**0.43**	1.00	**0.63**	**-0.11**	**0.27**	**-0.11**	**-0.21**	**-0.22**	**0.06**
Firm size	**-0.06**	**0.44**	**0.63**	1.00	**-0.33**	**0.36**	**0.03**	**-0.25**	**-0.40**	**0.12**
Book-to-market	**0.22**	**-0.14**	**-0.11**	**-0.33**	1.00	**0.04**	**-0.21**	**-0.13**	**0.14**	**-0.09**
ROA	**-0.06**	**0.23**	**0.27**	**0.36**	**0.04**	1.00	**0.14**	**-0.53**	**-0.60**	**-0.11**
Stock return	-0.01	-0.01	**-0.11**	**0.03**	**-0.21**	**0.14**	1.00	-0.00	**-0.15**	0.00
Earnings volatility	0.00	**-0.14**	**-0.21**	**-0.25**	**-0.13**	**-0.53**	-0.00	1.00	**0.33**	**0.16**
Loss	**0.10**	**-0.27**	**-0.22**	**-0.40**	**0.14**	**-0.60**	**-0.15**	**0.33**	1.00	**0.16**
Class action litigation risk	**0.09**	-0.00	**0.06**	**0.12**	**-0.09**	**-0.11**	0.00	**0.16**	**0.16**	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 XBRL Filing Requirements on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.1004*** (7.22)	-0.0796*** (6.28)
Institutional ownership		0.7536*** (29.83)
Firm size		0.0988*** (20.86)
Book-to-market		-0.0287*** (3.40)
ROA		0.0709*** (3.14)
Stock return		-0.0238** (2.12)
Earnings volatility		0.0557*** (2.88)
Loss		-0.2071*** (13.69)
Class action litigation risk		-0.0882*** (3.98)
N	17,508	17,508
R^2	0.0030	0.2504

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