

Nominating Committee Disclosure Requirements and Voluntary Disclosure

Artemis Intelligencia

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Abstract: This study examines how the Securities and Exchange Commission's 2003 Nominating Committee Disclosure Requirements influence firms' voluntary disclosure practices through corporate governance mechanisms. While prior research establishes that board characteristics affect voluntary disclosure, the impact of nomination process transparency on broader disclosure practices remains understudied. Using a difference-in-differences design, we investigate how mandated nominating committee disclosures affect firms' voluntary disclosure decisions. Results indicate a significant increase in voluntary disclosure following the regulation implementation, with a positive treatment effect that remains robust after controlling for firm characteristics. The baseline specification shows a treatment effect of 0.0882, which remains significant though reduced to 0.0284 in the full specification. Institutional ownership and firm size emerge as important determinants of voluntary disclosure, while financial condition significantly influences disclosure choices. These findings support the corporate governance channel through which nominating committee disclosure requirements affect voluntary disclosure practices. The study contributes to the literature by documenting how regulations targeting board selection processes influence disclosure through the governance channel and provides evidence that governance-focused disclosure requirements can have spillover effects on firms' voluntary disclosure practices. The results inform policymakers about the effectiveness of disclosure-based regulations in

improving corporate governance outcomes and market transparency.

INTRODUCTION

The Securities and Exchange Commission's 2003 Nominating Committee Disclosure Requirements represent a significant regulatory intervention aimed at enhancing transparency in corporate board selection processes. This regulation mandates detailed disclosures about director nomination procedures, qualification criteria, and shareholder involvement in board selection (Adams and Ferreira, 2007; Larcker et al., 2011). The requirements particularly affect corporate governance mechanisms by requiring firms to reveal their internal processes for identifying and evaluating board candidates, potentially influencing both board composition and effectiveness (Bebchuk and Weisbach, 2010).

The relationship between nominating committee disclosures and voluntary corporate disclosure practices remains understudied, despite their theoretical connection through information asymmetry reduction and agency cost mitigation. While prior research establishes that board characteristics influence voluntary disclosure (Core et al., 2015), the specific impact of enhanced nomination process transparency on firms' broader disclosure practices presents an important empirical question. We examine how mandated nominating committee disclosures affect firms' voluntary disclosure decisions through the corporate governance channel.

The theoretical link between nominating committee disclosures and voluntary disclosure operates through multiple governance mechanisms. Enhanced transparency in director selection processes likely reduces information asymmetry between management and shareholders, potentially leading to improved board monitoring effectiveness (Hermalin and Weisbach, 2012). This improvement in governance quality may subsequently influence

managers' voluntary disclosure decisions by altering the cost-benefit trade-off of information provision (Armstrong et al., 2010).

Corporate governance theory suggests that more effective boards, resulting from improved nomination processes, are better positioned to influence management's disclosure choices (Bushman and Smith, 2001). The mandated disclosures may lead to the selection of more qualified directors who possess greater expertise in monitoring and advising management, thereby affecting firms' information environment. These governance improvements should manifest in enhanced voluntary disclosure practices as boards better fulfill their oversight responsibilities.

Building on agency theory and information economics, we predict that firms subject to the nominating committee disclosure requirements will increase their voluntary disclosures. This prediction stems from the expectation that enhanced nomination process transparency leads to more effective boards that can better influence management's disclosure decisions (Diamond and Verrecchia, 1991; Leuz and Verrecchia, 2000).

Our empirical analysis reveals significant changes in voluntary disclosure practices following the implementation of nominating committee disclosure requirements. The baseline specification shows a positive treatment effect of 0.0882 (t-statistic = 7.37), indicating an increase in voluntary disclosure following the regulation. This effect remains statistically significant after controlling for various firm characteristics, though the magnitude decreases to -0.0284 (t-statistic = 2.78) in our full specification.

The economic significance of our findings is substantial, with institutional ownership (coefficient = 0.8883) and firm size (coefficient = 0.0903) emerging as important determinants of voluntary disclosure. The results are robust to controlling for various firm characteristics,

including profitability (ROA), stock returns, and risk factors. The negative coefficient on loss indicator (-0.2161) suggests that firms' financial condition significantly influences their disclosure choices.

These findings support the corporate governance channel through which nominating committee disclosure requirements affect voluntary disclosure practices. The positive association between the regulation and voluntary disclosure, combined with the significant role of governance-related control variables, suggests that improved board selection processes lead to enhanced corporate transparency.

Our study contributes to the literature on regulatory interventions in corporate governance and their effects on firm disclosure practices. While prior research examines the direct effects of board characteristics on voluntary disclosure (Armstrong et al., 2016), we extend this work by documenting how regulations targeting board selection processes influence disclosure through the governance channel. Additionally, our findings inform the ongoing debate about the effectiveness of disclosure-based regulations in improving corporate governance outcomes (Dey and White, 2021).

The results have important implications for regulators and policymakers, suggesting that governance-focused disclosure requirements can have spillover effects on firms' voluntary disclosure practices. Our analysis also contributes to the broader literature on the relationship between corporate governance mechanisms and information environment quality, providing evidence of how regulatory interventions can enhance market transparency through improved governance structures.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission (SEC) enacted the Nominating Committee Disclosure Requirements in 2003 as part of broader initiatives to enhance corporate governance transparency following high-profile corporate scandals (Bebchuk and Weisbach, 2010). These requirements mandated that public companies provide detailed disclosures about their director nomination processes, including the criteria used for identifying and evaluating board candidates, and the role of shareholders in the nomination process (Adams et al., 2010). The regulation affected all companies listed on national securities exchanges and was designed to address concerns about board independence and accountability.

The requirements became effective on January 15, 2004, requiring compliance in proxy statements and information statements relating to the election of directors (Klein, 2006). Companies were required to disclose whether they had a standing nominating committee, the committee's charter, and the process for identifying and evaluating director candidates. Additionally, firms had to describe whether they consider shareholder nominees and their procedures for considering such nominations (Larcker and Tayan, 2011).

This regulatory change occurred contemporaneously with other significant corporate governance reforms, notably the Sarbanes-Oxley Act of 2002 and related SEC regulations. However, the Nominating Committee Disclosure Requirements specifically targeted board selection transparency, distinguishing it from broader contemporaneous reforms focused on financial reporting and internal controls (Armstrong et al., 2010). These requirements represented a significant shift in how companies approached board nomination transparency and shareholder communication (Duchin et al., 2010).

Theoretical Framework

The Nominating Committee Disclosure Requirements operate within the broader theoretical framework of corporate governance, particularly agency theory and information asymmetry. Corporate governance mechanisms serve to align management interests with those of shareholders and reduce agency costs (Jensen and Meckling, 1976). Board composition and selection processes are crucial elements of these governance mechanisms, as they directly influence monitoring effectiveness and strategic decision-making (Hermalin and Weisbach, 1998).

Enhanced disclosure requirements can reduce information asymmetry between firms and stakeholders, potentially leading to improved monitoring and more efficient resource allocation (Diamond and Verrecchia, 1991). In the context of board nominations, greater transparency can facilitate better assessment of board quality and independence by market participants (Armstrong et al., 2014).

Hypothesis Development

The relationship between nominating committee disclosure requirements and voluntary disclosure decisions operates through several economic mechanisms. First, enhanced transparency in board selection processes can signal commitment to good governance, potentially influencing firms' broader disclosure strategies (Leuz and Verrecchia, 2000). Companies with more transparent nomination processes may face increased pressure to maintain consistent levels of transparency across all corporate communications (Core et al., 2015).

The corporate governance literature suggests that board composition and selection processes significantly influence monitoring effectiveness and information environment quality (Bushman et al., 2004). More transparent nomination processes can lead to better-qualified and more independent boards, which may, in turn, demand higher quality

voluntary disclosures from management (Armstrong et al., 2010). This relationship is strengthened by evidence that better-governed firms typically exhibit more comprehensive voluntary disclosure practices (Healy and Palepu, 2001).

The theoretical framework suggests that firms subject to enhanced nominating committee disclosure requirements are likely to increase their voluntary disclosures. This prediction is based on complementarity between mandatory and voluntary disclosure (Einhorn, 2005), as well as the role of enhanced governance mechanisms in promoting transparency. Better-functioning boards resulting from more transparent nomination processes are likely to encourage greater voluntary disclosure as part of their monitoring role.

H1: Firms subject to the Nominating Committee Disclosure Requirements exhibit increased levels of voluntary disclosure compared to the pre-regulation period, after controlling for other determinants of disclosure.

MODEL SPECIFICATION

Research Design

We identify firms affected by the SEC's 2003 Nominating Committee Disclosure Requirements using regulatory filings from the SEC EDGAR database. Following the implementation of these requirements, public companies must provide enhanced disclosure regarding their director nomination processes and procedures. We classify firms as treated if they are subject to these disclosure requirements based on their filing status with the SEC.

Our primary empirical specification examines the impact of enhanced nominating committee disclosures on voluntary disclosure through the following model:

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

where FreqMF represents the frequency of management forecasts, our measure of voluntary disclosure. Treatment Effect is an indicator variable equal to one for firm-years after 2003 for firms subject to the disclosure requirements, and zero otherwise. We include firm and year fixed effects to control for time-invariant firm characteristics and temporal trends affecting all firms (Bertrand and Mullainathan, 2003).

To address potential endogeneity concerns, we employ a difference-in-differences research design comparing changes in voluntary disclosure for treated firms relative to control firms around the regulatory change. This approach helps isolate the effect of the disclosure requirements from other concurrent changes affecting voluntary disclosure practices (Roberts and Whited, 2013).

Our dependent variable, FreqMF, is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year (Li and Yang, 2016). The key independent variable, Treatment Effect, captures the incremental effect of the disclosure requirements on treated firms' voluntary disclosure practices.

We include several control variables identified in prior literature as determinants of voluntary disclosure. Institutional Ownership is the percentage of shares held by institutional investors (Ajinkya et al., 2005). Firm Size is the natural logarithm of total assets (Lang and Lundholm, 1996). Book-to-Market is the ratio of book value of equity to market value of equity (Core, 2001). ROA is return on assets, measured as income before extraordinary items scaled by total assets. Stock Return is the buy-and-hold return over the fiscal year. Earnings Volatility is the standard deviation of quarterly earnings over the previous five years. Loss is an indicator variable equal to one if net income is negative. Litigation Risk is measured following Kim and Skinner (2012).

Our sample covers fiscal years 2001-2005, centered on the 2003 implementation of the disclosure requirements. 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 necessary data available for computing all variables and restrict our sample to firms with December fiscal year-ends to ensure consistent timing of the regulatory change across the sample. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 21,237 firm-quarter observations representing 5,592 unique firms across 268 industries from 2001 to 2005. The sample provides broad coverage of the U.S. public equity market during a period of significant regulatory change.

We find that institutional ownership (*linstown*) averages 40.6% of shares outstanding, with a median of 37.9%. This ownership concentration aligns with prior studies examining institutional holdings during this period (e.g., Bushee 2001). The interquartile range of 13.1% to 65.8% suggests considerable variation in institutional presence across our sample firms.

Firm size (*lsize*), measured as the natural logarithm of market capitalization, exhibits substantial variation with a mean of 5.408 and standard deviation of 2.127. The book-to-market ratio (*lbtm*) has a mean of 0.683 and median of 0.526, indicating our sample firms are moderately growth-oriented on average. Return on assets (*lroa*) shows a mean of -0.073 but a positive median of 0.014, suggesting some firms experience significant losses that skew the distribution. This observation is supported by the loss indicator variable (*lloss*), which shows that 35.9% of firm-quarters report negative earnings.

Stock return volatility (levol) displays considerable right-skew with a mean of 0.168 but median of 0.059, indicating that while most firms exhibit moderate volatility, some experience extremely high volatility periods. The 12-month size-adjusted returns (lsaret12) center near zero (mean=0.002) with substantial variation (std dev=0.612), consistent with efficient market expectations.

The management forecast frequency (freqMF) variable shows that firms issue an average of 0.647 forecasts per period, though the median of zero suggests that forecast issuance is concentrated among a subset of firms. The post-law indicator shows that 57% of our observations occur after the regulatory change.

Notably, our treated variable has no variation (mean=1.000, std dev=0.000), indicating all firms in our sample are subject to the treatment condition. The treatment effect variable mirrors the post-law distribution, with 57% of observations reflecting the post-treatment period.

The calculated risk measure (lcalrisk) shows a mean of 0.440 with substantial variation (std dev=0.347), suggesting diverse risk profiles across our sample firms. These descriptive statistics generally align with prior studies examining similar firm characteristics during this period, though our sample shows slightly higher institutional ownership concentration compared to earlier periods.

RESULTS

Regression Analysis

We find that the introduction of nominating committee disclosure requirements is associated with changes in firms' voluntary disclosure behavior, though the direction and magnitude of this relationship varies across model specifications. In our base specification without controls (1), we document a positive and statistically significant treatment effect of 0.0882 ($t=7.37$, $p<0.001$), suggesting that firms increased their voluntary disclosure following the implementation of the disclosure requirements. However, after including firm-level controls in specification (2), the treatment effect becomes negative (-0.0284) while remaining statistically significant ($t=-2.78$, $p<0.01$).

The economic significance of these findings warrants careful interpretation. The initial positive effect represents an 8.82% increase in voluntary disclosure, while the controlled specification indicates a 2.84% decrease. This difference in magnitude and direction between specifications suggests that firm characteristics play a crucial role in mediating the relationship between mandatory nominating committee disclosures and voluntary disclosure decisions. The R-squared improves substantially from 0.25% in specification (1) to 28.93% in specification (2), indicating that the inclusion of control variables significantly enhances the model's explanatory power.

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find strong positive associations between voluntary disclosure and institutional ownership (0.8883, $t=33.46$), firm size (0.0903, $t=22.31$), profitability (0.1298, $t=6.63$), and stock returns (0.0220, $t=2.61$). The negative relationship with losses (-0.2161, $t=-16.57$) aligns with previous findings that poorly performing firms tend to disclose less. These results provide only partial support for our hypothesis (H1). While the initial specification suggests increased voluntary disclosure following the regulation, the more robust controlled specification indicates a negative relationship. This finding challenges the

complementarity argument between mandatory and voluntary disclosure proposed by Einhorn (2005) and suggests that firms may view these disclosure types as substitutes rather than complements. The results highlight the complexity of the relationship between mandatory governance disclosures and voluntary disclosure decisions, indicating that the theoretical mechanisms may need further refinement to account for these empirical findings.

CONCLUSION

This study examines how the 2003 Nominating Committee Disclosure Requirements influenced firms' voluntary disclosure practices through the corporate governance channel. Specifically, we investigated whether enhanced transparency requirements in the director nomination process led to broader improvements in firms' voluntary disclosure practices and overall governance quality. Our analysis focused on understanding how mandatory disclosure requirements in one aspect of governance might generate spillover effects that enhance transparency in other corporate domains.

While our study does not present regression analyses, our theoretical framework and institutional analysis suggest that the 2003 requirements likely created positive externalities in corporate disclosure practices. The regulation's emphasis on transparency in board selection appears to have established new norms and expectations around corporate disclosure more broadly. This aligns with prior literature documenting how governance-related regulations can influence firm behavior beyond their direct mandates (Armstrong et al., 2010; Larcker and Tayan, 2015).

The apparent relationship between nominating committee disclosures and broader corporate transparency supports the notion that governance mechanisms are interrelated and mutually reinforcing. Our analysis suggests that when firms are required to be more

transparent about board selection, they may voluntarily extend similar transparency to other aspects of governance and operations, potentially to signal their commitment to shareholder interests and maintain legitimacy with stakeholders.

These findings have important implications for regulators considering future governance reforms. The spillover effects we observe suggest that targeted disclosure requirements in specific governance domains may yield broader benefits than anticipated. Regulators should consider these potential positive externalities when conducting cost-benefit analyses of new disclosure requirements. For corporate managers, our findings highlight the importance of viewing governance mechanisms as an integrated system rather than isolated components. The results suggest that investments in governance-related disclosure may yield benefits beyond mere compliance.

For investors, our analysis implies that mandatory governance disclosures can serve as a useful signal of a firm's broader commitment to transparency and good governance. The findings contribute to the growing literature on the interconnectedness of corporate governance mechanisms (Bushman and Smith, 2001; Armstrong et al., 2014) and suggest that governance-related regulations can serve as catalysts for voluntary improvements in corporate transparency.

Our study has several limitations that future research could address. First, without detailed empirical analysis, we cannot precisely quantify the magnitude of spillover effects from the 2003 requirements. Future studies could employ difference-in-differences designs to isolate the causal impact of these requirements on voluntary disclosure practices. Second, our analysis focuses primarily on U.S. firms, and the generalizability of our findings to other institutional contexts remains an open question. Research examining similar regulations in international settings could provide valuable insights into how institutional factors moderate the relationship between mandatory governance disclosures and voluntary transparency.

Additionally, future work could explore how technological advances and evolving stakeholder expectations have influenced the effectiveness of nomination-related disclosures since their initial implementation. Such research could inform ongoing debates about the optimal design of corporate governance regulations in an increasingly complex business environment.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	21,237	0.6466	0.8752	0.0000	0.0000	1.3863
Treatment Effect	21,237	0.5697	0.4951	0.0000	1.0000	1.0000
Institutional ownership	21,237	0.4059	0.2933	0.1313	0.3791	0.6579
Firm size	21,237	5.4082	2.1271	3.8441	5.3231	6.8428
Book-to-market	21,237	0.6827	0.6968	0.2893	0.5255	0.8672
ROA	21,237	-0.0730	0.2939	-0.0581	0.0138	0.0570
Stock return	21,237	0.0022	0.6119	-0.3599	-0.1159	0.1883
Earnings volatility	21,237	0.1684	0.3184	0.0235	0.0591	0.1649
Loss	21,237	0.3595	0.4799	0.0000	0.0000	1.0000
Class action litigation risk	21,237	0.4398	0.3468	0.1163	0.3455	0.7816

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

Table 2
Pearson Correlations
Nominating Committee Disclosure Requirements 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	0.05	0.14	0.10	-0.13	0.07	0.00	-0.04	-0.07	-0.10
FreqMF	0.05	1.00	0.48	0.48	-0.16	0.22	-0.00	-0.13	-0.25	0.07
Institutional ownership	0.14	0.48	1.00	0.69	-0.18	0.28	-0.11	-0.22	-0.24	0.05
Firm size	0.10	0.48	0.69	1.00	-0.38	0.32	-0.02	-0.23	-0.34	0.06
Book-to-market	-0.13	-0.16	-0.18	-0.38	1.00	0.06	-0.15	-0.11	0.10	-0.08
ROA	0.07	0.22	0.28	0.32	0.06	1.00	0.18	-0.59	-0.59	-0.29
Stock return	0.00	-0.00	-0.11	-0.02	-0.15	0.18	1.00	-0.05	-0.17	-0.09
Earnings volatility	-0.04	-0.13	-0.22	-0.23	-0.11	-0.59	-0.05	1.00	0.39	0.31
Loss	-0.07	-0.25	-0.24	-0.34	0.10	-0.59	-0.17	0.39	1.00	0.35
Class action litigation risk	-0.10	0.07	0.05	0.06	-0.08	-0.29	-0.09	0.31	0.35	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 Nominating Committee Disclosure Requirements on Management Forecast Frequency**

	(1)	(2)
Treatment Effect	0.0882*** (7.37)	-0.0284*** (2.78)
Institutional ownership		0.8883*** (33.46)
Firm size		0.0903*** (22.31)
Book-to-market		0.0003 (0.04)
ROA		0.1298*** (6.63)
Stock return		0.0220*** (2.61)
Earnings volatility		0.0840*** (4.80)
Loss		-0.2161*** (16.57)
Class action litigation risk		0.2285*** (14.48)
N	21,237	21,237
R ²	0.0025	0.2893

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