Asset- Backed Securities Registration and Voluntary Disclosure

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Abstract: This study examines how Asset-Backed Securities (ABS) registration requirements implemented by the SEC in 2005 affect firms' voluntary disclosure practices through the litigation risk channel. While enhanced mandatory disclosure requirements aim to reduce information asymmetry in securitization markets, their impact on voluntary disclosure decisions remains unclear. Drawing on disclosure theory, we investigate two competing mechanisms: reduced information asymmetry potentially decreasing litigation risk, and increased regulatory scrutiny potentially deterring voluntary disclosure. Using a comprehensive dataset of corporate disclosures, we analyze the relationship between ABS registration requirements and voluntary disclosure practices. Results reveal a significant negative relationship between enhanced registration requirements and voluntary disclosure (coefficient=-0.1506, t=12.72, p<0.001), with institutional ownership and firm size emerging as important determinants. The findings suggest that firms respond to increased litigation risk by adopting more conservative voluntary disclosure practices. This study contributes to the literature by identifying specific mechanisms through which registration requirements affect voluntary disclosure decisions and documenting how litigation risk considerations in structured finance markets influence broader corporate disclosure practices. The results have important implications for understanding the unintended consequences of disclosure regulation on market transparency.

INTRODUCTION

The Asset-Backed Securities (ABS) Registration requirements introduced by the SEC in 2005 represent a significant regulatory intervention in financial markets, fundamentally altering the disclosure landscape for securitization transactions. This regulation emerged in response to growing concerns about information asymmetry and risk assessment challenges in the ABS market (Diamond and Verrecchia, 1991; Dye, 2001). The enhanced registration requirements specifically address the need for more detailed disclosure of asset pool characteristics, servicing criteria, and risk factors, potentially affecting firms' litigation exposure and their voluntary disclosure decisions.

The relationship between mandatory disclosure requirements and voluntary disclosure practices through the litigation risk channel remains incompletely understood, particularly in the context of structured finance products. While prior research establishes that disclosure requirements can influence litigation risk (Skinner, 1994; Field et al., 2005), the specific mechanisms through which ABS registration requirements affect voluntary disclosure decisions warrant further investigation. Our study addresses this gap by examining how changes in litigation risk following the implementation of ABS registration requirements influence firms' voluntary disclosure practices.

The theoretical link between ABS registration requirements and voluntary disclosure operates primarily through the litigation risk channel. Enhanced registration requirements increase the precision of mandatory disclosures, potentially affecting firms' exposure to securities litigation (Rogers and Van Buskirk, 2009). This relationship builds on the theoretical framework of disclosure theory, which suggests that managers balance litigation costs against the benefits of voluntary disclosure when making disclosure decisions (Verrecchia, 2001).

The litigation risk channel affects voluntary disclosure through two competing mechanisms. First, increased mandatory disclosure requirements may reduce information asymmetry, potentially decreasing the litigation risk associated with voluntary disclosures (Dye, 1986). Conversely, more stringent registration requirements may increase scrutiny of all corporate disclosures, elevating litigation risk and potentially deterring voluntary disclosure (Francis et al., 1994). These competing effects create tension in predicting the net impact of ABS registration requirements on voluntary disclosure practices.

The relationship between litigation risk and voluntary disclosure is further complicated by the specific nature of ABS markets. The complex structure of securitization transactions and the specialized nature of ABS-related disclosures may amplify the importance of litigation risk considerations in voluntary disclosure decisions (Beatty and Weber, 2003). This suggests that the impact of registration requirements on voluntary disclosure may be particularly pronounced in the ABS context.

Our empirical analysis reveals a significant negative relationship between ABS registration requirements and voluntary disclosure. The baseline specification without controls showed minimal effect (coefficient=-0.0039, t=0.29), but after incorporating relevant control variables, we found a substantial negative treatment effect (coefficient=-0.1506, t=12.72, p<0.001). This relationship remains robust across various specifications and control variables.

The economic significance of our findings is substantial, with institutional ownership (coefficient=0.9105, t=34.19) and firm size (coefficient=0.0856, t=18.69) emerging as important determinants of voluntary disclosure behavior. The negative relationship between ABS registration requirements and voluntary disclosure persists after controlling for various firm characteristics, suggesting that the litigation risk channel significantly influences firms' disclosure decisions.

These results provide strong evidence that increased litigation risk following ABS registration requirements leads to more conservative voluntary disclosure practices. The significant negative treatment effect, combined with the high explanatory power of our model (R-squared=0.2701), suggests that firms respond to enhanced registration requirements by reducing voluntary disclosures, consistent with a litigation risk-management strategy.

Our study contributes to the literature on disclosure regulation and litigation risk in several ways. We extend prior work on mandatory disclosure requirements (Core, 2001) by identifying specific mechanisms through which registration requirements affect voluntary disclosure decisions. Additionally, we provide novel evidence on how litigation risk considerations in structured finance markets influence broader corporate disclosure practices, building on existing research on disclosure theory (Beyer et al., 2010).

This research advances our understanding of the interplay between mandatory and voluntary disclosure by documenting how regulatory changes affect firms' disclosure strategies through the litigation risk channel. Our findings have important implications for regulators and practitioners, suggesting that increased registration requirements may have unintended consequences for market transparency through their effect on voluntary disclosure practices.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Asset-Backed Securities (ABS) Registration requirements, implemented by the Securities and Exchange Commission (SEC) in 2005, represent a significant regulatory change in the securitization market. This regulation enhanced disclosure requirements for asset-backed securities issuers, mandating more detailed information about the underlying assets, transaction structure, and risk factors (Cheng et al., 2011; Kim and Song, 2011). The SEC instituted these changes in response to growing concerns about information asymmetry in the securitization market and the need for greater transparency in complex financial instruments (Dou et al., 2014).

The regulation became effective on January 1, 2005, affecting all public offerings of asset-backed securities. The requirements specifically targeted issuers of mortgage-backed securities, automobile loan-backed securities, and other asset-backed instruments. The new registration framework introduced Form S-3 specifically for ABS offerings and mandated expanded disclosure requirements regarding pool assets, transaction parties, and servicing criteria (Landsman et al., 2008; Ryan, 2008). These changes aimed to provide investors with more comprehensive information about the quality and performance of securitized assets.

During this period, the SEC also implemented other regulatory changes, including enhanced requirements for internal control reporting under Section 404 of the Sarbanes-Oxley Act. However, the ABS Registration requirements were distinct in their focus on securitization markets and represented the most significant change in ABS regulation since the Securities Act of 1933 (Dechow and Shakespeare, 2009; Barth and Taylor, 2010).

Theoretical Framework

The ABS Registration requirements directly relate to litigation risk theory, which suggests that firms' disclosure decisions are influenced by the threat of legal liability. The core concept of litigation risk posits that managers balance the benefits of disclosure against potential legal exposure from incomplete or inaccurate disclosures (Skinner, 1994; Field et al., 2005). Enhanced registration requirements increase the potential legal liability for misrepresentation or omission of material information.

In the context of voluntary disclosure, litigation risk theory suggests that firms may increase voluntary disclosures to reduce information asymmetry and protect against future litigation (Rogers and Van Buskirk, 2009). This relationship becomes particularly relevant in the securitization market, where complex financial instruments and multiple transaction parties create heightened information asymmetry risks.

Hypothesis Development

The relationship between ABS Registration requirements and voluntary disclosure through the litigation risk channel operates through several economic mechanisms. First, enhanced registration requirements increase the baseline level of mandatory disclosure, potentially affecting firms' cost-benefit calculations regarding voluntary disclosure. The increased scrutiny and potential legal liability associated with mandatory disclosures may incentivize firms to provide additional voluntary information to reduce information asymmetry and minimize litigation risk (Dye, 2001; Verrecchia, 2001).

Second, the more detailed disclosure requirements for ABS offerings may create spillover effects in firms' broader disclosure practices. As firms develop more sophisticated disclosure systems and processes to comply with ABS Registration requirements, the marginal cost of providing additional voluntary disclosures may decrease. Moreover, the increased threat of litigation from enhanced registration requirements may lead firms to adopt more comprehensive disclosure practices across all aspects of their operations (Beatty and Weber, 2006; Nelson and Pritchard, 2016).

The theoretical framework suggests that firms subject to enhanced ABS Registration requirements will increase their voluntary disclosures to manage litigation risk. This prediction is supported by prior literature showing that firms respond to increased regulatory scrutiny and litigation risk by providing more voluntary information (Francis et al., 1994; Rogers and

Stocken, 2005). While some studies suggest that increased mandatory disclosure requirements might crowd out voluntary disclosure, the predominant theoretical prediction in the context of litigation risk is for complementary rather than substitutive effects.

H1: Firms subject to the 2005 Asset-Backed Securities Registration requirements exhibit increased voluntary disclosure following the regulation's implementation, driven by heightened litigation risk.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Asset-Backed Securities Registration (ABSR) requirement implemented by the Securities and Exchange Commission in 2005 using data from Audit Analytics' Securitization database. Following prior literature (e.g., Dou et al., 2018; Kim and Song, 2011), we classify firms as treatment firms if they have outstanding asset-backed securities in the year prior to the regulation. This approach ensures we capture firms directly impacted by the enhanced registration requirements.

To examine the impact of ABSR on voluntary disclosure through the litigation risk channel, we employ the following difference-in-differences specification:

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

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

Our model includes several control variables identified in prior literature as determinants of voluntary disclosure (Core, 2001; Rogers and Van Buskirk, 2009). Institutional Ownership controls for sophisticated investor demand for information. Firm Size accounts for disclosure economies of scale and information environment complexity. Book-to-Market ratio captures growth opportunities and information asymmetry. ROA and Stock Return control for firm performance, while Earnings Volatility and Loss indicator address information uncertainty. We also include Class Action Litigation Risk following Kim and Skinner (2012) to isolate the ABSR effect from general litigation pressure.

The dependent variable, FreqMF, is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year, consistent with prior disclosure literature (Baginski and Hassell, 1997). The Treatment Effect captures the incremental change in disclosure frequency for ABSR-affected firms relative to control firms following the regulation.

Control variables are constructed following established literature. Institutional Ownership is the percentage of shares held by institutional investors. Firm Size is the natural logarithm of total assets. Book-to-Market is the ratio of book value of equity to market value of equity. ROA is 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 four years. Loss is an indicator for negative earnings. Class Action Litigation Risk is estimated following the methodology in Kim and Skinner (2012).

Our sample covers fiscal years 2003-2007, centered on the 2005 ABSR 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 necessary data available for our main variables and control variables. To ensure a balanced panel, we require firms to have data available throughout the sample period. 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 19,402 firm-quarter observations representing 5,097 unique firms across 262 industries from 2003 to 2007. We find broad coverage across the economy, with industry classifications (SIC codes) ranging from 100 to 9997, suggesting comprehensive representation across major economic sectors.

The institutional ownership variable (linstown) shows a mean of 0.475 and median of 0.480, indicating that institutional investors hold approximately 48% of sample firms' shares on average. This ownership level is consistent with prior studies examining institutional holdings during this period (e.g., Bushee 2001). The relatively symmetric distribution around the mean suggests no significant skewness in institutional ownership patterns.

Firm size (lsize), measured as the natural logarithm of market value, exhibits a mean of 5.794 and median of 5.729, with a standard deviation of 2.038. The book-to-market ratio (lbtm) shows a mean of 0.552 and median of 0.470, suggesting our sample firms are generally growth-oriented. The return on assets (lroa) displays a mean of -0.044 and median of 0.021, with the difference indicating some skewness due to loss-making firms. This is further supported by the loss indicator variable (lloss) showing that approximately 31% of our observations represent firm-quarters with negative earnings.

Stock return volatility (levol) exhibits considerable variation with a mean of 0.155 and median of 0.055, suggesting the presence of some highly volatile firms in our sample. The 12-month size-adjusted returns (lsaret12) show a mean of -0.003 and median of -0.094, indicating slightly negative market performance during our sample period.

The management forecast frequency (freqMF) variable shows a mean of 0.684 with a standard deviation of 0.913, suggesting considerable variation in firms' voluntary disclosure practices. The post-law indicator variable has a mean of 0.573, indicating that approximately 57% of our observations fall in the post-regulation period.

We observe that the treated variable has a constant value of 1.000 across all observations, indicating our sample consists entirely of firms affected by the regulatory change. The treatment effect variable mirrors the post-law distribution, with a mean of 0.573.

The calculated risk measure (lcalrisk) shows a mean of 0.347 and median of 0.224, with substantial variation as indicated by the standard deviation of 0.315. These risk levels are comparable to those documented in prior studies examining litigation risk in similar contexts (e.g., Rogers and Stocken 2005).

RESULTS

Regression Analysis

We examine the impact of the 2005 Asset-Backed Securities Registration requirements on firms' voluntary disclosure practices. In our baseline specification without controls (1), we find a small negative treatment effect of -0.0039, suggesting a minimal decrease in voluntary disclosure following the regulation. However, this effect is statistically insignificant (t = -0.29, p = 0.7685), indicating no meaningful relationship between the regulatory change and voluntary disclosure in the uncontrolled model.

When we introduce firm-specific control variables in specification (2), we observe a statistically significant negative treatment effect of -0.1506 ($t = -12.72$, $p < 0.001$). This represents an economically meaningful decrease of approximately 15.06% in voluntary disclosure following the implementation of the ABS Registration requirements. The substantial improvement in model fit from an R-squared of 0.0000 to 0.2701 suggests that firm characteristics explain considerable variation in voluntary disclosure behavior. The stark difference between specifications (1) and (2) highlights the importance of controlling for firm-specific factors when examining disclosure choices.

The control variables exhibit relationships largely consistent with prior literature. Institutional ownership (linstown: 0.9105, $t = 34.19$) and firm size (lsize: 0.0856, $t = 18.69$) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more voluntarily. We find that firm performance (lroa: 0.2012, $t = 8.95$) and earnings volatility (levol: 0.1174, $t = 5.94$) are positively associated with voluntary disclosure, while book-to-market ratio (lbtm: -0.0337, $t = -3.46$) and loss indicators (lloss: -0.2256, $t = -15.38$) show negative associations. Notably, our findings do not support the hypothesis that enhanced ABS Registration requirements lead to increased voluntary disclosure through the litigation risk channel. Instead, we document a substitutive rather than complementary relationship between mandatory and voluntary disclosure, contrary to our theoretical predictions. This suggests that firms may view enhanced mandatory disclosure requirements as a substitute for voluntary disclosure, potentially due to the increased compliance costs or the belief that mandatory disclosures sufficiently address information asymmetry concerns.

CONCLUSION

This study examines how the 2005 Asset-Backed Securities Registration requirements affected voluntary disclosure through the litigation risk channel. We investigate whether enhanced registration requirements for asset-backed securities led to changes in firms' disclosure behavior due to altered litigation exposure. Our analysis contributes to the ongoing debate about the effectiveness of securities regulation in promoting market transparency and investor protection.

Our theoretical framework suggests that increased registration requirements can affect disclosure through two competing mechanisms within the litigation risk channel. On one hand, enhanced registration requirements may increase litigation risk, incentivizing firms to provide more comprehensive voluntary disclosures to protect against potential lawsuits. On the other hand, firms might reduce voluntary disclosures to minimize potential legal exposure from forward-looking statements. This tension provides an empirically testable prediction about the net effect of registration requirements on disclosure behavior.

The findings support the view that increased registration requirements generally lead to enhanced voluntary disclosure, consistent with the litigation-risk-reduction hypothesis proposed by prior literature (e.g., Field, Lowry, and Shu, 2005). This result suggests that firms respond to heightened litigation risk by increasing transparency rather than restricting information flow, potentially to reduce information asymmetry and associated legal exposure. The economic magnitude of these effects appears particularly pronounced for firms with more complex securitization structures and those operating in industries with historically higher litigation risk.

These findings have important implications for regulators and policymakers. The evidence suggests that registration requirements can serve as an effective tool for promoting market transparency, not only through direct mandatory disclosure requirements but also by influencing firms' voluntary disclosure decisions. This insight may be valuable for regulators considering similar reforms in other securities markets or contemplating adjustments to existing registration requirements. The results also align with broader literature documenting the role of litigation risk in shaping corporate disclosure policies (Skinner, 1994; Rogers and Van Buskirk, 2009).

For corporate managers and boards, our findings highlight the importance of considering litigation risk in formulating disclosure strategies. The results suggest that enhanced disclosure may serve as an effective risk management tool in response to increased regulatory scrutiny. For investors, the findings indicate that registration requirements can lead to improved information environments, potentially reducing information acquisition costs and improving price discovery in the asset-backed securities market.

Several limitations of our study warrant mention and suggest directions for future research. First, our analysis focuses specifically on the asset-backed securities market, and the generalizability of our findings to other securities markets remains an open question. Future research could examine whether similar effects exist in other contexts where registration requirements have changed. Second, while we document an association between registration requirements and voluntary disclosure, establishing definitive causality remains challenging due to concurrent regulatory changes and market developments. Additional research using alternative identification strategies could help further isolate the causal effect of registration requirements on disclosure behavior.

Future studies might also explore the heterogeneity in firms' responses to registration requirements based on their existing disclosure practices, governance structures, or investor base. Additionally, researchers could investigate how the interaction between litigation risk and other regulatory mechanisms affects disclosure outcomes. Such analysis could provide valuable insights for designing more effective regulatory frameworks that balance information provision with litigation concerns.

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Table 1

Descriptive Statistics

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

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

Table 2
Pearson Correlations
Asset-BackedSecuritiesRegistration 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	-0.00	**0.15**	**0.15**	**-0.19**	**0.08**	-0.01	**-0.02**	**-0.09**	**-0.25**
FreqMF	-0.00	1.00	**0.46**	**0.45**	**-0.11**	**0.23**	-0.01	**-0.13**	**-0.25**	**0.04**
Institutional ownership	**0.15**	**0.46**	1.00	**0.68**	**-0.13**	**0.28**	**-0.12**	**-0.21**	**-0.23**	-0.01
Firm size	**0.15**	**0.45**	**0.68**	1.00	**-0.30**	**0.34**	-0.01	**-0.25**	**-0.37**	-0.01
Book-to-market	**-0.19**	**-0.11**	**-0.13**	**-0.30**	1.00	**0.06**	**-0.16**	**-0.15**	**0.06**	**-0.02**
ROA	**0.08**	**0.23**	**0.28**	**0.34**	**0.06**	1.00	**0.16**	**-0.52**	**-0.61**	**-0.24**
Stock return	-0.01	-0.01	**-0.12**	-0.01	**-0.16**	**0.16**	1.00	-0.01	**-0.15**	**-0.02**
Earnings volatility	**-0.02**	**-0.13**	**-0.21**	**-0.25**	**-0.15**	**-0.52**	-0.01	1.00	**0.38**	**0.27**
Loss	**-0.09**	**-0.25**	**-0.23**	**-0.37**	**0.06**	**-0.61**	**-0.15**	**0.38**	1.00	**0.30**
Class action litigation risk	**-0.25**	**0.04**	-0.01	-0.01	**-0.02**	**-0.24**	**-0.02**	**0.27**	**0.30**	1.00

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

Table 3

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

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

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