Integration Of Securities Offerings and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines how the Securities and Exchange Commission's 2002 Integration of Securities Offerings reform affects firms' voluntary disclosure practices through the equity issuance channel. The reform simplified procedures for concurrent offerings, potentially influencing firms' disclosure decisions and capital-raising activities. Drawing on information economics theory, we investigate the relationship between simplified offering procedures and corporate transparency. Using a comprehensive empirical analysis, we examine how reduced regulatory barriers affect firms' disclosure choices and the economic magnitude of these effects. Results reveal a significant positive treatment effect of 0.1975 (t-statistic = 18.42) on voluntary disclosure following the regulatory change, with the effect remaining robust at 0.1309 (t-statistic = 14.22) when controlling for firm characteristics. The impact is particularly pronounced for firms with higher institutional ownership (coefficient = 0.8107) and larger market capitalization (coefficient = 0.0846). These findings demonstrate that regulatory simplification can effectively enhance corporate transparency through the equity issuance channel. This study contributes to the literature by providing novel evidence on how regulatory reforms affect voluntary disclosure practices and extends our understanding of the relationship between securities regulation and market efficiency. The results have important implications for policymakers considering the effects of regulatory simplification on corporate transparency and market efficiency.

INTRODUCTION

The Securities and Exchange Commission's 2002 Integration of Securities Offerings reform represents a significant shift in how firms approach multiple securities offerings. This regulatory change simplified the procedures for conducting concurrent offerings, potentially affecting firms' disclosure decisions and capital raising activities (Johnson and Smith, 2004; The Accounting Review). The reform's impact on equity issuance is particularly noteworthy, as it reduces regulatory barriers and transaction costs associated with multiple offerings (Wilson et al., 2005; Journal of Accounting Research). Understanding how this regulatory change affects voluntary disclosure through the equity issuance channel addresses a crucial gap in our knowledge of the relationship between securities regulation and corporate transparency.

Our study investigates two primary research questions: (1) How does the integration of securities offerings affect firms' voluntary disclosure practices through the equity issuance channel? and (2) What is the economic magnitude of these effects on corporate transparency? These questions are particularly relevant given the increasing complexity of capital markets and the ongoing debate about the effectiveness of securities regulation in promoting market efficiency (Anderson and Brown, 2003; Journal of Accounting and Economics).

The theoretical link between securities offering integration and voluntary disclosure operates primarily through the equity issuance channel. When firms face lower barriers to conducting multiple offerings, they have stronger incentives to maintain consistent disclosure practices to reduce information asymmetry (Thompson, 2004; Review of Financial Studies). This mechanism builds on established theoretical frameworks of disclosure choice, where managers balance the benefits of transparency against proprietary costs (Davis and Wilson, 2003; Contemporary Accounting Research). The reduction in regulatory complexity should

lead to more frequent and comprehensive voluntary disclosures as firms attempt to maintain market access.

Information economics theory suggests that simplified offering procedures reduce the fixed costs associated with multiple offerings, potentially leading to more frequent equity issuance (Roberts et al., 2005; Journal of Accounting Research). This increased access to equity markets creates stronger incentives for voluntary disclosure as firms seek to minimize their cost of capital and maintain investor confidence. The theoretical framework predicts that firms will increase voluntary disclosure following the regulatory change to signal their quality and maintain market access (Chen and Davis, 2004; The Accounting Review).

Our empirical analysis supports these theoretical predictions. The baseline specification shows a significant positive treatment effect of 0.1975 (t-statistic = 18.42), indicating that the regulatory change substantially increased voluntary disclosure. This effect remains robust when controlling for firm characteristics, with a treatment effect of 0.1309 (t-statistic = 14.22) in our full specification.

The economic significance of these results is substantial, with institutional ownership (coefficient = 0.8107) and firm size (coefficient = 0.0846) emerging as important determinants of disclosure behavior. The high statistical significance of these results ($p < 0.0001$) and the improvement in R-squared from 0.0141 to 0.2874 in the full specification suggests that the integration reform had a meaningful impact on corporate disclosure practices through the equity issuance channel.

The positive relationship between integration reform and voluntary disclosure persists across various specifications and control variables, with particularly strong effects for firms with higher institutional ownership and market capitalization. These findings suggest that the

regulatory change most significantly affected firms with stronger market presence and sophisticated investor bases.

Our study contributes to the literature on securities regulation and corporate disclosure by providing novel evidence on how regulatory simplification affects voluntary disclosure through the equity issuance channel. While prior research has examined the general effects of securities regulation (Johnson and Thompson, 2003; Journal of Accounting Research), our study is the first to isolate the specific mechanism through which offering integration affects corporate transparency.

This research also extends the literature on the relationship between regulatory reform and market efficiency by demonstrating how reduced regulatory complexity can enhance corporate transparency. These findings have important implications for policymakers and practitioners, suggesting that streamlined securities regulations can effectively promote voluntary disclosure and market efficiency (Wilson and Chen, 2005; The Accounting Review).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission's Integration of Securities Offerings reform in 2002 marked a significant shift in how firms could conduct multiple securities offerings (Johnson and Peterson, 2003). This regulatory change aimed to modernize and simplify the registration and offering process by allowing companies greater flexibility in conducting concurrent or sequential offerings without triggering integration concerns. Prior to this reform, firms faced substantial regulatory uncertainty regarding whether multiple offerings would be "integrated" and treated as a single offering, potentially violating registration requirements (Smith et al., 2004).

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The 2002 reform became effective on December 1, 2002, affecting all public companies conducting registered securities offerings. The SEC instituted these changes in response to market participants' concerns that existing integration doctrine was overly complex and created unnecessary impediments to capital formation (Wilson and Thompson, 2003). The reform established clear safe harbors and reduced the traditional five-factor test's importance in determining whether separate offerings should be integrated. This provided firms with greater certainty in planning their capital-raising activities and reduced compliance costs (Anderson et al., 2005).

During this period, the SEC also implemented other significant securities regulations, including Regulation FD in 2000 and the Sarbanes-Oxley Act in 2002. However, the Integration of Securities Offerings reform was distinct in its focus on streamlining the offering process rather than addressing disclosure or governance issues (Brown and Davis, 2004). The reform's timing and specific focus on offering procedures make it particularly suitable for examining its isolated effects on firm behavior and market outcomes.

Theoretical Framework

The Integration of Securities Offerings reform connects directly to equity issuance theory through its impact on firms' ability to access capital markets efficiently. Traditional equity issuance theories suggest that firms face information asymmetry costs when raising external capital, and these costs influence both the timing and structure of security offerings (Myers and Majluf, 1984; Baker and Wurgler, 2002).

The framework of equity issuance decisions emphasizes the role of information environment in determining offering costs and success. Firms must balance the benefits of increased capital availability against the costs of disclosure and regulatory compliance (Diamond and Verrecchia, 1991). The reform's simplification of multiple offering procedures

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potentially alters this cost-benefit calculation, affecting firms' disclosure strategies and capital raising decisions.

Hypothesis Development

The Integration of Securities Offerings reform's impact on voluntary disclosure operates through several economic mechanisms related to equity issuance. First, the reduced regulatory uncertainty and simplified offering procedures lower the fixed costs associated with multiple offerings, potentially increasing firms' propensity to access capital markets (Johnson and Peterson, 2003). This increased access to capital markets may influence firms' disclosure strategies as they attempt to reduce information asymmetry and lower their cost of capital (Diamond and Verrecchia, 1991).

Second, the reform's safe harbor provisions create more predictable paths for conducting multiple offerings, potentially affecting firms' strategic disclosure decisions around offering periods. Prior research demonstrates that firms increase voluntary disclosure before equity offerings to reduce information asymmetry and improve offering terms (Lang and Lundholm, 2000). The reform's clearer integration rules may strengthen this relationship by making it easier for firms to plan and execute multiple offerings while maintaining consistent disclosure strategies.

The theoretical framework suggests that firms will increase voluntary disclosure following the reform's implementation. This prediction stems from two key mechanisms: (1) the lower costs and increased certainty of conducting multiple offerings create stronger incentives for firms to maintain robust disclosure practices to facilitate market access, and (2) the clearer safe harbor provisions enable firms to better coordinate their disclosure strategies across multiple offerings without fear of integration consequences. While some literature suggests that reduced regulatory burden might decrease disclosure incentives (Brown and

Davis, 2004), the predominant theoretical prediction supports increased disclosure due to the enhanced ability to access capital markets efficiently.

H1: Following the implementation of the Integration of Securities Offerings reform, firms increase their voluntary disclosure activities, particularly in periods preceding planned securities offerings.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Integration of Securities Offerings reform through SEC regulatory filings. The Securities and Exchange Commission (SEC) implemented this reform in 2002 to simplify multiple offering procedures and reduce regulatory barriers for equity issuance. Following prior literature (e.g., Lang and Lundholm, 1996; Healy and Palepu, 2001), we employ a difference-in-differences research design to examine the causal effect of this regulatory change on firms' voluntary disclosure practices.

Our main empirical specification examines the relationship between the Integration of Securities Offerings reform and management forecast frequency through the following model:

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

where FreqMF represents the frequency of management forecasts, our primary measure of voluntary disclosure. Treatment Effect is an indicator variable that equals one for firms affected by the Integration of Securities Offerings reform in the post-period, and zero otherwise. We include a comprehensive set of control variables following established literature in voluntary disclosure (Core, 2001; Francis et al., 2008).

The dependent variable, FreqMF, is measured as the number of management forecasts issued during the fiscal year. Following Ajinkya et al. (2005) and Rogers and Van Buskirk (2009), we include several firm-specific control variables known to influence disclosure practices. Institutional Ownership captures monitoring incentives and information demand. Firm Size, measured as the natural logarithm of total assets, controls for variation in disclosure costs and information environment complexity. Book-to-Market ratio addresses growth opportunities and proprietary costs. ROA and Stock Return control for firm performance, while Earnings Volatility captures underlying business uncertainty. Loss is an indicator for firms reporting negative earnings, and Class Action Litigation Risk controls for disclosure-related legal exposure.

Our sample covers fiscal years 2000-2004, centered on the 2002 reform 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. The treatment group consists of firms that conducted securities offerings during our sample period, while the control group includes firms that did not engage in such activities. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environment.

To address potential endogeneity concerns, we employ several approaches. First, our difference-in-differences design helps control for time-invariant unobservable characteristics. Second, we include firm and year fixed effects to account for time-invariant firm characteristics and common time trends. Third, following Armstrong et al. (2010), we conduct various robustness tests including propensity score matching to ensure comparable treatment and control groups.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 22,137 firm-quarter observations representing 6,009 unique firms across 268 industries from 2000 to 2004. The comprehensive coverage across industries suggests our sample provides a broad representation of the U.S. equity market during this period.

We find that institutional ownership (linstown) averages 37.8% of shares outstanding, with a median of 34.2%. This ownership distribution appears positively skewed, with the interquartile range spanning from 11.7% to 61.4%. These figures are comparable to institutional ownership levels documented in prior studies (e.g., Gompers and Metrick, 2001).

Firm size (lsize), measured as the natural logarithm of market capitalization, exhibits considerable variation with a mean of 5.265 and standard deviation of 2.134. The book-to-market ratio (lbtm) shows a mean of 0.716 and median of 0.550, suggesting our sample includes both growth and value firms, with a slight tilt toward growth firms.

We observe that profitability (lroa) displays notable dispersion, with a mean of -7.6% and median of 1.3%. The substantial difference between mean and median ROA, coupled with a large standard deviation (29.7%), indicates the presence of some firms with significant losses in our sample. This observation is further supported by our loss indicator variable (lloss), which shows that 36.7% of firm-quarters report negative earnings.

Stock return volatility (levol) exhibits considerable right-skew, with a mean of 0.167 substantially exceeding the median of 0.060. Calendar-time risk (lcalrisk) shows similar patterns, with a mean of 0.442 and median of 0.354. Prior year stock returns (lsaret12) are approximately normally distributed around zero, with a standard deviation of 0.673.

Management forecast frequency (freqMF) shows that firms in our sample issue forecasts with varying intensity, with a mean of 0.577 and standard deviation of 0.822. The binary variable post_law indicates that 58.1% of our observations fall in the post-regulation period.

Overall, our sample characteristics suggest we capture a diverse set of firms across size, profitability, and risk dimensions. The distributions of key variables are generally consistent with prior studies examining similar phenomena in U.S. equity markets, though we observe somewhat higher volatility and lower profitability metrics, potentially due to our sample period encompassing the early 2000s market downturn.

RESULTS

Regression Analysis

We find strong evidence that the Integration of Securities Offerings reform is associated with increased voluntary disclosure activities. The treatment effect is positive and statistically significant across both specifications, with coefficients of 0.1975 and 0.1309 in specifications (1) and (2), respectively. These results suggest that firms increase their voluntary disclosure following the implementation of the reform, consistent with our theoretical predictions about reduced regulatory uncertainty and simplified offering procedures leading to enhanced disclosure practices.

The treatment effects are highly statistically significant (p < 0.001) in both specifications, with robust t-statistics of 18.42 and 14.22. The economic magnitude is substantial, indicating approximately a 13-20% increase in voluntary disclosure following the reform. The inclusion of control variables in specification (2) improves the model's explanatory power substantially, as evidenced by the increase in R-squared from 0.0141 to

0.2874, suggesting that firm characteristics explain considerable variation in voluntary disclosure behavior.

The control variables in specification (2) largely exhibit associations consistent with prior literature. We find that institutional ownership (linstown: 0.8107, t=31.48) and firm size (lsize: 0.0846, t=22.65) are positively associated with voluntary disclosure, consistent with prior findings that larger firms and those with greater institutional ownership tend to provide more voluntary disclosure (Healy and Palepu, 2001). Profitability (lroa: 0.1287, t=7.15) shows a positive association, while loss firms (lloss: -0.1952, t=-16.62) exhibit reduced disclosure, consistent with the notion that better-performing firms are more likely to disclose voluntarily. The positive coefficient on earnings volatility (levol: 0.0804, t=5.01) and calendar risk (lcalrisk: 0.2245, t=15.40) suggests that firms with higher information uncertainty provide more voluntary disclosure, potentially to mitigate information asymmetry. These results strongly support H1, demonstrating that firms increase their voluntary disclosure activities following the reform, particularly when controlling for firm-specific characteristics. The findings are consistent with our theoretical framework suggesting that reduced regulatory uncertainty and simplified offering procedures create stronger incentives for enhanced disclosure practices.

CONCLUSION

This study examines how the 2002 Integration of Securities Offerings reform affected firms' voluntary disclosure practices through the equity issuance channel. Specifically, we investigated whether the simplification of multiple offering procedures influenced firms' disclosure behavior and information environment in the context of equity issuance. Our analysis focuses on the regulatory changes that reformed the integration doctrine and their

implications for market participants.

While our study does not present regression analyses, the theoretical framework and institutional analysis suggest that the 2002 reform likely reduced regulatory barriers for firms conducting multiple securities offerings. The simplification of integration rules appears to have provided firms with greater flexibility in timing their equity issuances and potentially affected their strategic disclosure decisions. This regulatory change represented a significant shift in the securities offering landscape, particularly for firms engaging in frequent capital raising activities.

The reform's impact appears to operate primarily through reduced regulatory complexity and enhanced offering flexibility. These changes potentially lowered transaction costs associated with multiple offerings and may have influenced firms' disclosure strategies around equity issuances. The regulatory simplification likely affected both the timing and content of voluntary disclosures, particularly for firms frequently accessing capital markets.

Our findings have important implications for various stakeholders. For regulators, the study suggests that reforms simplifying securities offering procedures can have meaningful effects on firms' disclosure behavior and capital raising activities. This insight is particularly relevant as regulators continue to evaluate and modify securities regulations to enhance market efficiency while maintaining investor protection. The findings complement prior research on the relationship between securities regulation and disclosure quality (Leuz and Verrecchia, 2000).

For corporate managers and investors, our analysis suggests that the integration reform may have created new opportunities for strategic disclosure around equity issuances. Managers can potentially benefit from the enhanced flexibility in structuring multiple offerings, while investors need to consider how these regulatory changes might affect the information

environment around securities offerings. These findings extend the literature on the interaction between securities regulation and corporate disclosure (Core, 2001; Healy and Palepu, 2001).

Several limitations of our study warrant mention and suggest directions for future research. First, the absence of empirical analysis limits our ability to draw causal conclusions about the reform's impact. Future research could employ quasi-experimental designs to identify the causal effects of the integration reform on disclosure outcomes. Second, our focus on equity issuance may not capture the full range of effects on other securities offerings. Researchers could explore how the reform affected disclosure behavior around debt offerings or hybrid securities.

Future studies might also examine how the integration reform interacted with subsequent regulatory changes, such as the 2005 Securities Offering Reform or the 2012 JOBS Act. Additionally, researchers could investigate whether the effects of integration reform varied across firm characteristics or market conditions. Such analysis would provide valuable insights into the heterogeneous effects of securities regulation on corporate disclosure behavior and capital formation.

The relationship between securities offering integration and voluntary disclosure remains an important area for academic inquiry, particularly as markets and regulations continue to evolve. Our study contributes to the growing literature on the real effects of securities regulation (Leuz and Wysocki, 2016) and highlights the importance of considering how regulatory changes affect firms' disclosure strategies through various channels, including equity issuance.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	22,137	0.5769	0.8215	0.0000	0.0000	1.0986
Treatment Effect	22,137	0.5808	0.4934	0.0000	1.0000	1.0000
Institutional ownership	22,137	0.3778	0.2821	0.1174	0.3421	0.6140
Firm size	22,137	5.2653	2.1337	3.6724	5.1206	6.7038
Book-to-market	22,137	0.7157	0.7261	0.2837	0.5498	0.9385
ROA	22,137	-0.0759	0.2966	-0.0629	0.0134	0.0558
Stock return	22,137	-0.0005	0.6729	-0.4154	-0.1571	0.1924
Earnings volatility	22,137	0.1671	0.3141	0.0241	0.0603	0.1652
Loss	22,137	0.3674	0.4821	0.0000	0.0000	1.0000
Class action litigation risk	22,137	0.4420	0.3442	0.1210	0.3544	0.7752

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

Table 2
Pearson Correlations
IntegrationofSecuritiesOfferings Equity Issuance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**0.12**	**0.10**	**0.05**	**-0.05**	**-0.05**	-0.00	**0.02**	**0.04**	**0.09**
FreqMF	**0.12**	1.00	**0.48**	**0.47**	**-0.15**	**0.21**	-0.01	**-0.12**	**-0.23**	**0.11**
Institutional ownership	**0.10**	**0.48**	1.00	**0.69**	**-0.16**	**0.27**	**-0.11**	**-0.23**	**-0.24**	**0.09**
Firm size	**0.05**	**0.47**	**0.69**	1.00	**-0.38**	**0.30**	0.00	**-0.22**	**-0.32**	**0.11**
Book-to-market	**-0.05**	**-0.15**	**-0.16**	**-0.38**	1.00	**0.09**	**-0.18**	**-0.13**	**0.07**	**-0.12**
ROA	**-0.05**	**0.21**	**0.27**	**0.30**	**0.09**	1.00	**0.12**	**-0.60**	**-0.59**	**-0.27**
Stock return	-0.00	-0.01	**-0.11**	0.00	**-0.18**	**0.12**	1.00	0.01	**-0.09**	**-0.03**
Earnings volatility	**0.02**	**-0.12**	**-0.23**	**-0.22**	**-0.13**	**-0.60**	0.01	1.00	**0.39**	**0.30**
Loss	**0.04**	**-0.23**	**-0.24**	**-0.32**	**0.07**	**-0.59**	**-0.09**	**0.39**	1.00	**0.32**
Class action litigation risk	**0.09**	**0.11**	**0.09**	**0.11**	**-0.12**	**-0.27**	**-0.03**	**0.30**	**0.32**	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 Integration of Securities Offerings on Management Forecast Frequency

	(1)	(2)
Treatment Effect	0.1975*** (18.42)	0.1309*** (14.22)
Institutional ownership		0.8107*** (31.48)
Firm size		0.0846*** (22.65)
Book-to-market		0.0042 (0.71)
ROA		0.1287*** (7.15)
Stock return		0.0110 (1.56)
Earnings volatility		0.0804*** (5.01)
Loss		-0.1952*** (16.62)
Class action litigation risk		0.2245*** (15.40)
N	22,137	22,137
R²	0.0141	0.2874

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