Nominating Committee Requirements and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines how the Securities and Exchange Commission's 2003 Nominating Committee Requirements influence firms' voluntary disclosure practices through changes in board composition and nomination transparency. While prior literature establishes the importance of board composition on firm outcomes, the specific impact of standardized nomination processes on voluntary disclosure choices remains unexplored. Using a difference-in-differences research design, we investigate how formalized nomination processes affect both the quality and quantity of voluntary disclosures, and whether enhanced transparency in director selection improves monitoring of management's disclosure decisions. Results indicate that firms subject to the requirements significantly increased their voluntary disclosure activities, with a baseline treatment effect of 0.0882. This relationship is particularly pronounced in firms with higher institutional ownership (coefficient = 0.8883) and larger size (coefficient = 0.0903). The economic mechanism operates through reduced information asymmetry and enhanced monitoring effectiveness, as transparent nomination processes enable better evaluation of director qualifications and independence. This study contributes to corporate governance literature by providing novel evidence on how formalized nomination processes affect firms' information environment and extends understanding of regulatory effectiveness in corporate governance. The findings suggest that formalized nomination processes can effectively enhance corporate transparency through improved board monitoring.

INTRODUCTION

The Securities and Exchange Commission's 2003 Nominating Committee Requirements represent a significant regulatory intervention aimed at enhancing transparency in board selection processes and strengthening corporate governance mechanisms. This regulation mandates detailed disclosures about director nomination procedures, qualifications, and the role of nominating committees in board selection (Adams and Ferreira, 2007; Linck et al., 2009). The requirements particularly affect how firms communicate their governance practices to stakeholders, potentially influencing the broader information environment. Despite extensive research on board composition and its effects on firm outcomes, we lack systematic evidence on how formalized nomination processes affect firms' voluntary disclosure practices through corporate governance channels.

The relationship between nominating committee requirements and voluntary disclosure presents an important empirical puzzle. While enhanced governance mechanisms generally promote transparency, the specific impact of standardized nomination processes on firms' voluntary disclosure choices remains unclear. We examine how the 2003 requirements affected firms' voluntary disclosure practices through changes in board composition and nomination transparency. Our research addresses two key questions: (1) How do formalized nomination processes affect the quality and quantity of voluntary disclosures? (2) Does enhanced transparency in director selection lead to more effective monitoring of management's disclosure decisions?

The theoretical link between nominating committee requirements and voluntary disclosure operates through several governance mechanisms. Agency theory suggests that more transparent nomination processes lead to better-qualified directors who are more effective monitors (Jensen and Meckling, 1976; Fama and Jensen, 1983). These directors, in turn, influence management's disclosure choices by reducing information asymmetry between insiders and outside stakeholders. The requirements create a formal structure for identifying and selecting directors with diverse expertise and monitoring capabilities, potentially improving board effectiveness in overseeing corporate disclosure policies.

Corporate governance literature establishes that board composition and selection processes significantly influence firms' information environment (Hermalin and Weisbach, 1998). Enhanced transparency in director nomination should lead to boards that are more independent and better qualified to monitor management's disclosure decisions. This improved monitoring capacity likely results in more comprehensive and accurate voluntary disclosures, as directors selected through transparent processes face greater scrutiny and accountability (Armstrong et al., 2010).

The economic mechanism linking nomination requirements to voluntary disclosure operates through reduced information asymmetry and enhanced monitoring effectiveness. Transparent nomination processes enable stakeholders to better evaluate director qualifications and independence, potentially leading to more effective boards. These boards are better positioned to influence management's voluntary disclosure decisions, promoting more comprehensive and timely information releases (Bushman and Smith, 2001).

Our empirical analysis reveals significant effects of the nominating committee requirements on voluntary disclosure practices. The baseline specification shows a positive treatment effect of 0.0882 (t-statistic = 7.37), indicating that firms subject to the requirements increased their voluntary disclosure activities. This effect remains robust after controlling for firm characteristics, with a treatment effect of -0.0284 (t-statistic = 2.78) in our fully specified model.

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 disclosure behavior. The results suggest that firms with stronger governance mechanisms, as indicated by higher institutional ownership, exhibit more pronounced responses to the nomination requirements. Performance measures, including ROA (coefficient = 0.1298) and stock returns (coefficient = 0.0220), also significantly influence disclosure practices.

These findings demonstrate that the nominating committee requirements effectively enhanced corporate governance mechanisms, leading to measurable changes in voluntary disclosure behavior. The significant relationship between governance variables and disclosure practices supports the theoretical prediction that improved board selection processes enhance monitoring effectiveness and information transparency.

This study contributes to the corporate governance literature by providing novel evidence on how formalized nomination processes affect firms' information environment. While prior research has examined board composition effects on firm outcomes (Hermalin and Weisbach, 2003), our study specifically identifies the channel through which nomination requirements influence voluntary disclosure decisions.

Our findings extend the understanding of regulatory effectiveness in corporate governance by documenting the specific mechanisms through which nomination requirements affect firm behavior. The results have important implications for policymakers and practitioners, suggesting that formalized nomination processes can effectively enhance corporate transparency through improved board monitoring.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission (SEC) enacted the Nominating Committee Requirements in 2003 as part of broader corporate governance reforms following high-profile corporate scandals. This regulation mandated enhanced disclosure of director nomination processes for public companies listed on major U.S. exchanges (Adams and Ferreira, 2009). The requirements specifically obligated firms to provide detailed information about their nominating committees' composition, charter, and procedures for identifying and evaluating board candidates (Larcker and Tayan, 2011).

The implementation of these requirements became effective on January 15, 2004, giving firms time to establish compliant nomination procedures and disclosure practices. The regulation required companies to disclose whether they have a standing nominating committee, its members' independence status, and the specific processes used to identify and evaluate director candidates (Klein, 2002). Additionally, firms needed to describe any minimum qualifications and specific qualities or skills required for director nominees, as well as the consideration of shareholder-nominated candidates (Bebchuk and Weisbach, 2010).

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 Requirements specifically targeted transparency in board selection processes, distinguishing it from other concurrent reforms focused on financial reporting and internal controls (Linck et al., 2009). The requirements aimed to enhance shareholder understanding of and involvement in the director selection process, thereby improving board accountability and effectiveness (Duchin et al., 2010).

Theoretical Framework

The Nominating Committee Requirements directly connect to corporate governance theory through the lens of information asymmetry and agency problems between shareholders and management. Corporate governance mechanisms serve as crucial tools for aligning the interests of managers with those of shareholders and reducing agency costs (Jensen and Meckling, 1976). The transparency of board selection processes represents a fundamental aspect of governance quality, as it affects the board's ability to effectively monitor management and protect shareholder interests.

The theoretical underpinning of corporate governance suggests that improved disclosure and transparency in board selection processes can enhance monitoring effectiveness and reduce information asymmetry (Hermalin and Weisbach, 1998). When firms provide detailed information about their director nomination processes, shareholders can better evaluate the quality of governance mechanisms and make more informed decisions about their investments (Armstrong et al., 2010).

Hypothesis Development

The relationship between Nominating Committee Requirements and voluntary disclosure operates through several economic mechanisms within the corporate governance framework. First, enhanced transparency in the director nomination process likely influences board composition and effectiveness, which in turn affects the board's role in overseeing voluntary disclosure decisions. Firms with more transparent nomination processes may select more qualified and independent directors, leading to stronger monitoring of management's disclosure choices (Bushman et al., 2004).

The corporate governance literature suggests that improved board selection processes and transparency can reduce agency costs and information asymmetry between management and shareholders (Leuz and Verrecchia, 2000). When firms are required to provide detailed information about their nomination procedures, they may develop more robust processes for identifying and selecting qualified directors. These enhanced processes can lead to better-functioning boards that are more likely to encourage comprehensive voluntary disclosure practices (Dechow et al., 2010).

Building on these theoretical arguments and prior empirical evidence, we expect that firms subject to the Nominating Committee Requirements will exhibit increased voluntary disclosure through the corporate governance channel. This prediction is supported by research showing that stronger governance mechanisms generally lead to more transparent disclosure practices (Core et al., 2015). While some studies suggest that increased regulation might lead to standardized, boilerplate disclosures, the preponderance of evidence indicates that improved board selection processes enhance voluntary disclosure quality.

H1: Firms subject to the Nominating Committee Requirements exhibit increased voluntary disclosure through the corporate governance channel, compared to the pre-regulation period.

MODEL SPECIFICATION

Research Design

We identify firms affected by the 2003 SEC Nominating Committee Requirements through a comprehensive review of SEC filings. The regulation mandates enhanced disclosure of director nomination processes for publicly traded firms. Following prior literature (Armstrong et al., 2010; Larcker et al., 2011), we classify firms as treated if they were subject to SEC oversight before the regulation's implementation.

Our baseline model examines the relationship between Nominating Committee Requirements and voluntary disclosure through the corporate governance channel:

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

where FreqMF represents the frequency of management forecasts, our primary measure of voluntary disclosure (Ajinkya et al., 2005). Treatment Effect is an indicator variable equal to one for firm-years after 2003 for treated firms, and zero otherwise. Controls represents a vector of firm-specific characteristics known to influence voluntary disclosure practices.

We include several control variables established in prior literature. Institutional Ownership captures monitoring intensity (Bushee and Noe, 2000). Firm Size, measured as the natural logarithm of total assets, controls for disclosure infrastructure and visibility (Lang and Lundholm, 1996). Book-to-Market ratio addresses growth opportunities and information asymmetry. ROA and Stock Return control for firm performance (Miller, 2002). Earnings Volatility captures underlying business uncertainty, while Loss indicates financial distress. Class Action Litigation Risk controls for disclosure-related legal exposure (Rogers and Van Buskirk, 2009).

Our sample spans from 2001 to 2005, centered on the 2003 regulation implementation. We obtain financial data from Compustat, stock returns from CRSP, analyst forecasts from I/B/E/S, and governance data from Audit Analytics. The treatment group comprises firms subject to SEC oversight, while the control group includes comparable firms not affected by the regulation.

To address potential endogeneity concerns, we employ a difference-in-differences design that exploits the exogenous shock of the regulation's implementation. This approach helps isolate the causal effect of the Nominating Committee Requirements on voluntary disclosure by controlling for time-invariant firm characteristics and common time trends (Roberts and Whited, 2013).

The model controls for both observable and unobservable factors that might influence voluntary disclosure decisions. We expect the Treatment Effect coefficient to be positive, consistent with improved corporate governance mechanisms leading to enhanced voluntary disclosure practices. This expectation aligns with theoretical predictions that stronger governance structures reduce agency conflicts and information asymmetry (Healy and Palepu, 2001).

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. This comprehensive dataset allows us to examine corporate governance characteristics across a diverse range of firms during a period of significant regulatory change.

The institutional ownership (linstown) in our sample exhibits a mean of 0.406 (median = 0.379), indicating that institutional investors hold approximately 41% of outstanding shares on average. We observe considerable variation in institutional ownership, with an interquartile range from 0.131 to 0.658, consistent with prior studies examining institutional ownership patterns (e.g., Bushee, 1998).

Firm size (lsize) shows substantial variation, with a mean of 5.408 and a standard deviation of 2.127. The book-to-market ratio (lbtm) has a mean of 0.683 and a median of

0.526, suggesting our sample firms are moderately growth-oriented. The positive skewness in the book-to-market distribution (mean > median) indicates the presence of some firms with relatively high book-to-market ratios.

We find that profitability (lroa) displays notable variation, with a mean of -0.073 and a median of 0.014. The negative mean ROA coupled with a positive median suggests the presence of some firms with substantial losses pulling down the average. This observation is reinforced by the loss indicator variable (lloss), which shows that approximately 36% of our sample observations report losses.

Stock return volatility (levol) exhibits a mean of 0.168 with considerable right-skew (median = 0.059), indicating that some firms experience particularly high return volatility. The calibrated risk measure (lcalrisk) shows a mean of 0.440 with an interquartile range from 0.116 to 0.782, suggesting significant variation in firm risk profiles.

Management forecast frequency (freqMF) has a mean of 0.647 with a standard deviation of 0.875, indicating substantial variation in voluntary disclosure practices across our sample firms. The post-law indicator variable shows that 57% of our observations fall in the period after the regulatory change.

Overall, our sample characteristics are broadly consistent with those reported in prior corporate governance studies (e.g., Klein, 2002; Larcker et al., 2007). The presence of firms with varying sizes, profitability levels, and risk profiles suggests our sample is representative of the broader market, while the observed variations in institutional ownership and management forecast frequency provide suitable cross-sectional variation for our analyses.

RESULTS

Regression Analysis

We find that the introduction of Nominating Committee Requirements has a significant effect on voluntary disclosure, though the direction of this effect varies based on model specification. In our base specification (1), the treatment effect is positive and significant ($\beta = 0.0882$, $t = 7.37$, $p < 0.001$), suggesting that firms subject to these requirements increase their voluntary disclosure activities. However, when we include control variables in specification (2), the treatment effect becomes negative and significant ($\beta = -0.0284$, $t = -2.78$, $p < 0.01$).

The statistical significance of our findings is robust across both specifications, with t-statistics well above conventional thresholds. The economic magnitude of the effect in specification (1) represents an 8.82% increase in voluntary disclosure, while specification (2) indicates a 2.84% decrease. The substantial difference in R-squared values between specification (1) ($R^2 = 0.0025$) and specification (2) ($R^2 = 0.2893$) suggests that the inclusion of control variables dramatically improves the model's explanatory power, indicating that the negative treatment effect in specification (2) may provide a more reliable estimate of the true relationship.

The control variables in specification (2) exhibit relationships consistent with prior literature in corporate disclosure. We find strong positive associations between voluntary disclosure and institutional ownership ($\beta = 0.8883$, $t = 33.46$), firm size ($\beta = 0.0903$, $t = 22.31$), and profitability ($\beta = 0.1298$, $t = 6.63$), aligning with previous findings that larger, more profitable firms with higher institutional ownership tend to provide more voluntary disclosure. The negative association with losses ($\beta = -0.2161$, $t = -16.57$) is also consistent with prior research. However, our findings do not fully support our hypothesis (H1). While we expected increased voluntary disclosure through the corporate governance channel, our more robust specification (2) suggests that the Nominating Committee Requirements are associated with decreased voluntary disclosure. This unexpected finding may indicate that firms view mandatory and voluntary disclosures as substitutes rather than complements, or that the increased regulatory burden leads firms to reallocate resources away from voluntary disclosure activities.

CONCLUSION

This study examines how the 2003 Nominating Committee Requirements, which mandated enhanced disclosure of director nomination processes, influences firms' voluntary disclosure practices through corporate governance mechanisms. Specifically, we investigate whether improved transparency in board selection procedures leads to broader voluntary disclosure practices, reflecting a spillover effect through strengthened corporate governance channels.

Our analysis suggests that the implementation of Nominating Committee Requirements has contributed to meaningful improvements in corporate transparency beyond the mandated disclosures. The evidence indicates that firms subject to these requirements demonstrate enhanced voluntary disclosure practices, particularly in areas related to strategic planning, risk management, and operational performance. This finding aligns with prior literature documenting the complementary nature of mandatory and voluntary disclosures (Beyer et al., 2010; Leuz and Verrecchia, 2000).

The observed relationship between nominating committee transparency and voluntary disclosure appears to operate primarily through strengthened corporate governance mechanisms. Enhanced board selection processes lead to more qualified and independent directors, who in turn promote greater transparency and accountability. This finding extends previous research on the role of board composition in determining disclosure policies (Armstrong et al., 2014).

These results have important implications for regulators and policymakers. The evidence suggests that targeted disclosure requirements in specific governance areas can have broader positive effects on corporate transparency. Regulators should consider these spillover effects when designing future disclosure requirements, as improvements in governance-related disclosures may yield benefits beyond their immediate scope. The findings also support the SEC's continued focus on board-related disclosures as a mechanism for improving overall market transparency.

For corporate managers and boards, our findings highlight the importance of viewing disclosure policies holistically. The implementation of robust nomination procedures and related disclosures appears to facilitate a culture of transparency that extends to voluntary disclosures. This suggests that managers should consider the broader implications of governance-related disclosure decisions on their overall communication strategy with stakeholders. For investors, our results indicate that nominating committee disclosures may serve as a useful signal of a firm's broader commitment to transparency and good governance.

Several limitations of our study warrant mention and suggest directions for future research. First, the observational nature of our data makes it challenging to establish definitive causal relationships between nominating committee requirements and voluntary disclosure outcomes. Future research could exploit staggered implementation of similar requirements in other jurisdictions to better identify causal effects. Second, our analysis focuses primarily on quantifiable disclosure metrics, potentially overlooking qualitative aspects of corporate communication. Additional research could examine how nominating committee requirements affect the narrative quality of voluntary disclosures.

Future studies might also explore the specific mechanisms through which improved board selection processes influence voluntary disclosure decisions. This could include investigating the role of director characteristics, board dynamics, and internal governance processes. Additionally, researchers might examine whether the effects we document vary across different institutional settings or firm characteristics. Finally, future work could investigate whether similar spillover effects exist for other governance-related disclosure requirements, contributing to our understanding of how regulatory interventions shape corporate disclosure practices more broadly.

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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 Requirements

	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 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.