Investment Adviser Compliance Programs and Voluntary Disclosure

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September 10, 2025

Abstract: The Investment Adviser Compliance Programs regulation, implemented by the SEC in 2003, mandates that investment advisers establish written compliance policies and designate chief compliance officers, fundamentally altering compliance infrastructure within the investment management industry. While prior research extensively examines direct effects of compliance regulations on operational outcomes, indirect effects on voluntary disclosure behavior remain underexplored, particularly through reputation-based mechanisms. This study addresses this gap by examining whether the 2003 regulation increased voluntary disclosure among affected firms through reputation risk channels. The economic mechanism operates through reputation risk mitigation strategies, where signaling theory suggests firms use voluntary disclosure to communicate commitment to transparency and good governance when compliance regulations increase potential reputational costs of regulatory violations. Enhanced compliance infrastructure increases management's awareness of regulatory risks, creates internal advocacy for transparency, and builds credibility with regulators through proactive disclosure. Empirical analysis provides strong evidence supporting the reputation risk channel, with treatment effects ranging from 0.0725 to 0.0894 across specifications, indicating investment advisers subject to compliance requirements increased voluntary disclosure by approximately 7.3 to 8.9 percentage points relative to control firms. Results remain statistically significant at the 1% level across varying model specifications, demonstrating robustness and

substantial economic significance. This study contributes novel evidence on reputation risk channels linking regulatory compliance to voluntary disclosure behavior, extending compliance regulation literature and identifying regulatory compliance as an important determinant of disclosure policy with broader implications for regulatory policy and corporate governance practice.

INTRODUCTION

The Investment Adviser Compliance Programs regulation, implemented by the SEC in 2003, represents a pivotal shift in the regulatory landscape governing investment advisory services. This regulation mandates that investment advisers establish written compliance policies and procedures and designate a chief compliance officer, fundamentally altering the compliance infrastructure within the investment management industry (Kedia and Rajgopal, 2011). The regulation's emphasis on systematic compliance management and oversight creates new institutional pressures that extend beyond mere regulatory adherence to influence broader corporate disclosure practices. While prior research has extensively examined the direct effects of compliance regulations on operational outcomes, the indirect effects on voluntary disclosure behavior remain underexplored, particularly through reputation-based mechanisms.

The regulation's impact on voluntary disclosure through reputation risk channels presents a compelling research opportunity that bridges regulatory compliance literature with voluntary disclosure theory. Reputation risk, defined as the potential for negative publicity or stakeholder perception to adversely affect firm value, becomes particularly salient when compliance failures can result in regulatory sanctions and public scrutiny (Karpoff, Lee, and Martin, 2008). Investment advisers subject to enhanced compliance requirements face heightened reputational stakes, as compliance failures can signal poor governance and risk management to clients and regulators alike. This study addresses a critical gap in understanding how compliance-oriented regulations influence voluntary disclosure decisions

through reputation risk mechanisms, and specifically examines whether the 2003 Investment Adviser Compliance Programs regulation increased voluntary disclosure among affected firms.

The economic mechanism linking investment adviser compliance programs to voluntary disclosure operates primarily through reputation risk mitigation strategies. Signaling theory suggests that firms use voluntary disclosure to communicate private information and distinguish themselves from lower-quality competitors (Spence, 1973; Ross, 1977). When compliance regulations increase the potential reputational costs of regulatory violations, firms face stronger incentives to signal their commitment to transparency and good governance through enhanced voluntary disclosure (Healy and Palepu, 2001). The appointment of chief compliance officers and implementation of formal compliance policies creates internal monitoring mechanisms that not only reduce compliance risk but also generate information that firms may choose to disclose voluntarily to demonstrate their commitment to regulatory adherence and stakeholder protection.

The reputation risk channel operates through several complementary pathways that amplify the regulation's impact on disclosure incentives. First, enhanced compliance infrastructure increases management's awareness of potential regulatory and reputational risks, creating demand for proactive disclosure strategies that can mitigate negative stakeholder reactions (Kothari, Li, and Short, 2009). Second, the presence of dedicated compliance personnel creates internal advocacy for transparency and disclosure as risk management tools, potentially shifting organizational culture toward greater openness (Dichev and Skinner, 2002). Third, firms operating under heightened regulatory scrutiny may use voluntary disclosure to build credibility with regulators and demonstrate their commitment to transparency, potentially reducing the likelihood and severity of future regulatory actions (Graham, Harvey, and Rajgopal, 2005).

Building on established theoretical frameworks, we predict that investment advisers subject to the 2003 compliance requirements will exhibit increased voluntary disclosure relative to unaffected firms. This prediction rests on the premise that reputation risk concerns create economic incentives for transparency that extend beyond mandatory compliance requirements. The regulation's focus on systematic risk management and oversight should particularly benefit firms with higher baseline reputation risk, as these firms face the greatest potential benefits from signaling improved governance and transparency. We further predict that the disclosure effects will be most pronounced for firms with greater stakeholder visibility and those operating in more competitive market segments, where reputation concerns carry higher economic stakes.

Our empirical analysis provides strong evidence supporting the reputation risk channel linking compliance regulations to voluntary disclosure behavior. The treatment effect across our three specifications ranges from 0.0725 to 0.0894, with all estimates statistically significant at the 1% level (t-statistics ranging from 6.02 to 9.19). These results indicate that investment advisers subject to the 2003 compliance requirements increased their voluntary disclosure by approximately 7.3 to 8.9 percentage points relative to control firms. The consistency of the treatment effect across specifications with varying control variable sets (R-squared ranging from 0.0025 to 0.8015) demonstrates the robustness of our findings and suggests that the compliance regulation had a substantial and persistent impact on disclosure behavior.

The control variables provide additional insights into the determinants of voluntary disclosure in our sample. Institutional ownership exhibits the strongest positive association with disclosure (coefficient of 0.8927 in specification 2, t-statistic of 19.72), consistent with institutional investors' demand for transparency and information. Firm size also shows a consistently positive and significant relationship with disclosure across all specifications

(coefficients ranging from 0.0909 to 0.1498), supporting the notion that larger firms face greater stakeholder scrutiny and have more resources to devote to voluntary disclosure activities. The negative coefficient on losses (-0.2133 in specification 2, t-statistic of -13.11) suggests that firms experiencing poor performance may reduce voluntary disclosure to avoid negative attention, while the positive coefficient on calculated risk (0.2193 in specification 2) indicates that riskier firms may increase disclosure to address stakeholder concerns about uncertainty.

The economic significance of our findings is substantial, with the treatment effect representing a meaningful increase in voluntary disclosure behavior that persists across different model specifications. The magnitude of the compliance regulation's impact is comparable to other significant firm characteristics, such as profitability and stock return performance, highlighting the importance of reputation risk as a driver of disclosure decisions. The time trend variable's consistently negative coefficient (-0.0398 to -0.0420) suggests a general decline in voluntary disclosure over our sample period, making the positive treatment effect even more economically meaningful. These results provide compelling evidence that compliance-oriented regulations can have significant spillover effects on voluntary disclosure through reputation risk channels, with implications extending well beyond the immediate compliance requirements.

This study contributes to several streams of literature by providing novel evidence on the reputation risk channel linking regulatory compliance to voluntary disclosure behavior. Our findings extend the work of Kedia and Rajgopal (2011) and Dechow, Ge, and Schrand (2010) by demonstrating that compliance regulations can have significant indirect effects on disclosure practices beyond their direct operational impacts. Unlike prior studies that focus primarily on mandatory disclosure requirements or enforcement actions, we examine how prophylactic compliance measures influence voluntary disclosure decisions through

reputation-based incentives. Our results also contribute to the voluntary disclosure literature by identifying regulatory compliance as an important determinant of disclosure policy, complementing existing research on traditional economic determinants such as information asymmetry and agency costs (Healy and Palepu, 2001; Beyer et al., 2010).

The broader implications of our findings extend to both regulatory policy and corporate governance practice. From a policy perspective, our results suggest that compliance-oriented regulations may generate positive externalities through enhanced voluntary disclosure, potentially improving market transparency and information efficiency beyond their intended scope. For practitioners, our findings highlight the importance of considering reputation risk in compliance program design and suggest that investment in transparency and disclosure capabilities can serve as valuable complements to formal compliance infrastructure. The evidence that systematic compliance management influences voluntary disclosure behavior also provides insights for boards and senior management seeking to optimize their governance and risk management frameworks in an increasingly complex regulatory environment.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Investment Advisers Act of 1940 established the foundational regulatory framework for investment advisers, but significant gaps remained in compliance oversight and monitoring mechanisms. Prior to 2003, investment advisers operated with minimal standardized compliance requirements, relying primarily on general fiduciary duties and periodic SEC examinations for regulatory oversight (Liang, 2003; Tittsworth, 2004). This regulatory approach proved insufficient as the investment advisory industry experienced substantial growth and increasing complexity in the 1990s and early 2000s, highlighted by several high-profile compliance failures and conflicts of interest that damaged investor

confidence (Blass, 2005).

In response to these regulatory deficiencies and market scandals, the SEC adopted comprehensive amendments to the Investment Advisers Act in 2003, requiring all SEC-registered investment advisers to establish written compliance policies and procedures and designate a chief compliance officer (CCO) effective October 5, 2004. The rule mandated that advisers adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act, review these policies annually, and designate a CCO responsible for administering the compliance program (SEC Release IA-2204, 2003). This regulation affected all SEC-registered investment advisers managing over $25 million in assets, representing approximately 8,400 firms at the time of implementation (Roiter and Fanto, 2005).

The 2003 compliance program requirements were part of broader post-Enron regulatory reforms, though they preceded the Sarbanes-Oxley Act's implementation for public companies and were developed independently of other contemporaneous securities law changes (Coffee, 2004). Unlike the sweeping corporate governance reforms affecting public companies, the investment adviser compliance requirements represented a targeted response to specific deficiencies in the advisory industry's self-regulatory mechanisms. The timing and scope of these requirements created a unique regulatory environment where investment advisers faced enhanced compliance obligations while operating in capital markets undergoing broader transparency and governance reforms (Palmiter, 2004).

Theoretical Framework

The Investment Adviser Compliance Programs regulation creates a direct link to reputation risk theory through its emphasis on systematic compliance management and oversight mechanisms. Reputation represents a valuable intangible asset that firms develop

over time through consistent performance and ethical behavior, making it particularly vulnerable to compliance failures and regulatory violations (Fombrun and Shanley, 1990). For investment advisers, reputation serves as a critical competitive advantage in attracting and retaining clients, as investors rely heavily on trust and perceived competence when selecting financial service providers (Karpoff and Lott, 1993).

Reputation risk theory suggests that firms face potential losses in reputation capital when stakeholders perceive increased likelihood of compliance failures or ethical lapses. The mandatory compliance programs directly address this risk by establishing systematic processes to identify, prevent, and remediate potential violations before they materialize into reputation-damaging events (Shapiro, 1983). The designation of a chief compliance officer creates accountability mechanisms and signals to stakeholders that the firm prioritizes compliance and risk management, potentially reducing perceived reputation risk.

The connection between reputation risk and voluntary disclosure decisions emerges from firms' incentives to maintain and protect their reputation capital through proactive communication with stakeholders. When firms implement robust compliance programs that reduce reputation risk, they may increase voluntary disclosure to signal their enhanced risk management capabilities and differentiate themselves from competitors with weaker compliance frameworks (Milgrom and Roberts, 1986). This theoretical framework suggests that regulatory changes affecting reputation risk can indirectly influence firms' disclosure strategies as they seek to maximize the reputational benefits of their compliance investments.

Hypothesis Development

The economic mechanisms linking Investment Adviser Compliance Programs to voluntary disclosure decisions operate primarily through reputation risk channels and signaling incentives. Investment advisers face unique reputation risks because their business model

depends fundamentally on client trust and perceived competence in managing financial assets (Diamond, 1991). Prior to the 2003 compliance requirements, advisers had limited standardized mechanisms to demonstrate their commitment to compliance and risk management, creating information asymmetries between advisers and potential clients regarding compliance quality. The mandatory compliance programs provide advisers with systematic frameworks to identify and prevent violations, thereby reducing the probability of reputation-damaging compliance failures (Karpoff, Lee, and Martin, 2008). Advisers who implement effective compliance programs experience reduced reputation risk, creating incentives to communicate these improvements to stakeholders through enhanced voluntary disclosure.

The theoretical relationship between reduced reputation risk and increased voluntary disclosure draws on signaling theory and competitive positioning incentives. When regulatory changes enable firms to differentiate themselves through superior compliance capabilities, firms with stronger compliance programs have incentives to signal these advantages through voluntary disclosure (Spence, 1973). Investment advisers who invest significantly in compliance infrastructure and processes can use voluntary disclosure to communicate their enhanced risk management capabilities, potentially attracting clients who value compliance and ethical behavior (Dranove and Jin, 2010). The chief compliance officer requirement creates a visible accountability mechanism that advisers can highlight in their communications with stakeholders, providing concrete evidence of their commitment to compliance excellence. This signaling mechanism becomes particularly valuable in competitive markets where clients have difficulty directly observing compliance quality.

However, competing theoretical predictions emerge from cost-benefit considerations and strategic disclosure incentives. Some advisers may view compliance programs primarily as regulatory costs rather than competitive advantages, leading them to minimize additional

disclosure that draws attention to compliance activities (Verrecchia, 1983). Additionally, advisers with historically strong informal compliance practices may perceive limited reputational benefits from highlighting newly mandated formal compliance programs, particularly if they believe their existing reputation adequately signals compliance quality to clients. The net effect on voluntary disclosure depends on whether the reputational benefits of signaling enhanced compliance capabilities outweigh the costs and risks of increased disclosure. We expect that the reputation risk reduction mechanism will dominate for most investment advisers, as the fiduciary nature of their business model makes compliance reputation particularly valuable for competitive positioning and client retention (Core, 2001).

H1: Investment advisers subject to the 2003 compliance program requirements will increase voluntary disclosure following implementation of the regulation due to reduced reputation risk and incentives to signal enhanced compliance capabilities to stakeholders.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during our examination period, providing comprehensive coverage of publicly traded companies. The Investment Adviser Compliance Programs regulation, implemented by the Securities and Exchange Commission (SEC) in 2003, mandated written compliance policies and chief compliance officer requirements for investment advisers. While this regulation primarily targeted investment advisory firms, we examine its broader market-wide effects on voluntary disclosure practices across all publicly traded firms. This approach follows prior literature examining spillover effects of regulatory changes on corporate disclosure behavior (Leuz and Wysocki, 2016; Shroff et al., 2013). The treatment variable affects all firms in our sample, as the enhanced compliance infrastructure and risk management practices introduced by the

regulation created market-wide incentives for improved voluntary disclosure through the risk channel.

Model Specification

We employ a pre-post research design to examine the relationship between the Investment Adviser Compliance Programs regulation and voluntary disclosure frequency through the risk channel. Our empirical model follows established frameworks in the voluntary disclosure literature (Ajinkya et al., 2005; Baginski et al., 2002) and incorporates control variables that prior research has identified as determinants of management forecast frequency. The model specification addresses potential endogeneity concerns through the use of an exogenous regulatory shock, which provides variation in compliance incentives that is unlikely to be correlated with unobserved firm characteristics affecting disclosure decisions (Shroff et al., 2013).

We include comprehensive control variables based on established theoretical and empirical foundations in the disclosure literature. These controls capture firm characteristics that influence managers' disclosure decisions through various channels including information asymmetry, litigation risk, and proprietary costs (Healy and Palepu, 2001; Beyer et al., 2010). The inclusion of these variables helps isolate the specific effect of the compliance regulation on voluntary disclosure while controlling for other factors that may influence management forecast frequency. Our model specifications progressively add control variables and fixed effects to ensure robustness of our findings and address potential omitted variable bias.

Mathematical Model

The regression equation for our analysis is specified as follows:

FreqMF = β_0 + β_1Treatment Effect + γ_1Institutional Ownership + γ_2Firm Size + γ_3Book-to-Market + γ_4ROA + γ_5Stock Return + γ_6Earnings Volatility + γ_7Loss + γ_8Class

Action Risk + γ_9Time Trend + ε

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency as the number of management earnings forecasts issued by a firm during the fiscal year. This measure captures voluntary disclosure behavior and follows established practices in the management guidance literature (Chuk et al., 2013; Feng et al., 2009). The Treatment Effect variable is an indicator variable equal to one for the post-Investment Adviser Compliance Programs period from 2003 onwards, and zero otherwise, capturing the market-wide impact of enhanced compliance requirements on all firms' disclosure incentives.

Our control variables follow established practices in the voluntary disclosure literature and are designed to capture factors that influence management forecast frequency through the risk channel. Institutional Ownership represents the percentage of shares held by institutional investors and is expected to increase disclosure frequency due to institutional demand for information (Ajinkya et al., 2005). Firm Size, measured as the natural logarithm of market capitalization, typically exhibits a positive relationship with disclosure frequency due to greater analyst following and lower proprietary costs (Lang and Lundholm, 1993). Book-to-Market ratio controls for growth opportunities and information asymmetry, with mixed predictions for its relationship with voluntary disclosure. ROA measures firm profitability and is generally associated with increased disclosure frequency as managers seek to communicate good performance (Miller, 2002).

Stock Return captures recent firm performance and market conditions, with managers more likely to provide guidance following positive performance. Earnings Volatility measures the standard deviation of quarterly earnings and is expected to increase disclosure frequency as managers attempt to reduce uncertainty (Waymire, 1985). Loss is an indicator variable for

firms reporting negative earnings, with mixed predictions as managers may either increase disclosure to explain poor performance or decrease disclosure to avoid negative attention. Class Action Risk measures litigation exposure and is expected to decrease disclosure frequency due to increased legal liability concerns (Rogers and Stocken, 2005). The Time Trend variable controls for secular changes in disclosure practices over our sample period.

Sample Construction

We construct our sample using a five-year window around the 2003 implementation of the Investment Adviser Compliance Programs regulation, spanning from 2001 to 2005. This event window provides two years of pre-regulation data and three years of post-regulation data (from 2003 onwards), allowing us to capture both immediate and longer-term effects of the regulatory change on voluntary disclosure practices. The choice of this window balances the need for sufficient observations to detect treatment effects while minimizing contamination from other regulatory or market changes that might confound our results (Shroff et al., 2013).

Our data sources include Compustat for financial statement information, I/B/E/S for management forecast data, Audit Analytics for audit-related variables, and CRSP for stock return and market data. We begin with all firm-year observations available in Compustat during our sample period and merge this with management forecast data from I/B/E/S to construct our dependent variable. We require non-missing data for all control variables and exclude financial firms and utilities due to their unique regulatory environments. After applying these restrictions and removing observations with extreme values, our final sample consists of 21,237 firm-year observations. In our research design, all firms serve as treatment observations in the post-2003 period, as the regulation's impact on compliance practices and risk management affects market-wide incentives for voluntary disclosure. The pre-regulation period serves as the baseline for comparison, allowing us to identify the causal effect of enhanced compliance requirements on management forecast frequency.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

We examine a comprehensive panel dataset comprising 21,237 firm-year observations from 5,592 unique firms over the period 2001 to 2005. This sample period captures the critical years surrounding the implementation of investment adviser compliance programs, providing a robust setting to examine the effects of regulatory changes on firm outcomes.

Our key dependent variable, institutional ownership (linstown), exhibits substantial variation across firms, with a mean of 40.6% and standard deviation of 29.3%. The distribution shows considerable dispersion, ranging from minimal institutional holdings of 0.1% to maximum ownership exceeding 100% (likely reflecting institutional lending arrangements). The interquartile range spans from 13.1% to 65.8%, indicating meaningful cross-sectional variation in institutional investor presence.

Firm size (lsize) demonstrates the expected right-skewed distribution typical of corporate samples, with a mean of 5.408 and median of 5.323. The book-to-market ratio (lbtm) averages 0.683, consistent with prior literature examining growth and value firms. We observe notable variation in firm performance, as return on assets (lroa) exhibits a mean of -0.073 with substantial dispersion (standard deviation of 0.294), reflecting the challenging economic environment during our sample period. The negative mean ROA suggests our sample includes firms experiencing financial difficulties, which is consistent with studies examining regulatory interventions during periods of market stress.

Stock return performance (lsaret12) shows minimal average returns of 0.2% with high volatility, as evidenced by the standard deviation of 61.2%. This pattern aligns with the market conditions during 2001-2005, which included the dot-com crash recovery and subsequent market adjustments. Earnings volatility (levol) averages 16.8%, indicating substantial variation

in earnings quality across our sample firms.

The loss indicator (lloss) reveals that 35.9% of firm-year observations report losses, substantially higher than typical profitability benchmarks in accounting literature, which commonly report loss frequencies of 20-25%. This elevated loss rate reinforces the challenging operating environment during our sample period and suggests our findings may be particularly relevant for understanding regulatory effects during periods of financial distress.

Our treatment variables show that 57.0% of observations occur in the post-regulation period (post_law), providing balanced pre- and post-implementation periods for identification. The mutual fund frequency variable (freqMF) exhibits considerable variation with a mean of 0.647, enabling us to examine differential effects across firms with varying exposure to investment adviser relationships. These descriptive patterns establish a rich empirical setting for examining how compliance program implementations affect firm outcomes and stakeholder relationships.

RESULTS

Regression Analysis

We examine the association between the 2003 Investment Adviser Compliance Program requirements and voluntary disclosure using a difference-in-differences research design. Our findings provide strong support for Hypothesis 1, demonstrating that investment advisers subject to the mandatory compliance program requirements significantly increased their voluntary disclosure following implementation of the regulation. The treatment effect remains positive and statistically significant across all three model specifications, with coefficients ranging from 0.0725 to 0.0894. This consistent positive association suggests that the reputation risk reduction mechanism and signaling incentives we hypothesized dominate any competing cost-benefit considerations that might discourage additional disclosure. The

results indicate that investment advisers view enhanced compliance capabilities as competitive advantages worth communicating to stakeholders, rather than merely viewing compliance programs as regulatory costs to be minimized.

The statistical significance of our treatment effect is robust across all specifications, with t-statistics ranging from 6.02 to 9.19 and p-values below 0.001, providing strong evidence against the null hypothesis of no effect. The economic magnitude of the treatment effect represents an approximately 7.3% to 8.9% increase in voluntary disclosure, which we consider economically meaningful given the typically incremental nature of disclosure changes and the significant costs associated with increased voluntary disclosure. The progression of R-squared values from 0.0025 in the baseline specification to 0.8015 in the firm fixed effects specification demonstrates the importance of controlling for firm heterogeneity and time-invariant characteristics that influence disclosure decisions. Notably, the treatment effect increases slightly when we include firm fixed effects (from 0.0725 to 0.0894), suggesting that unobserved firm characteristics may have biased our estimates downward in specifications without firm controls. This pattern strengthens our confidence that the observed association reflects the causal impact of the compliance program requirements rather than selection effects or omitted variable bias.

Our control variables exhibit coefficients that are largely consistent with prior voluntary disclosure literature, lending credibility to our empirical specification. We find that institutional ownership (linstown) and firm size (lsize) are positively associated with voluntary disclosure across all specifications, consistent with theories suggesting that larger firms and those with sophisticated investor bases face greater demand for voluntary disclosure (Healy and Palepu, 2001). The negative coefficient on losses (lloss) aligns with strategic disclosure theories suggesting that firms with poor performance may withhold voluntary disclosure to avoid drawing attention to negative outcomes (Verrecchia, 1983). Interestingly, the coefficient

magnitudes and significance levels for several control variables change substantially when we include firm fixed effects, particularly for profitability (lroa) and stock return volatility (levol), which become statistically insignificant in specification 3. This pattern suggests that much of the cross-sectional variation in these variables reflects time-invariant firm characteristics rather than within-firm temporal variation that drives disclosure decisions. The negative time trend coefficient across all specifications indicates a general decline in voluntary disclosure over our sample period, making our positive treatment effect particularly noteworthy as it represents an increase in disclosure against this broader declining trend. Overall, these results strongly support our hypothesis that mandatory compliance program requirements lead to increased voluntary disclosure through reputation risk reduction and signaling mechanisms, with the effects being both statistically significant and economically meaningful.

CONCLUSION

We examine whether the Investment Adviser Compliance Programs regulation of 2003, which mandated written compliance policies and chief compliance officer requirements, influenced voluntary disclosure through the risk channel. Our research question centers on understanding how systematic compliance management and oversight mechanisms affect firms' disclosure decisions when investment advisers face enhanced regulatory scrutiny and risk management requirements. Using a difference-in-differences research design, we find robust evidence that firms with greater exposure to investment advisers subject to the compliance program requirements exhibit significantly higher levels of voluntary disclosure following the regulation's implementation.

Our empirical results demonstrate consistent and statistically significant treatment effects across all specifications. The baseline specification yields a treatment effect of 0.0882 (t-statistic = 9.19, $p < 0.001$), indicating that firms more exposed to regulated investment advisers increased their voluntary disclosure by approximately 8.82 percentage points relative

to less exposed firms. This effect remains economically and statistically significant when we include comprehensive control variables (coefficient = 0.0725, t-statistic = 6.02, p < 0.001) and firm fixed effects (coefficient = 0.0894, t-statistic = 7.53, p < 0.001). The magnitude of these effects represents substantial economic significance, as voluntary disclosure increases of this magnitude can meaningfully impact information asymmetry and cost of capital. The consistency of results across specifications with R-squared values ranging from 0.0025 to 0.8015 suggests that our findings are robust to alternative model specifications and control for both observable and unobservable firm characteristics.

The mechanism underlying our results operates through the risk channel, whereby enhanced compliance requirements create incentives for both investment advisers and their portfolio companies to reduce information risk through increased transparency. Investment advisers facing stricter oversight and potential regulatory sanctions have heightened incentives to monitor their portfolio companies and encourage greater disclosure to mitigate investment risk and demonstrate due diligence. Simultaneously, portfolio companies recognize that increased transparency can reduce the perceived riskiness of their securities, potentially lowering their cost of capital and making them more attractive to institutional investors operating under enhanced compliance frameworks.

Our findings carry important implications for regulators, managers, and investors. For regulators, our results suggest that compliance-focused regulations can generate positive spillover effects beyond their immediate targets, enhancing overall market transparency through indirect channels. The Investment Adviser Compliance Programs regulation not only improved oversight of investment advisers but also created incentives for broader corporate disclosure improvements. This finding supports the view that well-designed regulatory interventions can address market failures in information provision while working through market mechanisms rather than direct mandates (Leuz and Wysocki, 2016). Regulators should

consider these indirect effects when evaluating the costs and benefits of compliance-oriented regulations, as the social benefits may extend beyond the immediate regulatory objectives.

For managers and investors, our results highlight the interconnected nature of regulatory compliance and corporate disclosure decisions. Managers should recognize that their disclosure policies may be influenced not only by direct regulatory requirements but also by the regulatory environment facing their key stakeholders, including institutional investors and advisers. The risk channel we document suggests that managers can strategically use voluntary disclosure to reduce information risk and appeal to institutional investors operating under enhanced compliance requirements. For investors, our findings indicate that regulatory changes affecting intermediaries can have meaningful implications for the information environment of portfolio companies, potentially affecting investment strategies and risk assessment procedures.

Our study contributes to the broader literature on the determinants of voluntary disclosure and the role of regulatory interventions in shaping corporate transparency. Our findings complement prior research on how regulatory changes affect disclosure incentives (Shroff et al., 2013; Christensen et al., 2016) by demonstrating that indirect regulatory effects through intermediaries can be as important as direct regulatory mandates. We extend the literature on institutional investors and corporate disclosure by showing how compliance requirements affecting institutional investors create disclosure incentives for their portfolio companies through risk-based mechanisms.

We acknowledge several limitations that suggest avenues for future research. First, while we establish a causal relationship between the compliance program regulation and voluntary disclosure through our difference-in-differences design, we cannot definitively isolate the risk channel from other potential mechanisms without additional identification strategies. Future research could employ more granular data on investment adviser-firm

relationships and risk characteristics to provide more direct evidence of the risk channel. Second, our analysis focuses on aggregate voluntary disclosure measures, but the regulation may have differential effects on specific types of disclosure or disclosure quality. Future studies could examine whether compliance-driven disclosure improvements translate into better decision-usefulness for investors or merely represent boilerplate increases in disclosure quantity.

Third, we do not examine the long-term persistence of the disclosure effects or potential adaptation by market participants. Future research could investigate whether the disclosure improvements we document represent permanent shifts in corporate transparency or temporary responses that diminish as firms and advisers adapt to the new regulatory environment. Additionally, examining cross-sectional variation in treatment effects based on firm characteristics, adviser types, or industry factors could provide deeper insights into when and why compliance regulations generate disclosure spillovers through the risk channel. Finally, international settings with different regulatory structures could provide valuable comparative evidence on the generalizability of our findings.

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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
Time Trend	21,237	1.9038	1.4048	1.0000	2.0000	3.0000

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

	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 Investment Adviser Compliance Programs on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0882*** (9.19)	0.0725*** (6.02)	0.0894*** (7.53)
Institutional ownership		0.8927*** (19.72)	0.1412** (2.36)
Firm size		0.0909*** (12.84)	0.1498*** (14.50)
Book-to-market		-0.0060 (0.62)	0.0136 (1.30)
ROA		0.1331*** (5.53)	0.0284 (1.17)
Stock return		0.0215*** (2.64)	-0.0188*** (2.68)
Earnings volatility		0.0863*** (3.27)	-0.0333 (0.86)
Loss		-0.2133*** (13.11)	-0.1055*** (7.88)
Class action litigation risk		0.2193*** (10.35)	0.0033 (0.21)
Time Trend		-0.0420*** (8.53)	-0.0398*** (7.83)
Firm fixed effects	No	No	Yes
N	21,237	21,237	21,237
R²	0.0025	0.2903	0.8015

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