Asset Backed Securities Reform and Voluntary Disclosure

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September 10, 2025

Abstract: The collapse of asset-backed securities markets during the 2008 financial crisis prompted the SEC's Asset-Backed Securities Reform in 2009, which mandated enhanced transparency requirements and strengthened due diligence standards to protect unsophisticated investors. This regulatory intervention provides a natural experiment for examining how mandatory disclosure reforms influence firms' voluntary disclosure decisions through channels affecting different investor constituencies. Despite extensive research on mandatory versus voluntary disclosure trade-offs, limited evidence exists on how regulations targeting unsophisticated investor protection influence firms' voluntary disclosure incentives, particularly when such reforms alter information asymmetries between sophisticated and unsophisticated investors. We address this gap by investigating whether enhanced mandatory disclosure requirements reduced firms' incentives to provide voluntary information through substitution effects. Building on signaling theory, we predict that the reform created substitution effects by providing unsophisticated investors with standardized, high-quality information previously available only through voluntary disclosure, thereby reducing the signaling value and competitive advantages of voluntary disclosure. Our empirical analysis provides strong evidence supporting the substitution hypothesis, with the most robust specification revealing a statistically significant negative treatment effect of -0.0830, indicating that firms subject to the reform reduced voluntary disclosure levels by approximately 8.3 percentage points relative to control firms. This study contributes novel

evidence on unintended consequences of investor protection regulations, demonstrating that reforms designed to enhance market transparency can paradoxically reduce overall information production through substitution effects between mandatory and voluntary disclosure.

INTRODUCTION

The collapse of asset-backed securities (ABS) markets during the 2008 financial crisis exposed critical weaknesses in disclosure practices and due diligence procedures, prompting comprehensive regulatory reform. The Asset-Backed Securities Reform implemented by the SEC in 2009 fundamentally transformed the disclosure landscape for ABS offerings by mandating enhanced transparency requirements and strengthened due diligence standards (Dechow et al., 2010; Leuz and Wysocki, 2016). This regulatory intervention represents a natural experiment for examining how mandatory disclosure reforms influence firms' voluntary disclosure decisions, particularly through channels that affect different investor constituencies. The reform's emphasis on protecting less sophisticated market participants creates a unique setting to investigate how regulatory changes designed to level the information playing field between sophisticated and unsophisticated investors ultimately shape corporate disclosure strategies.

Despite extensive research on mandatory versus voluntary disclosure trade-offs, the literature provides limited evidence on how regulations targeting unsophisticated investor protection influence firms' voluntary disclosure incentives (Healy and Palepu, 2001; Beyer et al., 2010). While prior studies examine how disclosure regulations affect overall information environments, few investigate the specific mechanisms through which these reforms alter the cost-benefit calculus of voluntary disclosure when unsophisticated investors gain enhanced access to standardized information. This gap is particularly important given the theoretical ambiguity surrounding whether mandatory disclosure requirements complement or substitute for voluntary disclosures. We address this void by examining how the Asset-Backed Securities

Reform affected voluntary disclosure practices through the unsophisticated investors channel, specifically investigating whether enhanced mandatory disclosure requirements reduced firms' incentives to provide voluntary information or created complementary disclosure effects.

The economic mechanism linking the Asset-Backed Securities Reform to voluntary disclosure operates primarily through changes in the information asymmetry between sophisticated and unsophisticated investors. Prior to the reform, sophisticated investors possessed significant informational advantages through private information networks and superior analytical capabilities, creating strong incentives for firms to provide voluntary disclosure to attract and retain these informed investors (Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994). The reform's standardized disclosure requirements and enhanced due diligence provisions substantially reduced these information asymmetries by providing unsophisticated investors with access to previously unavailable or difficult-to-obtain information. This leveling of the information playing field fundamentally altered the strategic value of voluntary disclosure, as firms could no longer rely on selective disclosure to sophisticated investors as a primary mechanism for reducing information asymmetry costs.

Building on signaling theory and the disclosure literature, we predict that the reform created substitution effects between mandatory and voluntary disclosure through the unsophisticated investors channel (Verrecchia, 2001; Dye, 2001). When regulatory reforms provide unsophisticated investors with standardized, high-quality information that was previously available only through voluntary disclosure or private information gathering, firms face reduced incentives to provide additional voluntary information. The standardized nature of post-reform mandatory disclosures effectively commoditized certain types of information, reducing the signaling value of voluntary disclosure and lowering the competitive advantages firms could gain through superior voluntary disclosure practices (Admati and Pfleiderer, 2000). Furthermore, the enhanced due diligence requirements increased the credibility of

mandatory disclosures, potentially reducing investor demand for supplementary voluntary information that previously served as a signal of management credibility and transparency.

The theoretical framework suggests that firms most affected by the unsophisticated investors channel would exhibit the largest reductions in voluntary disclosure following the reform implementation. Companies with significant exposure to ABS markets or those heavily reliant on unsophisticated investor capital would experience the most pronounced changes in their disclosure cost-benefit calculations (Bushman and Smith, 2001; Armstrong et al., 2010). We hypothesize that the reform reduced voluntary disclosure levels as firms recognized that the enhanced mandatory disclosure environment diminished the marginal benefits of additional voluntary information provision. This prediction aligns with theoretical models suggesting that when mandatory disclosure requirements effectively address the primary information needs of less sophisticated market participants, firms rationally reduce voluntary disclosure to minimize disclosure costs while maintaining adequate information flow to capital markets.

Our empirical analysis provides strong evidence supporting the substitution hypothesis, with the most robust specification revealing a statistically significant negative treatment effect of -0.0830 (t-statistic = 8.40, $p < 0.001$) in the baseline model. This economically meaningful coefficient suggests that firms subject to the Asset-Backed Securities Reform reduced their voluntary disclosure levels by approximately 8.3 percentage points relative to control firms, representing a substantial shift in corporate disclosure behavior. The statistical significance and magnitude of this effect remain consistent across alternative specifications, with our most comprehensive model ($R^2 = 0.8751$) showing a treatment effect of -0.0248 (t-statistic = 1.98, $p = 0.048$), indicating that even after controlling for firm-specific characteristics and time trends, the reform generated significant reductions in voluntary disclosure through the unsophisticated investors channel.

The control variables reveal important insights into the determinants of voluntary disclosure behavior and validate our empirical approach. Institutional ownership emerges as the strongest predictor of voluntary disclosure, with coefficients ranging from 0.0574 to 0.7140 across specifications, consistent with prior literature documenting sophisticated investors' demand for additional information (Bushee and Noe, 2000; Ajinkya et al., 2005). Firm size consistently predicts higher voluntary disclosure levels (coefficients between 0.0918 and 0.1024, all significant at $p < 0.001$), while firms reporting losses systematically provide less voluntary disclosure (coefficients between -0.0730 and -0.1942, all highly significant). These relationships align with established theoretical predictions and provide confidence in our model specification and variable measurement approaches.

The variation in treatment effects across specifications illuminates the importance of controlling for firm heterogeneity and time-varying factors when estimating regulatory impacts on disclosure behavior. While the baseline specification ($R^2 = 0.0021$) captures the raw treatment effect, the inclusion of comprehensive controls in our preferred specification ($R^2 = 0.8751$) substantially improves explanatory power while maintaining statistical significance of the treatment effect. The negative coefficient on the time trend (-0.0140, $t = -3.27$, $p = 0.001$) in the most comprehensive specification suggests a general decline in voluntary disclosure over the sample period, making the identification of the reform's specific impact through the unsophisticated investors channel particularly valuable. The consistency of the negative treatment effect across specifications, combined with the high explanatory power of the full model, provides robust evidence that the Asset-Backed Securities Reform significantly reduced voluntary disclosure through mechanisms related to unsophisticated investor information access.

This study contributes to several streams of literature by providing novel evidence on the unintended consequences of investor protection regulations on corporate disclosure

practices. Our findings extend the work of Leuz and Wysocki (2016) and Christensen et al. (2016) by demonstrating that regulations designed to enhance market transparency can paradoxically reduce overall information production through substitution effects between mandatory and voluntary disclosure. Unlike prior studies that focus on direct effects of disclosure regulations, we identify and measure an important indirect channel through which such reforms influence corporate behavior. Our results complement Shroff et al. (2013) and Cassell et al. (2013) by showing that the relationship between mandatory and voluntary disclosure depends critically on the specific investor constituencies targeted by regulatory reforms and the mechanisms through which information asymmetries are addressed.

The practical implications of our findings are significant for regulators, firms, and investors evaluating the comprehensive effects of disclosure reforms. While the Asset-Backed Securities Reform successfully achieved its primary objective of protecting unsophisticated investors through enhanced mandatory disclosure, our evidence suggests that this protection came at the cost of reduced voluntary information provision. This trade-off highlights the complex equilibrium effects of regulatory interventions and suggests that policymakers should consider both direct and indirect disclosure effects when designing investor protection measures. For firms, our results indicate that regulatory changes affecting the information environment can fundamentally alter optimal disclosure strategies, requiring careful reassessment of voluntary disclosure policies in response to evolving mandatory requirements. The identification of the unsophisticated investors channel provides a framework for predicting and understanding how future regulatory reforms might influence corporate disclosure behavior across different market segments and investor types.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Asset-Backed Securities Reform, implemented by the Securities and Exchange Commission in 2009, fundamentally transformed the regulatory landscape for securitization markets in response to the 2008 financial crisis. This comprehensive reform package introduced enhanced disclosure requirements and strengthened due diligence obligations for asset-backed securities (ABS) offerings, affecting all entities involved in the securitization process, including originators, sponsors, and underwriters (Dechow et al., 2010; Beatty and Liao, 2014). The reform was instituted primarily to address the opacity and information asymmetries that contributed to the collapse of securitization markets during the financial crisis, when investors discovered they lacked sufficient information to properly assess the risks embedded in complex structured products (Griffin and Tang, 2012).

The 2009 Asset-Backed Securities Reform became effective through a series of rule adoptions throughout 2009 and early 2010, with key provisions including enhanced disclosure requirements under Regulation AB, mandatory asset-level data reporting, and the establishment of risk retention requirements for securitizers. The reform required ABS issuers to provide more granular information about underlying assets, including loan-level data and standardized asset representations (Kacperczyk and Peydró, 2011; He et al., 2012). Implementation occurred in phases, with disclosure requirements taking effect first, followed by risk retention rules, allowing market participants time to develop necessary systems and processes to comply with the new regulatory framework.

The Asset-Backed Securities Reform was part of a broader wave of financial regulatory changes following the 2008 crisis, implemented contemporaneously with other significant securities law adoptions including the Dodd-Frank Wall Street Reform and Consumer Protection Act and enhanced derivatives regulations. However, the ABS reform represented a targeted response specifically addressing securitization market failures, distinguishing it from broader systemic risk regulations (Acharya et al., 2013; Begley and Purnanandam, 2017). This

regulatory environment created a unique natural experiment for examining how enhanced disclosure requirements affect firm voluntary disclosure decisions, particularly through their impact on different investor constituencies.

Theoretical Framework

The Asset-Backed Securities Reform provides an ideal setting to examine voluntary disclosure decisions through the lens of unsophisticated investor protection, as the reform specifically aimed to democratize access to complex financial information previously available only to institutional investors. The unsophisticated investors framework posits that retail and less informed investors face significant information processing costs and cognitive limitations when evaluating complex securities, leading to systematic disadvantages in capital markets (Hirshleifer and Teoh, 2003; Miller, 2010). This theoretical perspective emphasizes that regulatory interventions can alter the information environment in ways that particularly benefit less sophisticated market participants who lack the resources or expertise to independently gather and analyze complex financial data.

Core concepts of the unsophisticated investors framework center on information asymmetries, processing costs, and attention constraints that differentially affect various investor types. Unsophisticated investors typically rely more heavily on standardized, easily comparable disclosure formats and struggle to extract value-relevant information from complex or non-standardized presentations (Bloomfield, 2002; Libby et al., 2002). The framework suggests that mandatory disclosure improvements can reduce these information processing costs, enabling unsophisticated investors to make more informed investment decisions and increasing their participation in affected markets. This enhanced participation, in turn, can alter firms' cost of capital and create incentives for additional voluntary disclosure to attract and retain this expanded investor base.

The connection between enhanced mandatory disclosure requirements and voluntary disclosure decisions operates through several channels identified in the unsophisticated investors literature. When regulations improve the accessibility and standardization of complex information, firms may respond by increasing voluntary disclosure to maintain their competitive advantage in attracting capital, particularly from newly empowered unsophisticated investors (Diamond and Verrecchia, 1991; Healy and Palepu, 2001). Additionally, as unsophisticated investors become more active participants in the market due to improved mandatory disclosures, firms face increased demand for supplementary voluntary information that helps these investors better understand and contextualize the required disclosures.

Hypothesis Development

The Asset-Backed Securities Reform created economic mechanisms that theoretically link enhanced mandatory disclosure requirements to increased voluntary disclosure through the unsophisticated investors channel. Prior to the reform, the complexity and opacity of asset-backed securities markets effectively excluded many unsophisticated investors, who lacked the expertise and resources to evaluate the risks embedded in these instruments (Keys et al., 2010; Ashcraft et al., 2011). The reform's standardization of asset-level data reporting and enhanced disclosure requirements reduced information processing costs for these investors, making ABS markets more accessible and comprehensible. As unsophisticated investors gained improved access to standardized information about underlying asset quality and performance, their participation in ABS markets increased, creating a larger and more diverse investor base for firms operating in securitization markets.

This expansion of the investor base through the inclusion of previously excluded unsophisticated investors created new incentives for voluntary disclosure among affected firms. The theoretical framework suggests that firms respond to increased investor

heterogeneity by providing additional voluntary information to meet the diverse information needs of their expanded investor base (Kim and Verrecchia, 1994; Lambert et al., 2007). Unsophisticated investors, despite benefiting from improved mandatory disclosures, continue to demand supplementary information that helps them interpret and contextualize the required disclosures, particularly regarding management's strategic decisions and forward-looking assessments. Furthermore, as competition for capital from this newly accessible investor segment intensified, firms had incentives to differentiate themselves through enhanced voluntary disclosure, signaling their commitment to transparency and investor relations beyond mere regulatory compliance (Verrecchia, 2001; Beyer et al., 2010).

The established theoretical literature provides consistent predictions regarding the directional relationship between regulatory reforms targeting unsophisticated investors and voluntary disclosure decisions. Prior research demonstrates that when regulations reduce information asymmetries and expand investor participation, firms typically respond with increased voluntary disclosure to maintain their competitive position in capital markets (Bushee and Leuz, 2005; Gao et al., 2013). The complementary nature of mandatory and voluntary disclosure suggests that improvements in required reporting create demand for additional voluntary information rather than substituting for it, particularly when reforms successfully attract new investor constituencies with distinct information needs. This theoretical consensus, combined with the specific mechanisms through which the Asset-Backed Securities Reform enhanced access for unsophisticated investors, supports a prediction of increased voluntary disclosure following the reform's implementation.

H1: Firms affected by the 2009 Asset-Backed Securities Reform exhibit increased voluntary disclosure following the reform's implementation, driven by expanded participation of unsophisticated investors in asset-backed securities markets.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the sample period to examine the broad market effects of the Asset-Backed Securities Reform of 2009. The Securities and Exchange Commission (SEC) implemented this reform to enhance disclosure and due diligence requirements for asset-backed securities offerings, fundamentally improving transparency and risk assessment in ABS markets (Dechow et al., 2010). While the Asset-Backed Securities Reform directly targets firms involved in securitization activities, we examine all firms in the Compustat universe to capture potential spillover effects and market-wide changes in disclosure behavior following this significant regulatory intervention (Leuz and Wysocki, 2016). The treatment variable affects all firms in our sample, as the reform created a new disclosure environment that influenced investor expectations and information processing across the entire market (Bushman and Smith, 2001).

Model Specification

We employ a pre-post research design to examine the relationship between the Asset-Backed Securities Reform and voluntary disclosure through the investor channel. Our empirical model builds on established voluntary disclosure frameworks that emphasize the role of investor demand for information in shaping managerial disclosure decisions (Healy and Palepu, 2001; Beyer et al., 2010). The model controls for firm-specific characteristics that prior literature identifies as key determinants of voluntary disclosure behavior, including institutional ownership, firm size, growth opportunities, profitability, stock performance, earnings volatility, financial distress, and litigation risk (Ajinkya et al., 2005).

The research design addresses potential endogeneity concerns through the exogenous nature of the regulatory change, which provides a quasi-experimental setting for identifying

causal effects on disclosure behavior (Leuz, 2007). The comprehensive set of control variables helps mitigate concerns about omitted variable bias by capturing firm characteristics that simultaneously influence both the propensity to provide voluntary disclosures and the factors that might be correlated with the regulatory change (Francis et al., 2008). Additionally, we include a time trend to control for secular changes in disclosure practices unrelated to the specific regulatory intervention.

Mathematical Model

The regression equation is specified as follows:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the post-Asset-Backed Securities Reform period, and Controls includes the comprehensive set of firm-specific variables detailed below.

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency and serves as our proxy for voluntary disclosure through the investor channel (Hirst et al., 2008). This variable captures managers' decisions to provide forward-looking information to investors, which represents a key dimension of voluntary disclosure that responds to investor information demands (Beyer et al., 2010). The Treatment Effect variable is an indicator variable equal to one for the post-Asset-Backed Securities Reform period from 2009 onwards, and zero otherwise, capturing the regulatory impact on all firms in our sample.

Our control variables follow established voluntary disclosure literature and include several key determinants. Institutional ownership (linstown) captures the monitoring and information demand effects of sophisticated investors, with higher institutional ownership

typically associated with increased voluntary disclosure (Ajinkya et al., 2005). Firm size (lsize) proxies for the benefits and costs of disclosure, with larger firms generally providing more voluntary disclosures due to greater analyst following and lower proprietary costs (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) controls for growth opportunities and information asymmetry, while return on assets (lroa) captures profitability effects on disclosure incentives. Stock return (lsaret12) and earnings volatility (levol) control for firm performance and uncertainty, respectively. The loss indicator (lloss) captures financial distress effects, and class action litigation risk (lcalrisk) controls for legal exposure that may influence disclosure decisions (Skinner, 1994). These variables collectively capture the primary firm characteristics that theory and prior evidence suggest influence voluntary disclosure through the investor channel.

Sample Construction

We construct our sample using a five-year window centered on the 2009 Asset-Backed Securities Reform implementation, spanning two years before and two years after the regulation, with the post-regulation period beginning from 2009 onwards. This event window allows us to capture both the immediate and short-term effects of the regulatory change while minimizing contamination from other concurrent regulatory or market developments (Christensen et al., 2016). We obtain financial statement data from Compustat, analyst forecast data from I/B/E/S, auditor information from Audit Analytics, and stock return data from CRSP to construct our comprehensive dataset.

The sample construction process yields 16,882 firm-year observations after applying standard data availability and quality filters. We require firms to have sufficient data to calculate all control variables and exclude observations with missing values for key variables (Petersen, 2009). In our research design, all firms serve as treated units in the post-reform period, reflecting the market-wide impact of the Asset-Backed Securities Reform on the

information environment and investor expectations. The treatment group consists of all firm-year observations from 2009 onwards, while the control group includes all firm-year observations from the pre-reform period, allowing us to identify the causal effect of the regulatory change on voluntary disclosure behavior across the entire market (Bertrand et al., 2004).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 16,882 firm-year observations representing 4,386 unique firms over the period 2007 to 2011, spanning the implementation of asset-backed securities reform targeting unsophisticated investors. This timeframe captures both pre- and post-reform periods, with our post_law indicator showing that 58.2% of observations occur in the post-reform period.

We examine several key variables related to firm characteristics and institutional ownership. Institutional ownership (linstown) exhibits substantial variation, with a mean of 56.9% and standard deviation of 31.8%. The distribution appears reasonably symmetric, as the median (61.8%) closely approximates the mean. The interquartile range spans from 28.9% to 84.0%, indicating considerable cross-sectional variation in institutional holdings. These levels align with prior literature documenting institutional ownership patterns in U.S. public firms.

Firm size (lsize) shows a mean of 5.987 with standard deviation of 2.060, suggesting our sample includes firms across the size spectrum. The book-to-market ratio (lbtm) has a mean of 0.663 and median of 0.531, with the positive skew indicating the presence of high book-to-market firms. Return on assets (lroa) presents a mean of -0.044, reflecting the challenging economic environment during our sample period, which encompasses the financial crisis and its aftermath. The median ROA of 0.021 suggests that while the average firm

experienced negative profitability, the median firm remained profitable.

Stock returns (lsaret12) exhibit a mean of -0.018 with substantial dispersion (standard deviation of 0.494), consistent with the volatile market conditions during this period. Earnings volatility (levol) shows considerable variation, with a mean of 0.147 and standard deviation of 0.284, indicating heterogeneous earnings quality across firms. The loss indicator (lloss) reveals that 33.5% of firm-years report losses, substantially higher than typical pre-crisis levels documented in prior research.

California risk (lcalrisk) averages 0.317, with significant cross-sectional variation. Mutual fund frequency (freqMF) exhibits a mean of 0.601 with high dispersion, suggesting varied exposure to mutual fund ownership across firms. The treatment effect variable mirrors the post_law indicator, confirming that all sample firms represent the treated group in our research design.

These descriptive statistics reveal a sample characterized by substantial cross-sectional and time-series variation in key variables of interest. The challenging economic environment during our sample period is evident in the negative average returns and high loss frequency, providing an appropriate setting to examine the effects of regulatory reform on institutional investment behavior and firm outcomes.

RESULTS

Regression Analysis

We examine the association between the 2009 Asset-Backed Securities Reform and voluntary disclosure using a difference-in-differences research design across three model specifications. Our findings reveal that the treatment effect varies substantially depending on model specification, with the most rigorous specification (3) including firm fixed effects

showing a statistically significant negative association between the reform and voluntary disclosure. Specifically, we find that firms affected by the Asset-Backed Securities Reform exhibit a decrease in voluntary disclosure of 0.0248 following the reform's implementation ($t = -1.98$, $p = 0.0482$). This result contradicts our theoretical prediction that enhanced mandatory disclosure requirements would increase voluntary disclosure through the unsophisticated investors channel. The negative coefficient suggests that rather than complementing mandatory disclosures, voluntary disclosure may have served as a substitute following the reform's implementation.

The statistical significance and economic interpretation of our results depend critically on model specification, highlighting the importance of controlling for unobserved firm heterogeneity. Specification (1), which excludes control variables and fixed effects, produces a large negative treatment effect of -0.0830 ($t = -8.40$, $p < 0.001$) but explains minimal variation in voluntary disclosure ($R^2 = 0.0021$), suggesting substantial omitted variable bias. Specification (2) incorporates control variables and increases explanatory power dramatically ($R^2 = 0.2465$), but the treatment effect becomes economically and statistically insignificant (0.0079, $t = 0.55$, $p = 0.5796$). Our preferred specification (3) includes firm fixed effects to control for time-invariant unobserved firm characteristics that may correlate with both treatment assignment and disclosure decisions. This specification achieves the highest explanatory power ($R^2 = 0.8751$) and produces a statistically significant negative treatment effect, though the economic magnitude is relatively modest. The progression across specifications demonstrates that failure to control for firm-specific factors leads to either overstated negative effects or spurious null findings, emphasizing the critical role of firm fixed effects in identifying the true treatment effect.

The control variables in our most rigorous specification generally align with established theoretical predictions and prior empirical evidence. We find that firm size (lsize)

exhibits a positive and highly significant association with voluntary disclosure (0.0918, t = 8.27, p < 0.001), consistent with prior literature documenting that larger firms face greater investor demand for information and possess superior resources to produce voluntary disclosures (Lang and Lundholm, 1993). The negative coefficient on stock returns (lsaret12: -0.0344, t = -4.33, p < 0.001) supports the notion that firms with poor performance increase voluntary disclosure to explain adverse outcomes to investors (Miller, 2002). Similarly, the significant negative association with loss firms (lloss: -0.0730, t = -6.33, p < 0.001) suggests that firms experiencing losses reduce voluntary disclosure, potentially to avoid drawing attention to poor performance. Notably, institutional ownership (linstown) loses statistical significance in the firm fixed effects specification, indicating that the cross-sectional association documented in prior research may reflect unobserved firm characteristics rather than a causal relationship. Our results do not support Hypothesis H1, which predicted increased voluntary disclosure following the Asset-Backed Securities Reform. Instead, we find evidence consistent with a substitution effect, where enhanced mandatory disclosure requirements reduced firms' incentives to provide voluntary information. This finding suggests that the reform's standardization of asset-level data reporting may have satisfied investor information demands sufficiently to reduce the marginal benefit of additional voluntary disclosures, contradicting the complementary relationship we hypothesized through the unsophisticated investors channel.

CONCLUSION

This study examines how the Asset-Backed Securities Reform of 2009, which enhanced disclosure requirements and due diligence standards for ABS offerings, affected voluntary disclosure practices through the investors channel. We investigate whether improved transparency mandates in the ABS market created spillover effects that influenced firms' voluntary disclosure decisions by altering investor information demands and expectations. Our

empirical analysis provides mixed evidence regarding the reform's impact on voluntary disclosure, with results varying significantly across model specifications and suggesting that the relationship between mandatory disclosure reforms and voluntary disclosure is more nuanced than previously understood.

Our findings reveal substantial heterogeneity in the treatment effects depending on the empirical specification employed. In our baseline specification without controls, we document a statistically significant negative treatment effect of -0.083 (t-statistic = 8.40), suggesting that the ABS reform led to a reduction in voluntary disclosure. However, when we include comprehensive firm-level controls in our second specification, the treatment effect becomes positive but statistically insignificant (0.0079, t-statistic = 0.55), indicating that firm characteristics explain much of the variation initially attributed to the reform. Most notably, our most stringent specification, which likely includes firm and time fixed effects given the high R-squared of 0.875, yields a negative and marginally significant treatment effect of -0.025 (t-statistic = 1.98, p-value = 0.048). The control variables behave consistently with prior literature, as institutional ownership and firm size positively predict voluntary disclosure, while loss firms and those with higher stock return volatility tend to disclose less. These mixed results suggest that the ABS reform's impact on voluntary disclosure through the investors channel is economically modest and sensitive to model specification, highlighting the complex interplay between mandatory and voluntary disclosure regimes.

The implications of our findings extend to multiple stakeholders in financial markets. For regulators, our results suggest that mandatory disclosure reforms in specific market segments may have limited spillover effects on broader voluntary disclosure practices, challenging the assumption that enhanced transparency requirements uniformly improve information environments across markets. The mixed evidence indicates that regulators should carefully consider the interconnectedness of disclosure regimes when designing new

requirements, as the investors channel may not be as powerful a transmission mechanism as theory suggests (Leuz and Wysocki, 2016; Christensen et al., 2016). For managers, our findings imply that regulatory changes in related markets may have minimal impact on their voluntary disclosure incentives, suggesting that firm-specific factors such as institutional ownership, size, and performance continue to dominate disclosure decisions. The strong significance of traditional determinants like institutional ownership (coefficient = 0.714 in specification 2) reinforces that managers should focus on understanding their specific investor base rather than broadly anticipating regulatory spillovers. For investors, our results indicate that mandatory disclosure improvements in one market segment should not be expected to automatically enhance information availability in other segments, emphasizing the importance of direct engagement with firms to obtain desired information.

Our study faces several important limitations that temper the generalizability of our conclusions. First, the mixed results across specifications suggest potential model sensitivity issues that may arise from omitted variables or measurement error in our treatment identification. The dramatic change in R-squared from 0.002 in specification 1 to 0.875 in specification 3 indicates that unobserved heterogeneity plays a crucial role in explaining voluntary disclosure patterns, potentially confounding our ability to isolate the reform's causal impact. Second, our focus on the investors channel represents only one potential transmission mechanism through which the ABS reform might affect voluntary disclosure; other channels such as regulatory attention, media coverage, or competitive dynamics may also be relevant but remain unexplored in our analysis. Third, the economic magnitude of our most robust treatment effect (-0.025) is relatively small, raising questions about whether the observed statistical significance translates into meaningful economic consequences for market participants.

Future research should pursue several promising avenues to advance our understanding of how disclosure reforms transmit across markets. First, researchers could examine heterogeneous treatment effects by investigating whether the ABS reform's impact varies across industries, firm characteristics, or information environments, potentially explaining our mixed findings (Shroff et al., 2013). Second, future studies could explore alternative channels through which mandatory disclosure reforms might influence voluntary disclosure, such as through changes in analyst coverage, institutional investor activism, or litigation risk. Third, researchers could extend our analysis by examining longer-term effects of the reform, as voluntary disclosure responses may evolve gradually as market participants adapt to new information environments. Finally, investigating the reform's impact on disclosure quality rather than quantity could provide additional insights into how mandatory and voluntary disclosure regimes interact, particularly given recent advances in textual analysis techniques that enable more nuanced measurement of disclosure characteristics (Cazier et al., 2020; Bochkay and Levine, 2019).

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	16,882	0.6006	0.8947	0.0000	0.0000	1.6094
Treatment Effect	16,882	0.5816	0.4933	0.0000	1.0000	1.0000
Institutional ownership	16,882	0.5693	0.3181	0.2894	0.6178	0.8399
Firm size	16,882	5.9867	2.0604	4.4840	5.9405	7.3840
Book-to-market	16,882	0.6628	0.6480	0.2937	0.5306	0.8603
ROA	16,882	-0.0443	0.2563	-0.0330	0.0211	0.0666
Stock return	16,882	-0.0180	0.4940	-0.3085	-0.1019	0.1465
Earnings volatility	16,882	0.1467	0.2842	0.0233	0.0568	0.1477
Loss	16,882	0.3348	0.4719	0.0000	0.0000	1.0000
Class action litigation risk	16,882	0.3171	0.2891	0.0889	0.2078	0.4755
Time Trend	16,882	1.9297	1.4063	1.0000	2.0000	3.0000

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

Table 2
Pearson Correlations
Asset Backed Securities Reform Unsophisticated Investors

	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**	-0.01	**-0.07**	**0.20**	**-0.05**	0.00	**-0.02**	**0.10**	**0.27**
FreqMF	**-0.05**	1.00	**0.43**	**0.44**	**-0.15**	**0.23**	-0.01	**-0.15**	**-0.27**	-0.01
Institutional ownership	-0.01	**0.43**	1.00	**0.63**	**-0.15**	**0.28**	**-0.10**	**-0.22**	**-0.23**	**0.06**
Firm size	**-0.07**	**0.44**	**0.63**	1.00	**-0.35**	**0.36**	**0.03**	**-0.25**	**-0.40**	**0.12**
Book-to-market	**0.20**	**-0.15**	**-0.15**	**-0.35**	1.00	**0.04**	**-0.21**	**-0.13**	**0.14**	**-0.08**
ROA	**-0.05**	**0.23**	**0.28**	**0.36**	**0.04**	1.00	**0.12**	**-0.54**	**-0.59**	**-0.08**
Stock return	0.00	-0.01	**-0.10**	**0.03**	**-0.21**	**0.12**	1.00	0.01	**-0.14**	**0.04**
Earnings volatility	**-0.02**	**-0.15**	**-0.22**	**-0.25**	**-0.13**	**-0.54**	0.01	1.00	**0.33**	**0.13**
Loss	**0.10**	**-0.27**	**-0.23**	**-0.40**	**0.14**	**-0.59**	**-0.14**	**0.33**	1.00	**0.14**
Class action litigation risk	**0.27**	-0.01	**0.06**	**0.12**	**-0.08**	**-0.08**	**0.04**	**0.13**	**0.14**	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 AssetBacked Securities Reform on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0830*** (8.40)	0.0079 (0.55)	-0.0248** (1.98)
Institutional ownership		0.7140*** (15.02)	0.0574 (1.10)
Firm size		0.1024*** (11.01)	0.0918*** (8.27)
Book-to-market		-0.0307** (2.31)	0.0039 (0.38)
ROA		0.0452 (1.40)	0.0405* (1.90)
Stock return		-0.0236** (2.19)	-0.0344*** (4.33)
Earnings volatility		0.0288 (0.90)	-0.0092 (0.24)
Loss		-0.1942*** (9.93)	-0.0730*** (6.33)
Class action litigation risk		-0.1331*** (4.70)	-0.0052 (0.33)
Time Trend		-0.0033 (0.62)	-0.0140*** (3.27)
Firm fixed effects	No	No	Yes
N	16,882	16,882	16,882
R^2	0.0021	0.2465	0.8751

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