Investment Adviser Compliance Programs and Voluntary Disclosure

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Abstract: Investment adviser compliance programs represent critical components of financial market regulation that establish systematic frameworks for monitoring advisory practices and enhancing capital market transparency. The Securities and Exchange Commission's 2003 mandate requiring written compliance policies and chief compliance officer appointments fundamentally altered the governance landscape for investment advisers by creating institutional mechanisms that influence information dissemination through corporate governance channels. Despite extensive research on disclosure regulation and governance mechanisms, limited empirical evidence exists regarding how compliance program mandates specifically influence voluntary disclosure through governance pathways. This study addresses this gap by investigating whether investment adviser compliance programs increase voluntary disclosure and identifying the specific governance mechanisms driving this relationship. The economic mechanism operates through enhanced corporate governance infrastructure that reduces agency costs and improves information environments by establishing formal oversight structures, accountability mechanisms, and risk management protocols that shape managerial disclosure incentives. The empirical analysis provides strong evidence that investment adviser compliance programs significantly increase voluntary disclosure through corporate governance channels, with treatment effects ranging from 7-9 percentage points across specifications, all statistically significant at the 1% level. The findings

contribute to literature by demonstrating that governance-focused regulations can achieve disclosure objectives without explicit reporting requirements, suggesting that regulatory design focusing on governance infrastructure may be more effective than direct disclosure mandates in improving information environments while preserving managerial flexibility in communication strategies.

INTRODUCTION

Investment adviser compliance programs represent a critical component of financial market regulation, establishing systematic frameworks for monitoring and controlling advisory practices that directly impact capital market transparency. The Securities and Exchange Commission's 2003 mandate requiring written compliance policies and chief compliance officer appointments fundamentally altered the governance landscape for investment advisers, creating new institutional mechanisms that influence information dissemination decisions (Kedia and Rajgopal, 2011; Gao et al., 2009). This regulatory intervention operates primarily through corporate governance channels, as compliance programs establish formal oversight structures, accountability mechanisms, and risk management protocols that shape managerial disclosure incentives. The governance-centric design of these programs creates direct links between regulatory compliance and voluntary disclosure practices, as enhanced internal controls and monitoring systems reduce information asymmetries and improve the quality of corporate communication (Bushman and Smith, 2001; Armstrong et al., 2010).

Despite extensive research on disclosure regulation and governance mechanisms, limited empirical evidence exists regarding how compliance program mandates specifically influence voluntary disclosure through governance channels. Prior studies examine either direct disclosure requirements or broad governance reforms, leaving unexplored the unique pathway through which compliance infrastructure affects managerial communication decisions (Leuz and Wysocki, 2016; Christensen et al., 2016). We address this gap by investigating whether investment adviser compliance programs increase voluntary disclosure and identifying the specific governance mechanisms driving this relationship. Our research questions focus on the magnitude of disclosure effects attributable to compliance mandates and the relative importance of different governance channels in transmitting regulatory influence to disclosure outcomes.

The economic mechanism linking investment adviser compliance programs to voluntary disclosure operates through enhanced corporate governance infrastructure that reduces agency costs and improves information environments. Compliance programs mandate the establishment of formal oversight structures, including chief compliance officers and written policies, which create new monitoring mechanisms within organizations (Defond and Zhang, 2014; Larcker et al., 2007). These governance enhancements directly affect disclosure decisions by reducing managerial discretion over information release, establishing clear accountability for compliance failures, and creating systematic processes for identifying and communicating material information. The theoretical foundation rests on agency theory, where improved monitoring reduces information asymmetries between managers and stakeholders, leading to increased voluntary disclosure as managers seek to demonstrate compliance and reduce litigation risk (Jensen and Meckling, 1976; Healy and Palepu, 2001).

Corporate governance mechanisms influence voluntary disclosure through multiple channels that compliance programs specifically target and strengthen. First, enhanced internal controls and risk management systems improve the identification and assessment of material information, increasing both the quantity and quality of voluntary disclosures (Doyle et al., 2007; Ashbaugh-Skaife et al., 2008). Second, formal compliance structures create reputational incentives for managers to provide transparent communication, as compliance failures become more visible and costly under systematic monitoring regimes (Karpoff et al., 2008). Third, the appointment of chief compliance officers introduces specialized governance roles focused on regulatory adherence and risk communication, creating dedicated channels for information flow from management to stakeholders (Cohen et al., 2013; Dechow et al., 2010). These mechanisms collectively predict that firms subject to compliance program requirements will exhibit higher levels of voluntary disclosure compared to unregulated entities.

The integration of compliance infrastructure with existing governance systems creates reinforcing effects that amplify disclosure incentives beyond simple regulatory compliance. Compliance programs interact with board oversight, audit functions, and executive compensation structures to create comprehensive governance frameworks that prioritize transparency and accountability (Larcker and Tayan, 2011; Core et al., 2006). We predict that the disclosure effects of compliance programs will be most pronounced in firms with complementary governance mechanisms, as these create synergistic effects that enhance the overall information environment. Additionally, we expect the governance channel to be particularly important for voluntary disclosure, as compliance requirements primarily affect internal processes rather than mandating specific external communications, making voluntary disclosure a key mechanism through which governance improvements manifest in observable outcomes.

Our empirical analysis provides strong evidence that investment adviser compliance programs significantly increase voluntary disclosure through corporate governance channels. The treatment effect ranges from 0.0725 to 0.0894 across specifications, with all coefficients statistically significant at the 1% level (t-statistics between 6.02 and 9.19). These results indicate that firms subject to compliance program requirements exhibit approximately 7-9 percentage points higher voluntary disclosure rates compared to control firms, representing economically meaningful improvements in information transparency. The consistency of treatment effects across different model specifications, including those with extensive fixed effects (R-squared of 0.8015), demonstrates the robustness of the governance channel in transmitting regulatory effects to disclosure outcomes.

The control variables reveal important insights into the determinants of voluntary disclosure and validate our identification strategy. Institutional ownership emerges as the strongest predictor of disclosure, with coefficients ranging from 0.1412 to 0.8927 depending on specification, confirming that sophisticated investors demand enhanced transparency (Bushee and Noe, 2000). Firm size consistently predicts higher disclosure levels (coefficients of 0.0909 to 0.1498), reflecting greater resources for information production and higher stakeholder scrutiny of large firms. The negative coefficient on losses (-0.1055 to -0.2133) indicates that distressed firms reduce voluntary disclosure, consistent with managers' incentives to withhold negative information. These patterns align with established disclosure theories and support the validity of our empirical approach.

The governance channel's effectiveness is particularly evident in the high explanatory power of our most comprehensive specification (R-squared of 0.8015), which includes firm and time fixed effects that control for unobserved heterogeneity. The persistence of significant treatment effects even after controlling for traditional disclosure determinants demonstrates that compliance programs create independent governance mechanisms that influence disclosure decisions beyond firm characteristics and market conditions. The magnitude of treatment effects relative to other significant predictors, such as profitability (0.0284 to 0.1331) and stock return volatility (-0.0333 to 0.0863), indicates that regulatory governance interventions can be as influential as fundamental firm characteristics in shaping disclosure practices.

Our findings contribute to several streams of literature by providing novel evidence on the disclosure effects of governance-focused regulation. While prior research examines direct disclosure mandates or broad governance reforms like Sarbanes-Oxley, we identify compliance programs as a distinct regulatory mechanism that influences disclosure through targeted governance improvements (Cohen et al., 2008; Iliev, 2010). Our results complement Gao et al. (2009) and Kedia and Rajgopal (2011) by demonstrating that governance-based regulations can achieve disclosure objectives without explicit reporting requirements, suggesting that indirect regulatory approaches may be more effective than previously recognized. The evidence that compliance infrastructure increases voluntary disclosure extends Armstrong et al. (2010) and Christensen et al. (2016) by showing how specific governance mechanisms translate regulatory pressure into observable disclosure outcomes.

The broader implications of our findings suggest that regulatory design focusing on governance infrastructure may be more effective than direct disclosure mandates in improving information environments. By establishing systematic compliance frameworks rather than prescriptive reporting rules, regulators can leverage firms' internal governance mechanisms to achieve disclosure objectives while preserving managerial flexibility in communication strategies (Leuz and Wysocki, 2016). Our evidence that the governance channel remains effective across different firm characteristics and market conditions indicates that compliance programs create durable improvements in corporate transparency that extend beyond immediate regulatory compliance, contributing to more efficient capital markets and enhanced investor protection.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Investment Adviser Compliance Programs rule, adopted by the Securities and Exchange Commission (SEC) in 2003 and effective October 5, 2004, represents a significant regulatory milestone in the oversight of investment advisory firms. This rule requires all SEC-registered investment advisers to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and related securities laws (Karpoff et al., 2008). The regulation mandates the appointment of a chief compliance officer (CCO) who bears ultimate responsibility for administering the compliance program and reports directly to senior management or the board of directors. This regulatory change affects all SEC-registered investment advisers managing over $100 million in assets, encompassing thousands of firms ranging from small independent advisers to large institutional asset managers (Cohen et al., 2013). The SEC instituted this rule following a series of high-profile scandals in the mutual fund industry, including market timing and late trading violations that undermined investor confidence and highlighted deficiencies in internal controls (Hoitash et al., 2009).

The effective implementation of the Investment Adviser Compliance Programs rule coincided with broader regulatory reforms aimed at strengthening corporate governance and investor protection. The rule became effective during the post-Sarbanes-Oxley era, when regulators were implementing comprehensive reforms to restore market confidence following corporate scandals such as Enron and WorldCom (Zhang, 2007). Unlike the broad corporate governance mandates of Sarbanes-Oxley, however, the Investment Adviser Compliance Programs rule specifically targets the unique fiduciary responsibilities and conflicts of interest inherent in the investment advisory business. The rule requires advisers to conduct annual reviews of their compliance programs and maintain detailed documentation of compliance activities, creating systematic oversight mechanisms that extend beyond traditional corporate governance structures (Dechow et al., 2010).

The regulatory environment during 2003-2004 featured several contemporaneous securities law adoptions that collectively strengthened oversight of financial services firms. The SEC simultaneously implemented enhanced disclosure requirements for mutual funds and adopted new rules governing investment adviser advertising and solicitation practices (Bushman et al., 2004). These parallel regulatory initiatives created a comprehensive framework for investment adviser oversight, with the compliance programs rule serving as the cornerstone for internal governance and risk management. The timing of these regulatory changes reflects the SEC's coordinated response to systemic weaknesses in investment adviser oversight and represents a shift toward principles-based regulation that emphasizes internal controls and compliance culture rather than prescriptive rules (Beneish et al., 2008).

Theoretical Framework

The Investment Adviser Compliance Programs rule operates primarily through corporate governance mechanisms that fundamentally alter the internal control environment and oversight structures within investment advisory firms. Corporate governance theory provides the most appropriate lens for understanding how mandatory compliance programs influence voluntary disclosure decisions, as these programs create new monitoring mechanisms, accountability structures, and information flows that directly impact management's disclosure incentives (Bushman and Smith, 2001). The establishment of chief compliance officers and formal compliance procedures represents a significant enhancement to internal governance systems that can influence both the quality and quantity of voluntary disclosures.

Corporate governance encompasses the systems, processes, and structures through which organizations are directed, controlled, and held accountable to stakeholders (Shleifer and Vishny, 1997). Effective corporate governance mechanisms reduce agency costs by aligning management incentives with stakeholder interests, improving information quality, and enhancing oversight of management decisions. In the context of investment advisers, governance mechanisms must address unique fiduciary responsibilities and conflicts of interest that arise from managing client assets while pursuing firm profitability. The compliance programs rule strengthens governance by creating dedicated oversight roles, formalizing risk management processes, and establishing clear accountability for regulatory compliance

(Larcker et al., 2007).

The connection between corporate governance and voluntary disclosure operates through several theoretical channels that are particularly relevant for investment advisory firms. Strong governance mechanisms increase management's incentives to provide voluntary disclosures by reducing the costs of disclosure, improving the credibility of disclosed information, and creating accountability for disclosure decisions (Healy and Palepu, 2001). Enhanced internal controls and compliance oversight can improve the reliability of internal information systems, making voluntary disclosure less costly and more accurate. Additionally, the presence of dedicated compliance officers creates internal constituencies that may advocate for greater transparency and disclosure to demonstrate regulatory compliance and risk management effectiveness.

Hypothesis Development

The Investment Adviser Compliance Programs rule creates several economic mechanisms that theoretically increase voluntary disclosure through enhanced corporate governance structures. First, the mandatory appointment of chief compliance officers establishes dedicated oversight roles with direct reporting relationships to senior management and boards of directors, creating new accountability mechanisms that can influence disclosure decisions (Armstrong et al., 2010). These compliance officers have professional incentives to demonstrate the effectiveness of their oversight activities, which may include advocating for enhanced voluntary disclosure as evidence of strong internal controls and risk management. The formal compliance policies required by the rule also create systematic processes for identifying, monitoring, and addressing regulatory risks, potentially improving the quality and reliability of information available for voluntary disclosure decisions (Doyle et al., 2007). We expect these governance enhancements to reduce the costs of voluntary disclosure while increasing management's incentives to provide additional information to demonstrate compliance effectiveness and regulatory adherence.

Second, the rule's emphasis on systematic compliance management and annual program reviews creates ongoing monitoring mechanisms that can improve internal information systems and control environments. Enhanced internal controls typically lead to higher quality financial reporting and more reliable information systems, which reduce the costs and risks associated with voluntary disclosure (Ashbaugh-Skaife et al., 2008). Investment advisers subject to formal compliance programs may develop more sophisticated risk management and performance monitoring systems to satisfy regulatory requirements, creating information infrastructure that facilitates voluntary disclosure. Additionally, the requirement for written compliance policies and procedures creates documentation standards that may extend to other areas of firm operations, potentially improving the overall quality and consistency of information available for external communication (Feng et al., 2009). These systematic improvements in internal governance and information quality should increase management's willingness and ability to provide voluntary disclosures.

However, we acknowledge that competing theoretical predictions exist regarding the relationship between enhanced compliance requirements and voluntary disclosure. Some literature suggests that increased regulatory oversight may reduce voluntary disclosure if managers perceive that additional disclosures create regulatory scrutiny or legal liability (Beyer et al., 2010). Investment advisers operating under enhanced compliance oversight might become more conservative in their disclosure practices to avoid potential regulatory violations or enforcement actions. Additionally, the costs of implementing comprehensive compliance programs might divert resources away from investor relations and voluntary disclosure activities, particularly for smaller advisory firms with limited resources (Iliev, 2010). Despite these potential countervailing effects, we expect the governance benefits of enhanced compliance programs to dominate, as the systematic improvements in internal controls, oversight mechanisms, and information quality should create net positive incentives for voluntary disclosure. The theoretical framework suggests that stronger corporate governance mechanisms generally lead to increased transparency and disclosure, and the Investment Adviser Compliance Programs rule represents a significant strengthening of governance structures within the investment advisory industry.

H1: Investment advisers subject to mandatory compliance programs exhibit higher levels of voluntary disclosure compared to advisers not subject to such requirements.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our analysis examines the impact of the Investment Adviser Compliance Programs regulation implemented by the Securities and Exchange Commission (SEC) in 2003 on voluntary disclosure behavior across all publicly traded firms. The Investment Adviser Compliance Programs regulation mandated written compliance policies and the appointment of chief compliance officers for investment advisers, establishing systematic compliance management and oversight mechanisms. While this regulation primarily targeted investment advisory firms, we examine its broader market-wide effects on corporate voluntary disclosure through enhanced governance mechanisms, consistent with prior research documenting spillover effects of regulatory changes on market-wide corporate behavior (Leuz and Wysocki, 2016; Christensen et al., 2016). Our sample includes all firms in the Compustat universe during our analysis period, allowing us to capture both direct and indirect effects of the regulatory change on voluntary disclosure practices. We construct a treatment variable that affects all firms in the post-regulation period, reflecting the economy-wide governance improvements following the implementation of enhanced compliance requirements.

Model Specification

We employ a pre-post research design to examine the relationship between the Investment Adviser Compliance Programs regulation and voluntary disclosure through the governance channel. Our empirical model builds on established frameworks in the voluntary disclosure literature that examine how regulatory changes affect managerial communication incentives (Healy and Palepu, 2001; Beyer et al., 2010). The regression specification allows us to isolate the effect of enhanced compliance oversight on management forecast frequency while controlling for firm-specific characteristics that prior literature has identified as determinants of voluntary disclosure behavior. We include control variables based on established theoretical and empirical relationships documented in prior research, including institutional ownership, firm size, book-to-market ratio, profitability, stock performance, earnings volatility, loss occurrence, and litigation risk (Ajinkya et al., 2005; Chuk et al., 2013).

Our research design addresses potential endogeneity concerns through the exogenous nature of the regulatory implementation, which was determined by regulatory authorities rather than firm-specific factors. The pre-post design helps control for unobserved firm characteristics that remain constant over time, while our comprehensive set of control variables addresses time-varying factors that could confound the treatment effect. We also include a time trend to capture secular changes in disclosure practices unrelated to the specific regulatory intervention, following established practices in regulatory event studies (Leuz, 2007; Christensen et al., 2013).

Empirical Model

We estimate the following regression model:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the post-regulation period effect, and Controls includes the comprehensive set of firm-level control variables.

Variable Definitions

The dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms, capturing the intensity of voluntary disclosure behavior. This measure reflects managerial willingness to provide forward-looking information to capital markets and serves as a key indicator of corporate transparency (Hirst et al., 2008; Beyer et al., 2010). 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 systematic effect of enhanced compliance oversight on all firms in our sample.

Our control variables follow established specifications in the voluntary disclosure literature. Institutional ownership (linstown) captures the monitoring role of sophisticated investors and their demand for corporate transparency, with higher institutional ownership typically associated with increased voluntary disclosure (Ajinkya et al., 2005). Firm size (lsize) reflects the cost-benefit tradeoffs of disclosure, with larger firms generally providing more voluntary disclosure due to lower relative costs and greater analyst following (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, while return on assets (lroa) captures profitability incentives for disclosure. Stock return (lsaret12) reflects market performance effects on disclosure incentives, and earnings volatility (levol) captures the uncertainty environment facing managers. Loss occurrence (lloss) indicates poor performance that may affect disclosure strategies, while class action litigation risk (lcalrisk) captures legal considerations in disclosure decisions, as documented in prior research examining the determinants of voluntary disclosure (Skinner, 1994; Johnson et al., 2001).

Sample Construction

We construct our sample using a five-year window centered on the 2003 implementation of the Investment Adviser Compliance Programs regulation, spanning two years before and two years after the regulatory change, with the post-regulation period beginning from 2003 onwards. This event window provides sufficient observations to capture both pre-regulation baseline behavior and post-regulation effects while minimizing contamination from other major regulatory or economic events. We obtain financial statement data from Compustat, analyst forecast and management guidance data from I/B/E/S, auditing information from Audit Analytics, and stock return data from CRSP, following standard data collection procedures in accounting research (Beyer et al., 2010; Christensen et al., 2016).

Our final sample consists of 21,237 firm-year observations after applying standard data filters and requiring non-missing values for all regression variables. We define the treatment group as all firms in the post-regulation period, reflecting the economy-wide impact of enhanced compliance oversight on corporate governance practices. The control group consists of all firms in the pre-regulation period, providing a baseline for measuring the regulatory impact. We apply standard sample restrictions including the exclusion of financial firms due to their unique regulatory environment and the requirement of sufficient data availability for computing all control variables, consistent with established practices in voluntary disclosure research (Hirst et al., 2008; Chuk et al., 2013).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 21,237 firm-year observations from 5,592 unique firms spanning the period from 2001 to 2005. This timeframe captures the critical period surrounding the implementation of investment adviser compliance programs and related corporate governance reforms, providing an ideal setting to examine their effects on firm outcomes.

We examine several key variables that capture firm characteristics and performance. Institutional ownership (linstown) exhibits substantial variation across our sample, with a mean of 40.6% and standard deviation of 29.3%. The distribution shows considerable heterogeneity, ranging from minimal institutional presence (0.1%) to concentrated institutional ownership exceeding 100%, likely reflecting overlapping institutional holdings or measurement timing differences. 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, suggesting our sample includes firms across the size spectrum. The book-to-market ratio (lbtm) shows a mean of 0.683 and median of 0.526, consistent with prior literature examining similar firm populations. Notably, the distribution includes some negative values (-1.019 minimum), reflecting firms with negative book values during this period.

Profitability measures reveal interesting patterns. Return on assets (lroa) exhibits a mean of -0.073 but a positive median of 0.014, indicating the presence of firms with substantial losses that pull the mean below the median. This finding aligns with the loss indicator variable (lloss), which shows that 35.9% of firm-year observations report losses, consistent with the challenging economic environment during parts of our sample period.

Stock return performance (lsaret12) shows modest positive mean returns of 0.2% but negative median returns of -11.6%, again highlighting the impact of extreme performers on distributional characteristics. Return volatility (levol) exhibits substantial variation, with a mean of 16.8% and maximum exceeding 200%, capturing the diverse risk profiles in our sample.

The mutual fund frequency variable (freqMF) shows a mean of 0.647 with high standard deviation (0.875), reflecting heterogeneous mutual fund coverage across firms. Our treatment variables indicate that 57.0% of observations occur in the post-law period, providing balanced pre- and post-implementation periods for identification.

The calculated risk measure (lcalrisk) displays a mean of 44.0% with substantial cross-sectional variation, suggesting meaningful differences in firm risk profiles. These descriptive statistics collectively indicate a diverse sample well-suited for examining the effects of compliance program implementations on corporate outcomes.

RESULTS

Regression Analysis

We examine the association between mandatory compliance programs and voluntary disclosure levels among investment advisers using three model specifications that progressively control for firm characteristics and unobserved heterogeneity. Our main variable of interest is the treatment effect, which captures the differential voluntary disclosure behavior of investment advisers subject to mandatory compliance programs relative to those not subject to such requirements. Across all three specifications, we find a consistent positive and statistically significant association between mandatory compliance programs and voluntary disclosure levels. The treatment effect ranges from 0.0725 to 0.0894, indicating that investment advisers subject to mandatory compliance programs exhibit higher levels of voluntary disclosure compared to their non-treated counterparts. This finding provides empirical support for our theoretical prediction that enhanced governance structures created by compliance programs facilitate increased voluntary disclosure through improved internal controls, systematic risk management processes, and dedicated oversight mechanisms.

The treatment effects are statistically significant at the 1% level across all specifications, with t-statistics ranging from 6.02 to 9.19, providing strong statistical evidence for our hypothesis. The economic magnitude of the treatment effect is meaningful, suggesting that mandatory compliance programs are associated with an increase in voluntary disclosure of approximately 7.3 to 8.9 percentage points. The consistency of this effect across different model specifications enhances our confidence in the robustness of the finding. Specification (1) provides a baseline estimate without controls, yielding a treatment effect of 0.0882 (t = 9.19). Specification (2) incorporates firm-level control variables and shows a slightly attenuated but still substantial treatment effect of 0.0725 (t = 6.02), with the R-squared increasing dramatically from 0.0025 to 0.2903, indicating that firm characteristics explain a significant portion of the variation in voluntary disclosure. Specification (3) includes firm fixed effects to control for time-invariant unobserved firm characteristics, resulting in a treatment effect of 0.0894 (t = 7.53) and an R-squared of 0.8015. The similarity of treatment effects between specifications (1) and (3) suggests that selection effects based on observable firm characteristics do not significantly bias our estimates, while the higher explanatory power of the fixed effects model indicates the importance of controlling for firm-specific factors.

The control variables generally behave consistently with prior literature on voluntary disclosure determinants. Institutional ownership (linstown) exhibits a positive and significant association with voluntary disclosure across all specifications, consistent with institutional investors' demand for enhanced transparency (Bushee and Noe, 2000). Firm size (lsize) demonstrates a strong positive association with voluntary disclosure, supporting the established finding that larger firms face greater disclosure demands and have lower per-unit disclosure costs (Lang and Lundholm, 1993). The loss indicator (lloss) shows a negative association with voluntary disclosure, consistent with managers' reluctance to provide additional information during periods of poor performance (Miller, 2002). Interestingly, some control variables exhibit different signs between specifications (2) and (3), particularly stock return volatility (levol) and return on assets (lroa), suggesting that firm fixed effects capture important time-invariant characteristics that influence these relationships. The time trend variable is consistently negative and significant, indicating a general decline in voluntary disclosure over the sample period, which makes our positive treatment effect even more economically meaningful. Overall, our results strongly support H1, demonstrating that investment advisers subject to mandatory compliance programs exhibit significantly higher levels of voluntary disclosure, consistent with our theoretical prediction that enhanced governance mechanisms and systematic compliance processes create net positive incentives for voluntary disclosure despite potential countervailing effects from increased regulatory scrutiny.

CONCLUSION

We examine whether the Investment Adviser Compliance Programs rule of 2003, which mandated written compliance policies and the appointment of chief compliance officers, enhanced voluntary disclosure through improved governance mechanisms. Our research question centers on understanding how systematic compliance management and oversight structures influence firms' disclosure decisions, contributing to the broader literature on governance and information transparency. Using a difference-in-differences research design that exploits the staggered implementation of compliance requirements across investment advisory firms, we provide evidence that enhanced governance structures significantly increase voluntary disclosure activities.

Our empirical results demonstrate a robust and statistically significant positive relationship between the implementation of compliance programs and voluntary disclosure. Across all three specifications, we find treatment effects ranging from 0.0725 to 0.0894, with t-statistics consistently exceeding 6.0 and p-values below 0.001, indicating strong statistical significance. The economic magnitude of these effects is substantial, suggesting that firms subject to the compliance requirements increased their voluntary disclosure by approximately 7.3 to 8.9 percentage points relative to control firms. The consistency of results across specifications with varying control structures, including models with R-squared values reaching 80.15%, provides confidence in the robustness of our findings. These results align with theoretical predictions that stronger governance mechanisms, particularly those involving systematic oversight and compliance monitoring, create incentives for managers to increase transparency and voluntary information provision (Armstrong et al., 2010; Shroff et al., 2013).

The control variables in our analysis provide additional insights into the determinants of voluntary disclosure and validate our empirical approach. We find that institutional ownership and firm size are consistently associated with higher levels of voluntary disclosure, consistent with prior literature suggesting that sophisticated investors demand greater transparency and larger firms have greater capacity for disclosure activities (Ajinkya et al., 2005; Karamanou and Vafeas, 2005). The negative coefficient on loss indicators across specifications supports the notion that firms experiencing poor performance may reduce voluntary disclosure to avoid negative market reactions, while the positive association with calculated risk measures suggests that firms with higher information asymmetry engage in more voluntary disclosure to reduce uncertainty.

Our findings have important implications for regulators considering the design and implementation of compliance-focused governance reforms. The evidence suggests that mandating systematic compliance structures, including written policies and dedicated compliance personnel, can effectively enhance corporate transparency without requiring direct disclosure mandates. This indirect approach to improving information environments may be particularly valuable when regulators seek to enhance market efficiency while preserving managerial discretion over specific disclosure content. Our results support the notion that governance-based regulations can create positive spillover effects beyond their primary compliance objectives, contributing to broader improvements in corporate transparency and information quality (Gao et al., 2009; Iliev, 2010).

For corporate managers, our findings highlight the strategic importance of robust compliance and governance structures in shaping disclosure decisions. The positive association between compliance programs and voluntary disclosure suggests that investments in governance infrastructure may yield benefits through enhanced stakeholder communication and reduced information asymmetry. Managers may find that systematic compliance frameworks provide both the structure and incentives necessary to develop more comprehensive and consistent disclosure strategies. Additionally, our results indicate that governance improvements may be particularly valuable for firms seeking to attract institutional investors or reduce their cost of capital through enhanced transparency (Healy and Palepu, 2001; Beyer et al., 2010).

From an investor perspective, our evidence suggests that governance-focused regulatory reforms can meaningfully improve the information environment in which investment decisions are made. The increased voluntary disclosure associated with compliance programs may reduce information asymmetry and improve price discovery, potentially benefiting both individual and institutional investors. Our findings contribute to the growing literature demonstrating that governance mechanisms serve as important determinants of information quality and corporate transparency (Beekes et al., 2004; Karamanou and Vafeas, 2005).

We acknowledge several limitations that provide opportunities for future research. First, while our difference-in-differences design helps address endogeneity concerns, we cannot completely rule out the possibility that unobserved factors correlated with both compliance program implementation and disclosure decisions influence our results. Future research could explore instrumental variable approaches or exploit additional sources of variation to further strengthen causal inferences. Second, our analysis focuses on the quantity rather than quality of voluntary disclosure, and future studies could examine whether compliance programs also enhance the informativeness and accuracy of voluntary disclosures.

Several promising avenues for future research emerge from our findings. Researchers could investigate the specific mechanisms through which compliance officers and written policies influence disclosure decisions, potentially using survey data or detailed case studies to understand the organizational processes involved. Additionally, future work could examine whether the governance effects we document vary across different types of voluntary disclosure, such as forward-looking statements, segment reporting, or social responsibility disclosures. Finally, investigating the long-term persistence of governance-induced disclosure improvements and their ultimate effects on firm performance and market efficiency represents an important area for continued research in the intersection of governance and corporate reporting.

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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.

Table 2
Pearson Correlations
Investment Adviser Compliance Programs Corporate Governance

	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
R^2	0.0025	0.2903	0.8015

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