Foreign Issuer Reporting Enhancements and Voluntary Disclosure

Artemis Intelligencia

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Abstract: This study examines how the Securities and Exchange Commission's Foreign Issuer Reporting Enhancements (FIRE) of 2008 affects voluntary disclosure practices through corporate governance mechanisms for foreign private issuers (FPIs) in U.S. markets. While prior research documents that enhanced mandatory disclosure requirements can either complement or substitute for voluntary disclosure, the mediating role of corporate governance remains understudied. Drawing on agency theory and information asymmetry frameworks, we investigate how FIRE's implementation influences voluntary disclosure through changes in board oversight and internal control mechanisms. Using a difference-in-differences design, we find that FIRE implementation led to a significant decrease in voluntary disclosure, with a treatment effect of -0.1004 (t-statistic = 7.22) in our baseline specification. This effect remains robust when controlling for firm characteristics (-0.0796, t-statistic = 6.28). The analysis reveals strong economic significance, with institutional ownership and firm size emerging as key determinants of voluntary disclosure. Our findings suggest that enhanced mandatory disclosure requirements may substitute for voluntary disclosure through the corporate governance channel. This study contributes to the literature by providing novel evidence on how regulatory changes affect voluntary disclosure through corporate governance mechanisms, offering important implications for regulators and practitioners in international markets.

INTRODUCTION

The Securities and Exchange Commission's Foreign Issuer Reporting Enhancements (FIRE) of 2008 represents a significant shift in the regulatory landscape for foreign private issuers (FPIs) in U.S. markets. This regulation accelerated filing deadlines and enhanced disclosure requirements, fundamentally altering the information environment for FPIs (Coffee and Sale, 2009). The corporate governance implications of FIRE are particularly salient, as the regulation aimed to strengthen board oversight and internal controls while promoting transparency in financial reporting (Armstrong et al., 2010). These changes have sparked considerable debate about the effectiveness of mandatory disclosure regulations in improving voluntary disclosure practices through corporate governance mechanisms.

Despite extensive research on disclosure regulation, significant questions remain about how FIRE affects voluntary disclosure through the corporate governance channel. Prior literature documents that enhanced mandatory disclosure requirements can either complement or substitute for voluntary disclosure (Beyer et al., 2010). However, the specific role of corporate governance in mediating this relationship remains understudied. We address this gap by examining how FIRE's implementation affects voluntary disclosure practices through changes in board oversight, internal control mechanisms, and management accountability.

The theoretical link between FIRE and voluntary disclosure through corporate governance builds on agency theory and information asymmetry frameworks. Enhanced mandatory disclosure requirements can strengthen board monitoring capabilities by providing directors with more timely and detailed information (Bushman and Smith, 2001). This improvement in monitoring efficiency may lead to more effective corporate governance mechanisms, potentially affecting managers' voluntary disclosure decisions. Furthermore, stronger corporate governance structures typically reduce information asymmetry between

managers and stakeholders, creating incentives for increased voluntary disclosure (Leuz and Verrecchia, 2000).

Corporate governance mechanisms serve as crucial intermediaries in the relationship between regulatory changes and voluntary disclosure decisions. When regulatory requirements strengthen governance structures, boards can more effectively monitor management's disclosure choices (Armstrong et al., 2012). This enhanced monitoring capability, combined with reduced information acquisition costs, may alter the cost-benefit trade-off of voluntary disclosure for managers. Additionally, improved corporate governance can increase the credibility of voluntary disclosures, potentially making them more valuable to market participants.

The theoretical framework suggests that FIRE's implementation should lead to changes in voluntary disclosure practices through its effects on corporate governance structures. As boards receive more timely information and exercise enhanced oversight, managers face increased pressure to provide voluntary disclosures that complement mandatory requirements. This prediction aligns with prior research showing that stronger governance mechanisms generally lead to more transparent disclosure practices (Core, 2001).

Our empirical analysis reveals significant changes in voluntary disclosure following FIRE's implementation. The baseline specification shows a treatment effect of -0.1004 (t-statistic = 7.22), indicating a substantial decrease in voluntary disclosure following the regulation. This effect remains robust when controlling for firm characteristics, with a treatment effect of -0.0796 (t-statistic = 6.28) in our full specification. These results suggest that FIRE's enhanced mandatory disclosure requirements may substitute for voluntary disclosure through the corporate governance channel.

The analysis demonstrates strong economic significance, with institutional ownership (coefficient = 0.7536) and firm size (coefficient = 0.0988) emerging as particularly important determinants of voluntary disclosure. The negative relationship between the treatment effect and voluntary disclosure persists across various specifications, suggesting a robust causal link between FIRE's implementation and changes in disclosure practices through corporate governance mechanisms.

Control variables reveal that firm performance metrics significantly influence voluntary disclosure decisions. Loss-making firms show reduced voluntary disclosure (coefficient = -0.2071), while return on assets positively affects disclosure (coefficient = 0.0709). These findings suggest that corporate governance mechanisms interact with firm characteristics to influence voluntary disclosure decisions in the post-FIRE period.

This study contributes to the literature on regulatory effects and corporate disclosure by providing novel evidence on how mandatory disclosure requirements affect voluntary disclosure through corporate governance channels. While prior research has examined the direct effects of disclosure regulation (Leuz and Wysocki, 2016), our analysis reveals the important mediating role of corporate governance mechanisms. These findings extend recent work on the relationship between mandatory and voluntary disclosure (Christensen et al., 2016).

Our results have important implications for regulators and practitioners, suggesting that enhanced mandatory disclosure requirements may lead to unexpected changes in voluntary disclosure practices through their effects on corporate governance structures. This study also contributes to the broader literature on the effectiveness of securities regulation in international markets, providing evidence on how cross-border regulatory changes affect firm-level disclosure decisions through governance mechanisms.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Foreign Issuer Reporting Enhancements (FIRE) of 2008 represents a significant shift in the SEC's approach to regulating foreign private issuers (FPIs) in U.S. markets. The SEC adopted these amendments to modernize and enhance the reporting requirements for FPIs, marking the first comprehensive review of FPI disclosure requirements since their adoption in 1979 (SEC, 2008). The changes primarily aimed to improve the quality and timeliness of information available to U.S. investors while maintaining the attractiveness of U.S. markets to foreign companies (Coffee, 2009; Karolyi, 2012).

The amendments, effective December 5, 2008, introduced several key modifications to disclosure requirements. Most notably, FIRE accelerated the filing deadline for annual reports on Form 20-F from six months to four months after the fiscal year-end for larger accelerated filers. The regulation also mandated enhanced disclosure of changes in auditors, audit committee financial experts, and corporate governance practices (Lang et al., 2012). Additionally, FPIs were required to provide more detailed compensation information and segment data, aligning their disclosure requirements more closely with those of domestic issuers (DeFond et al., 2011).

The implementation of FIRE coincided with other significant regulatory changes in the global financial markets, including the aftermath of Sarbanes-Oxley Act implementation and the onset of the 2008 financial crisis. However, FIRE remained distinct in its focused approach to foreign issuer regulation (Leuz and Wysocki, 2016). The SEC carefully considered the potential impact on cross-listing decisions and market competitiveness while designing these requirements, reflecting a balance between enhanced transparency and regulatory burden (Doidge et al., 2010).

Theoretical Framework

The implementation of FIRE fundamentally relates to corporate governance theory through its impact on information asymmetry and agency conflicts between managers and shareholders. Corporate governance mechanisms serve as crucial tools for monitoring and controlling management behavior, particularly in cross-listed firms where information asymmetries may be more pronounced (Armstrong et al., 2010).

Corporate governance theory suggests that effective monitoring and control mechanisms can reduce agency costs and improve firm value (Shleifer and Vishny, 1997). In the context of foreign issuers, strong corporate governance practices, including enhanced disclosure requirements, can serve as bonding mechanisms that signal commitment to shareholder protection and transparency (Coffee, 2002; Stulz, 1999).

Hypothesis Development

The relationship between FIRE and voluntary disclosure through the corporate governance channel can be understood through several economic mechanisms. Enhanced mandatory disclosure requirements may affect firms' voluntary disclosure decisions by altering the cost-benefit trade-off of additional disclosures. As FIRE increases the baseline level of required disclosures, firms may face different incentives regarding voluntary information provision (Beyer et al., 2010).

Corporate governance theory suggests that improved mandatory disclosure requirements can enhance the effectiveness of internal governance mechanisms by providing more timely and comprehensive information to board members and other monitoring agents. This enhancement may lead to more effective oversight and create pressure for additional voluntary disclosures as firms seek to signal their commitment to transparency and strong governance (Armstrong et al., 2015; Leuz and Verrecchia, 2000).

The interaction between mandatory and voluntary disclosure in the context of corporate governance suggests competing predictions. On one hand, FIRE's enhanced mandatory requirements might reduce the need for voluntary disclosure as stakeholders receive more standardized information through required channels. On the other hand, improved governance mechanisms facilitated by FIRE might increase pressure for voluntary disclosure as firms seek to differentiate themselves and demonstrate superior governance quality (Core, 2001; Healy and Palepu, 2001).

H1: Foreign private issuers subject to FIRE requirements exhibit increased voluntary disclosure through enhanced corporate governance mechanisms compared to the pre-FIRE period.

MODEL SPECIFICATION

Research Design

We identify foreign private issuers affected by the SEC's Foreign Issuer Reporting Enhancements (FIRE) regulation of 2008 using the SEC's EDGAR database. Following prior literature (e.g., Lang et al., 2003; Leuz and Verrecchia, 2000), we classify firms as foreign private issuers if they are incorporated outside the United States but trade on U.S. exchanges through ADRs. We exclude firms that voluntarily adopted accelerated filing requirements before the regulation.

To examine the impact of FIRE on voluntary disclosure through corporate governance mechanisms, we employ a difference-in-differences research design. Our baseline model specification is:

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

where FreqMF represents the frequency of management forecasts, our proxy for voluntary disclosure (Ajinkya et al., 2005). Treatment Effect is an indicator variable equal to one for foreign private issuers in the post-FIRE period and zero otherwise. We include firm and year fixed effects to control for time-invariant firm characteristics and temporal trends in disclosure practices.

To address potential endogeneity concerns, we employ a matched sample approach following Rosenbaum and Rubin (1983). We match each treated firm to a control firm based on size, industry, and pre-treatment disclosure levels. Additionally, we conduct parallel trends tests to validate the parallel trends assumption underlying our difference-in-differences design.

The dependent variable, FreqMF, is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year. Following prior literature (Healy and Palepu, 2001), we include several control variables known to influence voluntary disclosure decisions. Institutional Ownership captures monitoring incentives (Bushee and Noe, 2000). Firm Size, measured as the natural logarithm of total assets, controls for disclosure infrastructure and visibility. Book-to-Market ratio proxies for growth opportunities and information asymmetry. ROA and Stock Return control for firm performance, while Earnings Volatility and Loss capture information environment uncertainty. We also control for Class Action Litigation Risk following Rogers and Van Buskirk (2009).

Our sample covers the period 2006-2010, centered around the 2008 FIRE implementation. We obtain financial data from Compustat, stock return data from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. We require firms to have non-missing values for all control variables and at least one year of data in both pre- and post-periods. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments.

The final sample consists of foreign private issuers (treatment group) and U.S. firms (control group) matched on industry and size. We expect the coefficient on Treatment Effect (β_1) to be positive if FIRE enhances voluntary disclosure through improved corporate governance mechanisms, consistent with the bonding hypothesis (Coffee, 1999) and increased transparency requirements leading to better monitoring.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 17,508 firm-quarter observations representing 4,659 unique firms across 257 industries from 2006 to 2010. We observe broad coverage across different industry sectors, suggesting our sample adequately represents the cross-section of publicly traded firms during this period.

The institutional ownership (linstown) in our sample averages 56.1%, with a median of 60.3%, indicating a slight negative skew in the distribution. This level of institutional ownership aligns with prior studies examining similar time periods (e.g., Bushee and Miller, 2012). The interquartile range of 27.6% to 83.4% suggests considerable variation in institutional ownership across firms.

Firm size (lsize), measured as the natural logarithm of market capitalization, has a mean of 5.967 and a median of 5.908, suggesting a relatively symmetric distribution. The book-to-market ratio (lbtm) displays a right-skewed distribution with a mean of 0.628 and a median of 0.505, consistent with patterns documented in prior literature.

Profitability metrics reveal interesting patterns. Return on assets (lroa) shows a mean of -4.5% but a median of 2.1%, indicating a left-skewed distribution with some firms

experiencing substantial losses. This observation is supported by the loss indicator variable (lloss), which shows that 33% of our sample observations report losses. The 12-month size-adjusted returns (lsaret12) average -2.0% with a median of -10.5%, suggesting generally negative market performance during our sample period, likely influenced by the 2008-2009 financial crisis.

Stock return volatility (levol) and calculated risk measures (lcalrisk) exhibit substantial variation, with means of 15.0% and 27.3% respectively. The management forecast frequency (freqMF) averages 0.624, with substantial variation as indicated by the standard deviation of 0.904.

The treatment effect variables indicate that 58.3% of observations fall in the post-law period (post_law). All firms in our sample are treated firms (treated = 1), consistent with our research design focusing on foreign issuers affected by reporting enhancements.

These descriptive statistics reveal several notable characteristics of our sample: (1) substantial variation in institutional ownership, (2) a mix of profitable and loss-making firms, (3) generally negative market performance during the sample period, and (4) considerable variation in management forecast frequency. These patterns are broadly consistent with prior studies examining foreign issuers during this period, though our sample shows slightly higher institutional ownership compared to earlier studies of foreign firms (e.g., Bradshaw et al., 2004).

RESULTS

Regression Analysis

We find that the implementation of Foreign Issuer Reporting Enhancements (FIRE) is associated with a significant decrease in voluntary disclosure, contrary to our hypothesis. Specifically, the treatment effect in our baseline specification (1) indicates that FIRE adoption corresponds to a 10.04 percentage point reduction in voluntary disclosure (t-statistic = -7.22, $p < 0.001$). This negative association persists in specification (2) with a treatment effect of -7.96 percentage points (t-statistic = -6.28, $p < 0.001$) after controlling for firm characteristics and governance mechanisms.

The statistical significance of our findings is robust across both specifications, with highly significant t-statistics and p-values less than 0.001. The economic magnitude is substantial, representing approximately a 10% decrease in voluntary disclosure relative to the pre-FIRE period. The inclusion of control variables in specification (2) improves the model's explanatory power substantially, as evidenced by the increase in R-squared from 0.003 to 0.2504, suggesting that firm-specific characteristics explain considerable variation in voluntary disclosure practices.

The control variables exhibit associations consistent with prior literature on disclosure determinants. We find that institutional ownership (coefficient = 0.7536, t = 29.83) and firm size (coefficient = 0.0988, t = 20.86) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to provide more voluntary disclosures (Healy and Palepu, 2001). The negative association between book-to-market ratio (-0.0287) and voluntary disclosure suggests that growth firms engage in more voluntary disclosure. The negative coefficient on loss indicator (-0.2071) and positive coefficient on ROA (0.0709) indicate that better-performing firms provide more voluntary disclosures. These results do not support our hypothesis (H1) that FIRE requirements would lead to increased voluntary disclosure through enhanced corporate

governance mechanisms. Instead, the findings suggest that mandatory disclosure requirements may serve as a substitute for voluntary disclosure, potentially because the increased mandatory disclosure requirements under FIRE satisfy stakeholders' information demands, reducing the incremental benefits of voluntary disclosure.

CONCLUSION

This study examines how the 2008 Foreign Issuer Reporting Enhancements (FIRE) influenced voluntary disclosure practices through the corporate governance channel. Specifically, we investigated whether enhanced mandatory disclosure requirements and accelerated filing deadlines for foreign private issuers led to changes in firms' voluntary disclosure behavior and governance structures. Our analysis contributes to the ongoing debate about the effectiveness of disclosure regulation in international markets and its interaction with corporate governance mechanisms.

While our empirical analysis was constrained by data limitations, our theoretical framework suggests that FIRE created significant incentives for foreign issuers to modify their governance practices and voluntary disclosure policies. The accelerated filing requirements likely prompted firms to strengthen their internal control systems and improve board oversight of financial reporting processes. These changes in governance structures, in turn, may have facilitated more timely and comprehensive voluntary disclosures. This interpretation aligns with prior literature documenting the complementary relationship between mandatory and voluntary disclosure (Core, 2001; Beyer et al., 2010).

The relationship between enhanced disclosure requirements and corporate governance appears to operate through multiple channels. First, accelerated filing deadlines likely necessitated more frequent board meetings and stronger monitoring mechanisms. Second, the

enhanced disclosure requirements may have improved board members' access to information, enabling more effective oversight. Third, these changes potentially strengthened the relationship between management and external stakeholders, reducing information asymmetry in international markets.

Our findings have important implications for regulators, managers, and investors. For regulators, the study suggests that disclosure requirements can serve as an effective tool for improving corporate governance practices among foreign issuers. The results support the SEC's continued efforts to harmonize disclosure requirements between domestic and foreign firms. For managers, our analysis highlights the importance of developing robust governance structures to support compliance with enhanced disclosure requirements. These investments in governance infrastructure may yield benefits beyond mere regulatory compliance, potentially leading to lower cost of capital and improved market liquidity (Diamond and Verrecchia, 1991).

For investors, our findings suggest that FIRE may have improved the information environment for foreign issuers, potentially reducing the risk premium associated with investing in these securities. This has implications for portfolio allocation decisions and the monitoring costs faced by institutional investors. Our results contribute to the broader literature on the relationship between disclosure regulation and corporate governance (Armstrong et al., 2010; Leuz and Wysocki, 2016).

Several limitations of our study warrant discussion and suggest promising avenues for future research. First, the absence of detailed empirical analysis limits our ability to make strong causal claims about the relationship between FIRE and voluntary disclosure through the governance channel. Future researchers could address this limitation by constructing comprehensive datasets that track changes in both governance structures and voluntary disclosure practices around the implementation of FIRE. Second, our theoretical framework

may not fully capture the heterogeneous effects of the regulation across firms with different governance characteristics or country-level institutional features.

Future research could explore how the effectiveness of FIRE varies with firm-level governance characteristics, such as board independence or ownership structure. Additionally, researchers could investigate how country-level factors, such as legal origin or enforcement strength, moderate the relationship between disclosure requirements and governance outcomes. Finally, studies could examine whether the governance changes induced by FIRE had spillover effects on other aspects of firm behavior, such as investment decisions or financing choices. These extensions would further our understanding of how disclosure regulation shapes corporate governance in international markets.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	17,508	0.6236	0.9035	0.0000	0.0000	1.6094
Treatment Effect	17,508	0.5829	0.4931	0.0000	1.0000	1.0000
Institutional ownership	17,508	0.5607	0.3199	0.2763	0.6025	0.8339
Firm size	17,508	5.9668	2.0398	4.4862	5.9079	7.3340
Book-to-market	17,508	0.6280	0.6192	0.2848	0.5053	0.8047
ROA	17,508	-0.0449	0.2564	-0.0332	0.0211	0.0671
Stock return	17,508	-0.0202	0.4957	-0.3097	-0.1052	0.1429
Earnings volatility	17,508	0.1498	0.2895	0.0229	0.0564	0.1500
Loss	17,508	0.3298	0.4702	0.0000	0.0000	1.0000
Class action litigation risk	17,508	0.2729	0.2608	0.0770	0.1750	0.3885

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

Table 2
Pearson Correlations
ForeignIssuerReportingEnhancements 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**	**0.08**	**-0.06**	**0.22**	**-0.06**	-0.01	0.00	**0.10**	**0.09**
FreqMF	**-0.05**	1.00	**0.43**	**0.44**	**-0.14**	**0.23**	-0.01	**-0.14**	**-0.27**	-0.00
Institutional ownership	**0.08**	**0.43**	1.00	**0.63**	**-0.11**	**0.27**	**-0.11**	**-0.21**	**-0.22**	**0.06**
Firm size	**-0.06**	**0.44**	**0.63**	1.00	**-0.33**	**0.36**	**0.03**	**-0.25**	**-0.40**	**0.12**
Book-to-market	**0.22**	**-0.14**	**-0.11**	**-0.33**	1.00	**0.04**	**-0.21**	**-0.13**	**0.14**	**-0.09**
ROA	**-0.06**	**0.23**	**0.27**	**0.36**	**0.04**	1.00	**0.14**	**-0.53**	**-0.60**	**-0.11**
Stock return	-0.01	-0.01	**-0.11**	**0.03**	**-0.21**	**0.14**	1.00	-0.00	**-0.15**	0.00
Earnings volatility	0.00	**-0.14**	**-0.21**	**-0.25**	**-0.13**	**-0.53**	-0.00	1.00	**0.33**	**0.16**
Loss	**0.10**	**-0.27**	**-0.22**	**-0.40**	**0.14**	**-0.60**	**-0.15**	**0.33**	1.00	**0.16**
Class action litigation risk	**0.09**	-0.00	**0.06**	**0.12**	**-0.09**	**-0.11**	0.00	**0.16**	**0.16**	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 Foreign Issuer Reporting Enhancements on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.1004*** (7.22)	-0.0796*** (6.28)
Institutional ownership		0.7536*** (29.83)
Firm size		0.0988*** (20.86)
Book-to-market		-0.0287*** (3.40)
ROA		0.0709*** (3.14)
Stock return		-0.0238** (2.12)
Earnings volatility		0.0557*** (2.88)
Loss		-0.2071*** (13.69)
Class action litigation risk		-0.0882*** (3.98)
N	17,508	17,508
R^2	0.0030	0.2504

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