Not All Critical Audit Matters (CAM) Are the Same: Anti-Herding Behavior in CAM Disclosures

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Abstract

Consistent with herding behavior, prior research generally finds little to no evidence of market reactions to the initiation of CAM disclosures in the audit report. We expand upon recent work to identify instances of anti-herding behavior in CAM disclosures, which we capture by examining topically distinct and textually dissimilar CAM disclosures. Consistent with anti-herding behavior, we first document that first-time CAM disclosures with these attributes result in greater equity market responses surrounding the release of the audit report, especially when accompanied by a weaker information environment, greater disclosure specificity, and heightened client litigation risk. Additional evidence indicates that these types of anti-herding CAM disclosures may create confusion among some market participants. We provide further support that distinct and dissimilar CAM disclosures reduce the information gap between auditors and investors by showing that these measures provide explanatory power in an audit fees model. Lastly, we document decreases in each of our measures from the year of CAM implementation to the second year, suggesting a trend towards boilerplate disclosures. Overall, our results provide novel evidence that CAM disclosures that "stick out" from the herd provide information to financial statement users and thus reduce the information gap between auditors and financial statement users.

1. Introduction

Critical Audit Matter (CAM) disclosures, which have been required in U.S. issuer 10-Ks since 2019, are intended to increase the auditor's communication with investors and creditors regarding significant risks uncovered during the audit (Christensen, Glover, and Wolfe 2014). In this paper, we seek to understand how anti-herding behavior in CAM disclosures affects the information gap between auditors and financial statement users. The information gap is defined as the gap between the information users desire and the information available through the audited financial statements, other corporate disclosures, and the auditor's report (Bédard, Coram, Espahbodi, and Mock 2016). Auditors can help reduce the information gap through communications about both the entity and its financial statements as well as the audit performed (Mock, Bédard, Coram, Davis, Espahbodi, and Warne 2013).[1] Regulators envision CAM disclosures as a way for auditors to communicate useful information about specific risks encountered in the audit and auditors' response to those risks, thereby reducing the information gap between auditors and financial statement users.

However, recent research reveals that audit partners strive to avoid "sticking out" (Dannemiller, Doxey, Hoang, and Houston 2025). Griffith, Rousseau, and Zehms (2025) interview audit partners and, based on the results of those interviews, develop four CAM "informal rules". The second rule is "conform to conventions," and they include an audit partner's quote, "All the firms were conscious about what everybody was doing, so when the CAMs started to get reported with some of those early off calendar year companies that had to early report, there was a lot of data that was being distributed…audit committees are very interested in this. How do we compare

[1] Mock et al. (2013) refer to demand for entity information as the information gap and demand for audit information as the communication gap. We employ the terminology from Bédard et al. (2016) and refer to the combination of the two as the information gap.

to others? … We don't expect them to be the same, but we expect them, I think, to be relatively close…I think, generally speaking, it was." Further, Dannemiller et al. (2025) interview partners from four of the Global 8 audit firms and identify "herding behavior" as prevalent in CAM implementation. The interviews indicate that a "sense of security and confidence" came from consistency in CAM reporting. The rationale in both Dannemiller et al. (2025) and Griffith et al. (2025) is consistent with Christensen, Neuman, and Rice (2019) who suggest that auditors attempt to avoid disclosure specificity consequent to client pressure. We refer to this behavior as "herding", in line with Dannemiller's (2025) terminology, as well as Banerjee's (1992) classic definition of "everyone doing what everyone else is doing" (Banerjee, pg. 798). Because managers and auditors strive for smooth and consistent CAM implementation with little variation from the norm, we conjecture that CAM disclosures that "stick out" are more likely to reduce the information gap than ones that follow herding behavior.

Prior literature documents several implications related to auditors' CAM disclosures. Experimental studies show that investors perceive increased risk levels in CAM disclosures (Christensen et al. 2014) and that the presence of KAMs in auditor reports directs financial statement users' attention to KAM-related disclosures (Sirois, Bédard, and Bera 2018).[2] In contrast, archival studies to date have provided mixed results, finding little evidence that CAM disclosures communicate new information to investors overall.[3] One rationale for the minimal market reactions is that some prior work treats CAM disclosures as a binary event, largely disregarding any qualitative variation in the disclosures. Many of these studies attribute the non-results to the possibility that the information contained is already known by investors (Lennox,

[2] KAM disclosures refer to Key Audit Matter disclosures required under international auditing standards. We distinguish between U.S.-based research and international research through our use of CAM vs. KAM.
[3] See, for example, Gutierrez, Minutti-Meza, Tatum, and Vulcheva 2018; Liao, Minutti-Meza, Zhang, and Zou 2019; Burke, Hoitash, Hoitash, and Xiao 2021; Minutti-Meza 2021.

Schmidt, and Thompson 2022) or management pressures that could incentivize auditors to report boilerplate information or obfuscate their disclosures (Christensen et al. 2014; Gimbar, Hansen, and Ozlanski 2016; Causholli and Sulcaj 2025). Another rationale for the minimal market reactions, as alluded to above, can be found in field studies by Dannemiller et al. (2025) and Griffith et al. (2025), which suggest that audit partners and managers prefer CAM disclosures that reflect herding behavior. Supporting this conjecture, we present evidence that CAM disclosures are trending towards boilerplate in the first three years of disclosure.

Our study is not the first to consider variation in CAM disclosures. Burke, Hoitash, Hoitash, and Xiao (2023) provide "limited initial evidence that the market reacts negatively when unexpected CAMs are disclosed" (Burke, et al., pg. 59). Burke, et al. identify 7 common types of CAMs and predict which ones would be expected for a sample of firms. Using a count variable, the authors predict the presence of CAMs in seven common areas and find that when firms disclose extra unexpected CAMs, there is a negative market reaction. Rousseau and Zehms (2024) investigate how auditor style is associated with KAM variation. Several other recent studies investigate how account-specific KAM disclosures (e.g., goodwill) relate to annual report disclosures (Andreicovici, Jeny, and Lui 2025). In contrast to prior work focusing on specific accounts or auditor-related differences, we attempt to identify textual attributes of CAM disclosures that are more likely to reflect anti-herding behavior. We define anti-herding behavior as instances where an auditor chooses to disclose something in the CAM that is sufficiently different from CAM disclosures in the client's industry that it "breaks from the herd".[4] We conjecture that anti-herding CAM disclosures reduce the information gap between auditors and

[4] This is different from the definition of anti-herding behavior sometimes used in the economics and finance literatures, which involves a decision to be different from the norm just to be contradictory (e.g., Levy 2004). In our study, we attribute anti-herding behavior to truthful communication of known risks that differ from others in the industry.

firm stakeholders and investigate whether these stakeholders respond to the potentially more informative disclosures by analyzing not only returns, but also information asymmetry. To evaluate the informativeness of anti-herding CAM disclosures, we examine two attributes that may reflect this behavior: topical distinctiveness and textual dissimilarity (or distinct and dissimilar CAM disclosures for short).

While the dissimilarity attribute is commonly used in capital markets research to measure information content within firm disclosures, topical distinctiveness is relatively new to both the audit and disclosure literatures and is motivated by the need to identify the types of CAM disclosures that fall outside industry norms. Thus, the first anti-herding CAM attribute we study, topical distinctiveness, is an industry-level construct. That is, for each industry, we consider accounts that are least frequently disclosed in a CAM as being topically distinct. Because many industries share similar risk profiles, there may be an expectation that firms within an industry have the same accounts identified in CAM disclosures.[5] Thus, we conjecture that distinct CAM disclosures, i.e., those that fall outside of conventional industry risk profiles, are more likely to convey new information about either the entity or the audit, thus reducing the information gap between auditors and financial statement users, as envisioned by regulators.

As an alternative to topical distinctiveness, we also consider a more conventional measure that relies on cosine similarity as our second anti-herding CAM attribute (Brown and Tucker 2011). This measure compares the entire text of a CAM for a given firm year to all other within-industry CAMs in the same year. We then rescale the measure (by taking its complement) to interpret the measure as within-industry *dis*similarity. Economists have long recognized that herding behavior occurs within groups such as industries in not only actions but in language used

[5] For example, a common account mentioned in CAM disclosures for banks is the allowance for loan losses. However, a CAM related to deferred tax allowances infrequently occurs within this industry.

in information disclosures and communication (see, e.g., Shiller 1995). Thus, within-industry dissimilarity in CAM disclosures provides a strong measure of anti-herding behavior.[6]

We begin by investigating our first set of formal hypothesis tests which examine whether the information conveyed by anti-herding CAM disclosures could be useful to equity investors. If the CAM disclosures we study represent value-relevant information for investors about the audit and associated risks that differ from the herd, we expect a greater equity market reaction when CAMs are more distinct or dissimilar. As discussed in Dannemiller et al. (2025), a greater equity market reaction to distinct or dissimilar CAMs is consistent with anti-herding behavior or "sticking out" in implementing CAM disclosures that stray from the herd.[7]

We document that first-time anti-herding CAM disclosures are associated with greater absolute abnormal returns surrounding the release of the auditor's report, which provides evidence in support of a reduced information gap. That said, the empirical design for these tests measures the innovation in the information provided to the market by the firm's *initial* CAM disclosures. As such, we conjecture that the information impounded by the market during the first year will carry little informational value in the following years if the same CAM is disclosed without change. As expected, we fail to find evidence in the subsequent two-year window when the same anti-herding CAM is disclosed.

In our second set of hypothesis tests, we conduct cross-sectional analyses on the equity market response to anti-herding CAM disclosures. We examine how the market reacts to anti-herding CAM disclosures in the presence of weaker firm information environments, greater

[6] While both the topical distinctiveness and textual dissimilarity measures are at the industry-level, the former is measured at the topic level whereas the latter considers the entire text of the CAM.

[7] Unlike Burke et al. (2023), we do not predict nor find a negative market reaction. Whereas they identify CAMs that may relate to additional risk, we identify a broader set of CAMs that may provide information that could be either positive or negative.

disclosure specificity, and heightened firm litigation risk. Focusing our attention on these areas allows us to respond to criticisms in the literature which suggest that CAMs carry little informational value and thus elicit little to no market response (i.e., because CAM information is already known, auditors avoid disclosure specificity, and/or litigation risk pressures dominate). We document a greater market response to anti-herding CAM disclosures when accompanied by lower analyst following, lower ability managers, greater disclosure specificity, or heightened client litigation risk.

Finally, in our third set of hypothesis tests we examine information asymmetry. Anti-herding CAM disclosures may represent an increase in perceived financial statement risk, as they disclose challenging areas of the audit or areas subject to significant management judgment (PCAOB 2013). Thus, distinct and dissimilar CAM disclosures could produce an increased level of confusion among some investors precisely because they go against the herd. On the other hand, the information conveyed by the CAM disclosures could be perceived as clarifying rather than confusing, which is the position taken by the PCAOB in its 2013-005 release. Our evidence indicates that anti-herding CAM disclosures may confuse investors, as we find an increase in bid-ask spreads.

To provide supporting evidence that anti-herding CAM disclosures reduce the information gap, we supplement our hypothesis testing by investigating their association with audit fees. Audit fees measure the level of effort put forth by the auditor, and the audit literature has developed fee prediction models that capture publicly available information correlated with audit effort (Hay, Knechel, and Wong 2006). If anti-herding CAM disclosures reduce the information gap and provide new information about the audit because they go against the herd, then they should provide additional explanatory power in an audit fees model for at least two reasons. First, if the CAM

disclosure reflects atypical industry risks, the presence of a distinct or dissimilar CAM may disclose information about additional required audit effort not captured by traditional fee models. Second, if distinct or dissimilar CAM disclosures capture significant entity-level risks discovered by the auditors during the audit, auditors may charge additional fees for their efforts.

Given the preceding discussion, we find that distinct and dissimilar CAM disclosures are associated with increased audit fees throughout our sample period, suggesting that our anti-herding CAM disclosures proxy for information about the audit that was previously uncaptured by other measures used in traditional audit fees models. Thus, anti-herding CAM disclosures appear to communicate additional information about the audit, providing additional support for our claim that these anti-herding CAMs reduce the information gap between auditors and stakeholders.

Our study answers the call from prior literature to investigate specific attributes of CAM disclosures. Recent CAM literature asserts that audit partners claim to desire herding behavior in CAMs (Dannemiller et al. 2025; Griffith et al. 2025). To the best of our knowledge, this is the first study to demonstrate that anti-herding CAM disclosures that "stick out" provide information to financial statement users. Importantly for regulators, over 25% of the first-year CAMs in our study exhibit elements of anti-herding behavior. For example, our measure of distinctiveness demonstrates that over 25% of CAMs cover topics that are included on less than 15% of companies within the client's industry. As such, our results are reflective of a meaningful proportion of both companies and CAM disclosures, thus providing strong evidence that CAMs reduce the information gap between auditors and investors. Taken as a whole, the body of evidence we offer may be of interest to researchers investigating the effects of CAM disclosures, auditors considering whether CAM disclosures matter to financial statement users, and regulators who prescribe CAM

disclosures as a means for auditors to provide information about specific audit risks to financial statement users.

2. Background and Related Literature

2.1 Audit Reports

Audit reports began as a method to communicate credibility to financial statement users (Church, Davis, and McCracken 2008). As audit reports provide assurance over the financial statements, the audit report conveys value to investors (Abad, Sánchez-Ballesta, and Yagüe 2017) and is the only public communication made by an auditor to financial statement users. Over time, audit reports have been subject to several criticisms. Mock et al. (2013) summarize the audit report shortcomings literature in three primary categories: 1) the difference between what users desire to know about the entity and what information is available to them through the financial statements and auditor's report; 2) the difference between what users expect from auditors and what auditors are responsible for; and 3) the difference between what users desire to know about the audit and what information is communicated by assurance providers. Bédard et al. (2016) argue that CAM disclosures provide both detailed information about the entity (i.e., description of the matter) as well as the audit process (i.e., the auditor's response) and refer to the combination of Mock et al.'s (2013) first and third types of desired, yet missing, information as the *information gap*. Thus, CAM disclosures can potentially reduce this gap, especially if they go against the herd.

Auditors perform many tests over the financial reports but limit their report to a standardized pass/fail (unqualified/modified) report (Mock et al. 2013). As a result of the vast extent of audit information that is not communicated in the standard audit report, Christensen et al. (2019) document that binary audit reporting (pass/fail) results in significant losses relating to specific entity and audit-related information. CAM disclosures are one of the many proposed solutions for

the information gap. During the audit, auditors identify accounts or disclosures that represent especially challenging or subjective risks (PCAOB 2017). These matters, including the account(s) and/or disclosure(s) involved, are required to be disclosed in the audit report as a CAM, with a description of why it was identified as well as what steps the auditors took in response (PCAOB 2017).

Another aspect of the audit report that has received criticism in the literature is the pressure placed on auditors to avoid unique disclosures and thus stick with the herd. DeAngelo (1981) and Watts and Zimmerman (1983) suggest that management pressures on auditors may lead to a failure in reporting a breach in a client's accounting system. Management is aware of the costs associated with modified audit reports (DeFond and Zhang 2014), and auditors are incentivized to avoid detailed CAM disclosure that could increase their legal liability (Gimbar et al. 2016). The pressures placed on auditors to withhold information are a threat to independence. Relating to CAM disclosures specifically, the PCAOB addressed these potential pressures in their 2013 release by noting that while the auditor-client relationship may be impaired, the auditor-audit committee and auditor-investor relationships will benefit from the additional disclosure requirements (PCAOB 2013).

2.2 Regulatory Objectives

To address historical audit report weaknesses, the PCAOB has conducted several exploratory surveys to determine what types of information may be valuable to investors (PCAOB 2013). From their investigations, the PCAOB concluded that auditors gather substantial information throughout their audit procedures, and investors value additional information to build an appropriate risk assessment of a firm. Specifically, the PCAOB proposal of the CAM standard (2013) argues CAM disclosures, "… provide investors and other financial statement users with

potentially valuable information that investors have expressed interest in receiving but have not had access to in the past." These statements are consistent with the IAASB (2011) Consultation Paper, which emphasizes the existence of an information gap and suggests that enhanced audit report disclosures could reduce the information gap, leading to the issuance of an enhanced international audit reporting standard (IAASB 2015). As a result, the PCAOB has mandated CAM disclosures to reflect auditor assessments that "(1) involved the most difficult, subjective, or complex auditor judgments; (2) posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to the auditor in forming the opinion on the financial statements" (PCAOB 2017).

These requirements apply to large-accelerated filers with fiscal year ends after June 30, 2019, and all other filers after December 15, 2020 (PCAOB 2017). The CAM initiative is intended to improve information quality and reduce the information gap by increasing the amount of disclosure independent of management to assist investors in capital allocation and risk assessment.

2.3 Early CAM Findings

Several experimental papers investigate CAM disclosures to examine their informativeness to investors, association with audit quality, and similarity across audit partners/offices. According to Elliott, Fanning, and Peecher (2020), CAM disclosures should increase the value of the audit report for investors, as such disclosures provide a higher level of commitment to financial reporting quality. As a result, providing insights on especially challenging, subjective, or complex areas of the audit increases transparency to investors (PCAOB 2017) which aids in valuation. In contrast, Christensen et al. (2014) suggest that CAM disclosures may be unintentionally signaling risk to investors, which could lead to investor confusion and make investors less willing to invest.

Consistent with uncertainty, several international and domestic archival studies demonstrate a lack of investor response to CAM disclosures.

Internationally, Gutierrez et al. (2018) utilize a sample from the United Kingdom and find no evidence that risk of material misstatement (RMM) disclosures, a form of expanded audit report, impact investors' valuation decisions nor do they affect audit quality. Liao et al. (2019) find similar results using a sample of KAM disclosures from Hong Kong. A common explanation for the lack of results is that such disclosures are largely predictable and boilerplate. Lennox et al. (2022) examine RMM disclosures and conclude that investors are already largely aware of the types of issues mentioned in the disclosure, supporting the concern that expanded reporting is not informative and exhibits herding behavior. On the other hand, consistent with the notion that expanded disclosures communicate information, Lei and Shu (2023) provide evidence that tax-related KAM disclosures increase the tax visibility, with their results specifically driven by firms with an opaquer tax environment pre-KAM disclosure. Furthermore, Andreicovici et al. (2025) find an increase in the quantity of disclosure in the goodwill section of firms' annual reports as well as more references to goodwill impairment throughout the report in the presence of a related KAM. Porumb et al. (2021) investigate the syndicated loan market and find that RMM disclosures provide information useful in the evaluation of potential borrowers. Specifically, compared to firms with no RMMs, adopting firms benefited from lower loan spreads and longer maturities. They interpret these findings as evidence that expanded audit reports enhanced the information environment for creditors. Rousseau and Zehms (2024) find that KAM disclosure variation is associated with audit firm, partner, and industry characteristics. In a domestic setting, there is some early evidence in the United States that is focused on large-accelerated filers. For example, Burke

et al. (2023) provide limited initial evidence that "extra" CAM disclosures, which they characterize as unexpected, are viewed negatively by investors.

Given the preceding discussion, two prevailing views in the literature regarding investor non-response emerge: consistent with herding behavior, CAMs provide only boilerplate language, and/or the information they intend to convey is already largely known by investors. SEC Chair Jay Clayton summarizes the first concern concisely as, "If it results in quality, I'll be happy…And if it results in boilerplate, I'll be really bummed out."[8] This concern is echoed by Brasel, Doxey, Grenier, and Reffett (2016) who document auditor incentives to report boilerplate CAMs to both avoid risk and satisfy management. On the second concern, Lennox et al. (2022) indicate that investors are largely aware of such disclosures by either industry norm, analyst reports, management disclosures, or other sources of information prior to the audit report release. Because prior research has largely treated CAM disclosures as a binary and homogenous event (Gutierrez et al. 2018; Liao et al. 2019), there has been little research into how investors perceive CAM disclosures that are in some way different, i.e., go against the herd, from what would be expected for the firm or its industry.[9]

3. Hypothesis Development

A CAM is intended to convey information underlying the judgments made by auditors during the audit process with respect to material accounts or disclosures. Therefore, a CAM could provide new information about the audit or call attention to accounting information already appropriately disclosed in the 10-K (e.g., Risk Factors or Critical Accounting Policies). For

[8] https://cooleypubco.com/2017/12/06/boilerplate-cams-in-auditors-reports-that-would-be-a-bummer-man/

[9] Burke et al. (2023) is a notable exception. While they state "We do not find evidence of a significant market reaction following the U.S. CAM regulation…" they document limited binary evidence suggesting that the market reacts negatively to CAM disclosures when their logit model predicts non-disclosure. However, the implementation of their disclosure prediction model limits its generalizability. See Appendix C for further details.

example, a CAM could discuss, *inter alia*, audit evidence obtained, audit effort required, auditor subjectivity, transaction risk, estimation risk, measurement uncertainty, or misstatement risk (PCAOB 2019). While the CAM is meant to convey a greater amount of narrative detail than a standard audit report, some CAMs may opine on risks associated purely with assurance and control whereas others may emphasize accounting risks that reflect greater business or operational risks. For example, with respect to the latter, a firm and its auditors may discuss and challenge the assumptions behind goodwill impairment tests as they involve substantial subjectivity and uncertainty with respect to the value of the reporting unit.

While a CAM is intended to focus on audit risk, it is possible that the risks discussed could reflect broader firm complexity and/or risk. As a result, an investor reading the CAM could either obtain new information about the audit from the CAM or be drawn to salient issues raised in the CAM that were previously disclosed elsewhere but glossed over by investors. However, if the information about the audit or the financial statements revealed in the CAM is largely expected, there may be no reaction from firm stakeholders. Similarly, firms with similar CAMs may have similar operations and disclosures, as such their disclosures are less informative overall (De Franco et al. 2011, Gong et al. 2013). Alternatively, if the information is truly new, it may create additional valuation uncertainty for financial statement users and prompt valuation and investment concerns (Christensen et al. 2014). However, if the information clarifies known risks, the CAM could reduce valuation uncertainty for financial statement users. In either case, the information gap is narrowed since financial statement users have additional information to use in their valuation assessments. In sum, the nature of the information conveyed could either create more or less information uncertainty given the possibility of differential interpretations (Kim and Verrecchia 1991; Barron, Byard, and Kim 2002).

3.1 Equity Market Response

Consistent with herding behavior, prior research on the overall effects of CAM and KAM disclosures generally finds no significant reaction by auditors, in terms of effort or quality, nor by the financial markets (Gutierrez et al. 2018; Liao et al. 2019). These findings motivate the need to qualitatively differentiate among CAM disclosures to identify those which may be informative. On the one hand, variation in CAM topic or linguistic content could represent a non-meaningful difference in word choice or terminology used across audit firms, industries, or clients. If this is the case, we would expect little difference in the information content across CAM disclosures. On the other hand, variation in CAM topics or linguistic content may convey a higher degree of information pertaining to either the audit or the entity being audited. If this is the case, we would expect to see some difference in the information content across CAM disclosures.

If informative CAM disclosures can be identified, we expect to observe a reaction in the equity market to these disclosures, as the information revealed could be helpful in forming investors' valuation assessments that drive their investment decisions. While most CAM disclosures relate to accounts that stakeholders expect to be disclosed (i.e., on the basis of industry norms or prior management disclosure), some CAM disclosures cover topics that may be unexpected. For example, nearly every firm in the banking industry has a CAM related to the allowance for loan losses; however, few firms have disclosures related to deferred taxes. While it is possible that a bank may fully disclose its specific deferred tax risks in prior filings, it is also possible that these less common CAM disclosures may represent previously unknown or less salient information and thus reduce the information gap. Because they reflect anti-herding behavior, we predict topically distinct and/or textually dissimilar CAM disclosures will be valuable to investors in making their valuation assessments and will thus move market price. Hence, we predict that greater levels of distinctiveness and dissimilarity in CAM disclosures will reduce the

information gap and be associated with a greater equity market reaction.[10] We state our first hypothesis in the alternative form as follows:

> **H1: Equity market investors react more to CAM disclosures with anti-herding attributes.**

3.2 Cross-Sectional Tests of Equity Market Response

As noted previously, archival studies have found little evidence that CAM disclosures communicate new information to investors (e.g., Gutierrez al. 2018 and Liao et al. 2019). One rationale put forward for the minimal reactions is that some prior work treats CAM disclosures as a binary event, largely disregarding any qualitative variation in the disclosures. Another rationale is that managers and audit partners prefer herding behavior so as to not "stick out" from the crowd and draw the ire of investors or regulators (Griffith et al. 2025). As indicated in the development of H1 above, we aim to overcome this limitation in prior literature by specifically focusing on two anti-herding CAM attributes that may reveal new information to the markets and its various participants. Many of the prior studies in this literature conjecture that the observed non-results may be due to the information conveyed by the CAM being already known by investors (Lennox et al. 2022), auditors attempting to avoid disclosure specificity (Christensen et al. 2019), or auditor litigation risk pressures (Gimbar et al. 2016, Blay 2005). We assert that anti-herding CAM disclosures are particularly relevant to investors in the conjectured circumstances noted by these studies. Therefore, we explicitly test these three conjectures from prior literature by examining how the equity market reacts to the anti-herding CAM disclosure attributes we study in the

[10] We do not make a directional prediction on market reaction. CAM disclosures represent risks identified by the auditors that required special consideration but generally did not result in a report modification. Therefore, CAM disclosures indicate that auditors obtained sufficient, appropriate evidence related to the area of CAM disclosure. Thus, it is unclear whether a CAM disclosure would increase or decrease the risk perceptions of market participants.

presence of weaker firm information environments, greater disclosure specificity, and heightened firm litigation risk.

First, we expect that anti-herding CAM disclosure attributes may be more impactful to market participants for firms where information is not impounded rapidly, which suggests that the information is not already known by investors (Lang and Lundholm 1996). Second, we expect that anti-herding CAM disclosure attributes may be more likely to draw the attention of market participants when CAMs provide more quantitative disclosure, which is an indication of greater disclosure specificity (Blankespoor 2019). Third, Blay (2005) suggests that auditors perceive higher litigation risk when their clients faced increased litigation risk. While some prior research suggests that auditors may avoid CAM disclosures when facing litigation risk against themselves (see for example Gimbar et al. 2016), prior literature in the going concern setting documents that auditors protect themselves from litigation exposure through a higher propensity to issue going-concern audit opinions when client litigation risk is higher (Kaplan and Williams 2013, Blay 2005). Thus, we expect that CAM disclosure attributes that go against the herd may be more likely to convey greater informational credibility when client litigation risk is heightened (Khurana and Raman 2004). We state our second hypothesis in the alternative form as follows:

> **H2: In the presence of a *weaker firm information environment*, *greater CAM specificity*, or *heightened firm litigation risk*, equity market investors exhibit an *incrementally greater* reaction to CAM disclosures with anti-herding attributes.**

3.3 Information Asymmetry

In line with the PCAOB's regulatory objectives, we next examine the relation between CAM disclosures and information asymmetry, that is, the differential interpretation of information among different groups of financial statement users (Kim and Verrecchia 1991, Amiram et al., 2016). Prior literature has expressed concerns that CAM disclosures may be confusing to some

investors. As noted previously, prior literature suggests that CAM disclosures may lead to investor confusion and signal unnecessary risk to investors (Christensen et al. 2014). CAM disclosures may represent an increase in perceived financial statement risk, as they disclose challenging areas of the audit or areas subject to significant management judgment (PCAOB 2013). Thus, distinct and dissimilar CAM disclosures could produce an increased level of confusion among some investors because they are outliers and violate the fourth rule of Griffith et al. (2025), "avoid surprises." On the other hand, the new information conveyed by CAM disclosure attributes we study could be perceived as clarifying rather than confusing, which is the position taken by the PCAOB in its 2013-005 release. In an IPO setting, Kaplan, Taylor, and Williams (2020) find that both going concern reports and explanatory language relating to going concern reduce information uncertainty. More generally, Healy and Palepu (2001) suggest that auditors can increase the quality of disclosures, which in turn reduces the information asymmetry between investors. That is, increasing the quality and quantity of information available to the market enables a more complete assessment of the underlying economics of the firm (Roychowdhury, Shroff, and Verdi 2019).

Given the countervailing arguments above, we do not make a directional prediction and thus state our third and final hypothesis in null form as follows[11]:

H3: CAM disclosures with anti-herding attributes are unassociated with information asymmetry.

4. Sample Selection and Research Design

4.1 Sample Selection

[11] Because it is *ex ante* unclear how non-conforming CAM disclosures affect information asymmetry (unlike the information gap), we do not make cross-sectional predictions following H3.

We utilize the Audit Analytics Critical Audit Matters database to obtain every critical audit matter disclosure filed from June 30, 2019 (the implementation date for large-accelerated filers) to March 31, 2022, which allows for most public filers to have at least three filings with CAM disclosures. Next, we separate each disclosure by heading and follow the categorization of Audit Analytics and Burke et al. (2021) to group CAM disclosures by common type.[12]

To measure topical distinctiveness, we first calculate the frequency of each CAM topic at the two-digit SIC industry level. We then compute our variable of interest (*Distinct*) as one minus the topic frequency, such that higher values are more distinct (less frequent) within the industry. For example, assume there are *i* topics identified within an industry *j* in a given year. We first sum the number of CAM disclosures across all firms that fall under topic *i* within an industry, n_i. We then divide n_i by the total number of firms (N_j) within an industry-year to obtain the industry-level frequency of occurrence for each topic, n_i / N_j. Next, we transform the frequency into its complement by taking $1 - n_i / N_j$, where higher values represent more distinct (i.e., less frequent) CAM disclosures. We provide an example industry calculation in Appendix C.

To measure textual dissimilarity, we employ cosine similarity (Brown and Tucker 2011). That is, we take a given firm's CAM and compare it to every other CAM within the same year and industry at the two-digit SIC industry level. We then take the average of the pairwise similarity scores and subtract the average from 1 to arrive at our variable of interest (*DisSim*), where higher values represent greater textual dissimilarity within the industry. In terms of comparing and contrasting the different measures, *Distinct* and *DisSim* are both industry-level constructs. *Distinct* measures how unique a given CAM *topic* is for a firm compared to the rest of the CAM topics in

[12] Please refer to Appendix B for grouping. We base our grouping on Burke et al. (2021); however, their analysis is limited to CAM disclosures that are the most common, whereas we examine all CAM disclosures, regardless of frequency. Thus, our categorization is more extensive.

an industry-year. *DisSim* compares the *entire text* of each CAM to assess how dissimilar or unique the entire text of the CAM is compared to the rest of the CAMs in an industry-year.

In any given firm year, a firm can have multiple CAMs representing different topics or accounts (see Appendix B). Because we are interested in studying the most distinct and dissimilar CAMs in a given firm year, we focus our investigation on these CAMs in the final sample for analysis.[13] That is, for our tests using topical distinctiveness, we retain only the *most* distinct CAM for any given firm year. For our tests using textual dissimilarity, we retain only the *most* dissimilar CAM for any given firm year. All continuous variables are winsorized at the 1st and 99th percentiles. As shown in Table 1, our resulting sample is 4,552 firm-year observations for our audit fees tests, 6,906 firm-year observations for our equity market tests and 6,870 firm-year observations for our information asymmetry tests. We present our descriptive statistics in Table 2 Panel A. Additionally, we present our Pearson correlations in Table 3.

A reasonable way to demonstrate auditor knowledge and herding behavior is to document fewer distinct and less diverse disclosures over time. This evidence would show that CAM disclosures herd toward more standard responses and would corroborate the qualitative evidence presented in Griffith et al. (2025). As such, we perform tests comparing distinct and dissimilar CAMs between the first year of filing (our test year) and the next two years of filings. We present this analysis in Panel B of Table 2, and we find evidence that second-year CAMs are more boilerplate in both measures.

4.2 Research Design

4.2.1 Tests of H1: Equity Market Response

[13] In untabulated analysis, our inferences remain unchanged when using the firm-year *average* CAM attribute.

Our first formal hypothesis examines the relation between anti-herding CAM disclosure attributes and the equity market's reaction to the audit report. We use the absolute value of cumulative abnormal returns (*CAR)* to measure the equity market's reaction. We use the absolute *CAR* instead of a signed or directional *CAR* because we do not have priors on whether a CAM will convey bad or good news to the market as a whole. We include an indicator for the first year of disclosure, and our variable of interest is the interaction of the first year of disclosure and our measure of informativeness. We follow an augmented version of the model found in Gutierrez et al. (2018) to test H1:

$$
\begin{aligned}
|CAR_t| = {} & \alpha_0 + \beta(Distinct|DisSim)*First\_year + \alpha_1(Distinct|DisSim) + \alpha_2 First\_year_t + \alpha_3 MW_t + \\
& \alpha_4 RESTATED_t + \alpha_5 GC_t + \alpha_6 RF\_COS_t + \alpha_7 ACCPOL\_COS_t + \alpha_8 LIT\_RISK_t + \\
& \alpha_9 UNCERTAINTY_t + \alpha_{10} STRONG\_MODAL_t + \alpha_{11} LITIGIOUS_t + \alpha_{12} LnMKT_t + \alpha_{13} ROA_t \\
& + \alpha_{14} LOSS_t + \alpha_{15} MTB_t + \alpha_{16} LEV_t + \alpha_{17} LAG_t + \alpha_{18} CHNI_t + \alpha_{19} BETA_t + \alpha_{20} EARCAR_t \\
& + \alpha_{21} FORM10K_t + \alpha_{22} SALEGRTH_t + Auditor\ \&\ Industry\ FEs + \epsilon
\end{aligned} \tag{1}
$$

We augment the Gutierrez et al. (2018) model to further control for potentially correlated omitted variables pertaining to firm risks (e.g., *MW*, *GC*, *RESTATED*) and related disclosures (e.g., *RF_COS*, *ACCPOL_COS*, *UNCERTAINTY*, *STRONG_MODAL*, etc.) that could influence inferences in our setting. Please refer to Appendix A for variable definitions. A positive association between our measures for distinct and dissimilar CAM disclosures and *CAR* would indicate that investors find these particular types of CAM disclosures to be informative.

4.2.2 Tests of H2: Cross-Sectional Tests of Equity Market Response

As discussed previously, many of the prior studies in the CAM literature conjecture that the documented non-results may be due to the information conveyed by the CAM being already

known by investors (Lennox et al. 2022), auditors attempting to avoid disclosure specificity (Christensen et al. 2019), or litigation risk pressures (Blay 2005; Kaplan and Williams, 2013). Motivated by these studies, our second formal hypothesis extends our first hypothesis to examine several cross-sectional tests on the relation between anti-herding CAM disclosure attributes and the equity market's reaction to the audit report. We employ the same model specified in H1 above though modified in two ways. First, we retain only the first year of CAM disclosures because the first year of disclosure is most likely to provide new information to investors. Second, we incorporate the cross-sectional variables of interest (*Analyst_Following*, *MA_Score #Numbers*, and *Lit_Risk*) to test H2. *Analyst_Following* is an indicator variable equal to 1 if a firm is in the bottom quartile of analyst coverage, *MA_Score* is the measure of managerial ability as calculated in Demerjian, Lev, and McVay (2012), *#Numbers* is a continuous variable that measures the amount of quantitative disclosure in the CAM, and *Lit_Risk* is the continuous client litigation risk measure from Kim and Skinner (2012).

We use *Analyst_Following* as our first proxy for weaker firm information environments under the assumption that the anti-herding CAM disclosure attributes we study are more likely to convey previously unknown information to investors in environments where information is impounded slowly (Bhushan 1989, Lang and Lundholm 1996). Additionally, we use *MA_Score* as a second proxy for the firm information environment, given that prior research suggests higher ability managers contribute positively to the overall information environment (Demerjian and Lev 2019). We use *#Numbers* to proxy for greater CAM disclosure specificity under the assumption that the CAM attributes we study are more likely to draw investor attention when CAMs provide greater quantitative disclosure (Blankespoor 2019, Zhou et al. 2025). We use *Lit_Risk* to proxy for heightened firm litigation risk under the assumption that the CAM attributes we study are more

likely to convey greater informational credibility for investors under such circumstances. Thus, we predict that the CAM disclosure attributes we study will be more informative to market participants in cases where the firm does not have a robust information environment (*Analyst_Following*CAM Attribute>0 and MA_Score*CAM Attribute<0*), conveys greater disclosure specificity (*#Numbers*CAM Attribute>0*), or exhibits heightened litigation risk (*Lit_Risk*CAM Attribute>0*).

4.2.3 Tests of H3: Information Asymmetry

Our third hypothesis examines the relation between distinct and dissimilar CAM disclosures and information asymmetry among market participants. To proxy for information asymmetry among market participants we use bid-ask spreads. We estimate spreads following Corwin and Schultz (2012), who show that the ratio of high to low equity prices reflects both the stock's fundamental volatility and its bid-ask spread. Thus, we calculate *SPREAD* following their estimator, which relies on the squared log of the ratio of daily high to low prices. We initially test H3 with the following model:

$$\begin{aligned} SPREAD_t = {} & \alpha_0 + \beta(Distinct|DisSim)*First\_year + \alpha_1(Distinct|DisSim) + \alpha_2 First\_year_t + \\ & \alpha_3 MW_t + \alpha_4 RESTATED_t + \alpha_5 GC_t + \alpha_6 RF\_COS_t + \alpha_7 ACCPOL\_COS_t + \\ & \alpha_8 LIT\_RISK_t + \alpha_9 UNCERTAINTY_t + \alpha_{10} STRONG\_MODAL_t + \alpha_{11} LITIGIOUS_t + \\ & \alpha_{12} LnMKT_t + \alpha_{13} ROA_t + \alpha_{14} LOSS_t + \alpha_{15} MTB_t + \alpha_{16} LEV_t + \alpha_{17} LAG_t + \alpha_{18} CHNI_t \\ & + \alpha_{19} BETA_t + \alpha_{20} CAR_t + \alpha_{21} FORM10K_t + \alpha_{22} SALEGRTH_t + \alpha_{23} PRICE_t + \\ & \alpha_{24} VOLUME_t + Auditor\ \&\ Industry\ FEs + \epsilon \end{aligned} \quad (2)$$

We augment Equation 2 following Amiram et al. (2016) to include *PRICE* (which controls for market makers' processing costs (Huang and Stoll 1997)) and *VOLUME* (which controls for inventory risk). We also replace earnings announcement abnormal returns with annual report abnormal returns. Please refer to Appendix A for variable definitions. A positive (negative)

association between our measures for distinct and dissimilar CAM disclosures and *SPREAD* would indicate an increase (a decrease) in information asymmetry.

5. Empirical Results

5.1 Equity Market Response

5.1.1 Cumulative Abnormal Returns (H1)

Table 4 presents the results of our tests on the equity market reaction to distinct and dissimilar CAM disclosures. In Column 1 we focus on distinct CAM disclosures or topical distinctiveness (*Distinct*), and in Column 2 we focus on dissimilar CAM disclosures or textual dissimilarity (*DisSim*). The dependent variable is *CAR*, which is the 3-day (-1,+1) cumulative abnormal return centered on the annual report filing date. Because we do not make directional predictions for CAM disclosures, we examine the absolute market price reaction.

Consistent with H1, in Table 4, we find in Column 1 that the coefficient on *Distinct*First_year* is positive (0.033) and statistically significant *(t=6.10, p<0.01*). Consistent with H1, in Column 2, we find that the coefficient on *DisSim*First_year* is positive (0.085) and statistically significant (*t=4.33, p<0.01*). These results suggest a greater absolute equity market reaction the more distinct or dissimilar firms' first-time CAM disclosures are within an industry. In both columns, the main effects of *Distinct* and *DisSim* are insignificant, which suggests once the adoption year CAM information is impounded into investors' information sets, the information conveyed by the same CAM in the following years is unlikely to move the market's beliefs. In sum, the evidence presented in Table 4 suggests that not all CAM disclosures are created equally since first-time CAM disclosures that deviate from the herd appear to carry informational value for the equity market as a whole.

5.1.2 Cross-Sectional Returns Analysis (H2)

In Table 5, we provide several cross-sectional analyses across four panels. In all four panels, we continue to focus on the equity market response to CAM disclosure attributes. Given the results of Table 4, which suggest that CAM disclosures are most relevant in the first year of disclosure, we retain only the first year of observations in this table. However, we extend the results found in the prior table to interact our CAM disclosure attributes with *Analyst_Following* in Panel A, *MA_Score* in Panel B, *#Numbers* in Panel C, and *Lit_Risk* in Panel D. As discussed previously, we anticipate that CAM disclosures with attributes that deviate from the herd will be more informative to market participants in cases where the firm does not have a robust information environment, conveys greater disclosure specificity, or exhibits heightened litigation risk.

In Panel A of Table 5, we find a greater equity market response to distinct, but not dissimilar, CAMs with a lower analyst following. In Panel B, we find a greater equity market response to distinct and dissimilar CAMs when the managers have a lower ability.[14] These findings suggests that market participants find these types of CAMs more informative relative to firms where the information environment is more robust. In Panel C, we find a greater equity market response to distinct, but not dissimilar, CAMs in the presence of greater disclosure specificity. This finding suggests that investors are drawn to CAMs that exhibit a greater number of quantitative disclosures. In Panel D, we find a greater market response to distinct and dissimilar CAMs when litigation risk is heightened. These findings suggest that CAM disclosures convey more credibility to external stakeholders in the presence of heightened firm litigation risk.

[14] The measure of managerial ability, obtained from the authors of Demerjian et al. (2012), increases with the managers' ability. In Panel B of Table 5, our interaction of the *MA_Score* has a negative coefficient, suggesting a weaker market response as the manager's ability increases. We interpret this result in line with our hypothesis, that the market reaction is *increasing* as the managerial ability *lowers*.

Collectively, and consistent with H2, the findings of our cross-sectional analyses extend prior CAM studies which suggest that the previously documented non-results in the CAM literature may be due to CAM information already being known by investors, auditors attempting to avoid disclosure specificity, or auditor litigation risk pressures. Namely, we show in several cross-sectional contexts that anti-herding CAM disclosure attributes can convey incrementally meaningful information to investors in circumstances where information is not impounded rapidly, CAM disclosures provide greater disclosure specificity, and firm litigation risk is heightened.

5.2 Information Asymmetry (H3)

We next turn our attention to information asymmetry among market participants in Table 6. The general format of this table is similar to the prior table insofar as we continue to examine our independent variables of interest—*Distinct* and *DisSim*—but we now focus on bid-ask spreads as our dependent variable. Following Corwin and Schultz (2012), we calculate the one-day bid-ask spread as of the CAM filing date. A negative coefficient indicates narrowing bid-ask spreads, which reflects improvements in information asymmetry among market participants.

In Column 1 of Table 6, we find that the coefficient on *Distinct*First_year* is significantly positive (*t=2.49, p<0.02*). In Column 2, we find that the coefficient on *DisSim*First_year* is positive (0.021) and statistically significant (*t=2.24, p<0.03*). This result suggests an increase in bid-ask spreads the more distinct or dissimilar firms' CAM disclosures are within an industry, indicating an increase in information asymmetry among market participants. In sum, the evidence presented in Table 6 rejects the null of H3 and supports the view that some market participants may be confused by CAM disclosures that deviate from the herd. Similar to the results in Table 4, we do not find evidence of an association with any of our measures beyond the first year, as captured by the main effects. Note that this result is not inconsistent with our findings for H1 and

H2. H1 and H2 document that first-time anti-herding CAM disclosures provide new information to the market. The results for bid-ask spread indicate that this new information may be difficult for some investors to interpret.

5.3 Audit Fees Analysis

Auditing research suggests that auditors vary in levels of effort based on company needs (Simunic 1980, 1984; Francis 1984). Researchers have used audit fees to proxy for the level of service or effort provided to the client (Whisenant, Sankaraguruswamy, and Raghunandan 2003; Blankley, Hurtt, and MacGregor 2012; Zhao, Bedard, and Hoitash 2017) and for audit quality (Blankley et al. 2012; Zhao et al. 2017). Audit fees models include various factors that incorporate effort-level variations, such as client complexity and identifiable risk measures (size, segments, balance of receivables, etc.), which gives audit fees models a high degree of explanatory power (Francis, Reichelt, and Wang 2005). However, many of these prior papers acknowledge limitations to academics' abilities to observe more nuanced measures of audit or entity-level information from the point of view of the auditor.

Traditionally, auditor reports contain minimal information about firm-specific issues or about how the auditors addressed these issues during the audit. This lack of specific details surrounding the audit process of gathering information and performing procedures, which is eventually condensed down into a binary pass/fail audit report, is often referred to as the audit information gap (Bédard et al. 2016). CAM disclosures provide the auditor the opportunity to close this information gap. If auditors choose to provide financial statement users with information about the audit that is not available elsewhere in the financial statements, CAM disclosures could provide incremental information about auditor effort, especially those which convey anti-herding

attributes. Thus, CAM disclosures may present an opportunity to identify more granular levels of effort unobservable with prior data.

Firms with similar historical characteristics associated with audit fees, such as size and operating segments, yet more distinct or dissimilar CAM disclosures may present additional information on the nature of audit procedures required to obtain reasonable assurance for the audit opinion. Moreover, in the presence of management incentives to avoid disclosures, auditors may expend additional effort to overcome management pressure in order to provide higher quality audits (Christensen et al. 2016; Geiger, Raghunandan, and Rama 1998; Blay and Geiger 2013; Carcello and Neal 2003). Clients with more topically distinct or textually dissimilar CAM disclosures may represent disclosure of entity information previously unobservable with concurrent archival data. Therefore, if anti-herding CAM disclosures reduce the information gap and provide additional information about the conduct of the audit, they should be positively associated with auditor effort, which we proxy for using audit fees. To conduct our tests, we use an augmented audit fees model following prior literature (Hay et al. 2006; Cairney and Stewart 2015; Berglund 2019) and remove financial and regulated industries (Cairney and Stewart 2015), as follows:

$$\begin{aligned} LnAF_t = {} & \alpha_0 \beta(Distinct|DisSim)*First\_year + \alpha_1(Distinct|DisSim) + \alpha_2 First\_year_t + \alpha_3 MW_t + \\ & \alpha_4 RESTATED_t + \alpha_5 GC_t + \alpha_6 RF\_COS_t + \alpha_7 ACCPOL\_COS_t + \alpha_8 LIT\_RISK_t + \\ & \alpha_9 UNCERTAINTY_t + \alpha_{10} STRONG\_MODAL_t + \alpha_{11} LITIGIOUS_t + \alpha_{12} FORM10K_t + \\ & \alpha_{13} LnASSETS_t + \alpha_{14} LnEMPL_t + \alpha_{15} LnSEG_t + \alpha_{16} LnFOREIGN_t + \alpha_{17} INV_t + \alpha_{18} REC_t \\ & + \alpha_{19} ROA_t + \alpha_{20} LOSS_t + \alpha_{21} EXIT_t + \alpha_{22} LEV_t + \alpha_{23} CR_t + \alpha_{24} BUSY_t + Auditor\ \& \\ & Industry\ FEs + \varepsilon \end{aligned} \quad (4)$$

We augment the standard audit fees model to further control for potential correlated omitted variables pertaining to firm risks and related disclosures (e.g., *RF_COS*, *ACCPOL_COS*,

UNCERTAINTY, *STRONG_MODAL*, etc.) that could influence inferences in our setting. Please refer to Appendix A for variable definitions. A positive association between our measures for distinct and dissimilar CAM disclosures and *LnAF* would suggest that these types of CAM disclosures are associated with an increase in audit effort not captured by standard measures and thus are more likely to provide new information to users of the financial statements.

Table 7 explores the incremental explanatory power of *Distinct* and *DisSim*. In Column 1 we focus on distinct CAM disclosures or topical distinctiveness (*Distinct*), and in Column 2 we focus on dissimilar CAM disclosures or textual dissimilarity (*DisSim*). The distinct or dissimilar CAM paragraphs are the result of conditions that were not known by the markets in the first year (hence the interaction) but were known by the auditor. Thus, higher audit fees in all years for distinct or dissimilar CAMs reflects the auditors' knowledge of the conditions not previously known by equity market participants.

In Column 1 of Table 7, we find that the coefficient on *Distinct* is positive (0.170) and statistically significant ($t=5.17$, $p<0.01$). In Column 2, we find that the coefficient on *DisSim* is positive (0.737) and statistically significant ($t=7.30$, $p<0.01$). These results suggest that auditors on average exert more effort the more *distinct* or *dissimilar* firms' CAM disclosures deviate from industry norms. In sum, the evidence presented in Table 7 suggests that not all CAM disclosures are created equally, as CAM disclosures that reflect anti-herding attributes carry informational value that is associated with audit effort. As such, our results further suggest that CAM disclosures that deviate from the herd reduce the information gap by providing information to users about the conduct of the audit that is not captured by traditional measures of audit effort. Importantly, while CAM disclosures may provide some evidence that auditors on average charge a higher fee, the source of the increased fee could either be due to additional effort in conducting audit procedures

or due to the effort in overcoming potential management pressures to disclose an anti-herding CAM.

5.4 Robustness Tests

We conduct several robustness tests (untabulated) to assure the reader that our results are not an artifact of a particular design choice. First, we consider an additional proxy to measure the anti-herding nature of a CAM disclosure, the lexical diversity. The lexical diversity is a firm-level construct. That is, for each firm, we examine the ratio of unique words to total words for each CAM. This proxy is intended to capture the amount of informational variety provided by a given passage of text. This proxy serves to address the concern that CAM disclosures reflect boilerplate language. Bozanic and Thevenot (2015) argue that lexical diversity, which is also known as the type-token ratio, increases lexical variety and demonstrates that increased variety in disclosures conveys greater information content. Thus, we conjecture that a CAM reflecting greater lexical variety will be more likely to convey new information about either the entity or the audit, thereby reducing the information gap between auditors and financial statement users. We repeat the analyses in hypotheses 1-3 finding evidence qualitatively similar evidence that anti-herding CAM disclosures provide information to markets. Next, we consider alternate trading windows for our market response tests. Beyond the 3-day window (-1, +1), we also considered a (-2, +2) trading window, and a (-1, +4) trading window. Our main inferences remain unchanged by the alternate windows. Third, we consider the sensitivity of our results to the baseline model used, which follows Gutierrez et al. 2018. When we follow the Burke et al. (2021) model for our market response tests, our main inferences remain unchanged. Fourth, we consider the sensitivity of our results to our choice in creating subsamples based on the highest values of *Distinct* and *DisSim* in their respective tests. When we use the average for each firm year, our inferences remain

unchanged for all of our main analyses. However, in averaging the measures, we are potentially introducing boilerplate disclosures into otherwise high information firm-year disclosures. Fifth, our inferences remain unchanged when we restrict our sample to only domestic registrants (less than 10% are foreign). Sixth, our inferences for H1-H2 remain unchanged when we remove banks and utilities, but we lose our modest significance on H3. Seventh, our inferences remain unchanged when we control for total CAM word count. Eighth, we repeat our information asymmetry analysis using a measure of abnormal spread as developed in Chi and Shanthikumar (2017). Our results are qualitatively unchanged using this measure. Ninth, we create a composite measure to capture the common dimension in our two primary proxies. We find qualitatively similar results across all of our analyses using this common component. Finally, our inferences remain unchanged when we calculate *Distinct* using the number of CAMs in an industry as the denominator.

6. Conclusion

Although the PCAOB conducted many CAM implementation surveys and crafted a standard to include CAM disclosures that would presumably be informative to financial statement users, many researchers and market constituents have expressed concerns that the disclosures may be too boilerplate or contain information already found elsewhere in the financial statements (e.g., Gimbar et al. 2016; Gutierrez et al. 2018; Lennox et al. 2022). In line with this view, and consistent with CAM implementation herding behavior (Dannemiller et al. 2025, Griffith et al. 2025), the majority of prior research on CAM and KAM disclosures documents minimal market reactions upon release of the auditor's report containing CAM disclosures.

We investigate whether a subset of CAM disclosures that exhibit anti-herding attributes provides new information to financial statement users. We identify anti-herding CAM disclosures as those that are topically distinct and textually dissimilar to first investigate whether the equity

market reacts to these disclosures, thus representing a potential reduction of the information gap between auditors and financial statement stakeholders. We then investigate whether the equity market reacts more in situations where information is impounded more slowly, the CAM disclosures are more specific, or in higher litigation risk environments. Finally, we conclude by investigating information asymmetry among market participants (bid-ask spreads).

Results from our first set of hypotheses reveal that initial anti-herding CAM disclosures are associated with greater absolute abnormal returns surrounding the release of the auditor's report, which provides evidence in support of a reduced information gap. Importantly, we fail to find any evidence that the effect continues beyond the first year of the CAM. In our second set of hypothesis tests, we conduct several cross-sectional analyses on the equity market response to anti-herding CAM disclosure attributes. Many of the prior studies offer several conjectures (e.g., CAM risks are already known, auditors attempt to avoid disclosure, or litigation risk) as to why one might observe non-results. We test these conjectures in our setting and document a greater market response to CAM disclosures when accompanied by a weaker information environment, greater disclosure specificity, and heightened litigation risk. In our third and final tests of hypotheses, we turn our attention to information asymmetry. These tests indicate that some investors may be confused by CAM disclosure attributes with anti-herding attributes, as shown by increased bid-ask spreads among market participants. Thus, while we find that CAM disclosures communicate new information to market participants, we present some evidence that the disclosure confuses them. Future research should investigate this phenomenon further and perhaps examine whether certain informative CAM disclosures are more likely than others to confuse or clarify.

We provide additional support that anti-herding CAM disclosures represent a reduction in the information gap between auditors and financial statement stakeholders by demonstrating that

our measures provide additional explanatory power beyond other known variables in an audit fees model. We interpret our findings as an indication that our anti-herding measures proxy for information about the audit that was previously not captured by other public measures used in traditional audit fees models. That is, our findings suggest that our measures do not simply proxy for other factors known in the literature to influence audit effort.

Our study answers the call from prior literature to investigate specific attributes of CAM disclosures. To the best of our knowledge, this is the first study to demonstrate that CAM disclosures which demonstrate anti-herding behavior provide information to financial statement users and thus reduce the information gap between auditors and financial statement users. Hence, our study provides evidence that several textual analysis measures often used in financial reporting research are also valuable for identifying information content in auditor disclosures.

Going forward, regulators could consider additional ways to further reduce the information gap through expanded audit report disclosures. The findings from our study could spur future researchers to investigate additional anti-herding attributes of CAM disclosures. Taken as a whole, the body of evidence we offer may be of interest to researchers investigating the effects of CAM disclosures, auditors considering whether CAM disclosures matter to financial statement users, and regulators who proscribe CAM disclosures as a means for auditors to provide information about specific audit risks to financial statement users.

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Appendix A–Variable Definitions

Variable	Description
Dependent Variables	
|CAR|	3-day (-1, +1) absolute abnormal return centered on the annual report filing date calculated as daily return minus the CRSP value weighted market return.
SPREAD	Single day bid-ask spread calculated on the report filing date using Corwin and Shultz's (2012) methodology.
LnAF	Natural logarithm of audit fees from Audit Analytics.
Independent Variables	
Distinct	1 minus the frequency of a CAM topic within an industry-year (two-digit SIC). Refer to Appendix C for an example calculation.
DisSim	1 minus the average cosine similarity between the CAM disclosure and all other CAM disclosures in the same industry-year (two-digit SIC).[15]
Cross-Sectional Variables	
Analyst_Following	Indicator variable equal to 1 if a firm is in the bottom quartile of analyst coverage, 0 otherwise.
MA_Score	The measure of managerial ability as calculated in Demerjian et al. (2012), obtained from peterdemerjian.weebly.com/managerialability.html.
#Numbers	The number of numerical values contained in the CAM.
Lit_Risk	The coefficients of Model 2 from Kim and Skinner (2012). Lit_Risk = -7.718 + 0.180*FPS + 0.463*LnASSETS + 0.553*salegrth – 0.498*Ret -0.359*Skew + 14.437*StdRet + 0.0004*turnover.
Control Variables	
LnMKT	Natural logarithm of total market value.
ROA	Net income before extraordinary items/total assets.
LOSS	Indicator variable equal to 1 if ROA is negative, 0 otherwise.
MTB	Equity market value/book value.
LEV	Long-term debt/total assets.
LAG	Number of days between the earnings release date and the annual report filing date.
CHNI	Change in net income before extraordinary items divided by total assets.
BETA	Slope coefficient obtained by regressing the company daily returns on daily returns of the CRSP value-weighted portfolio over a 220-day period (-250, -21) relative to the filing date.
SALEGRTH	Growth in sales scaled by total assets.

[15] All variables using cosine similarity are calculated using the Sklearn package in Python as described in section 10.2 of Anand, Bochkay, Chychyla, and Leone (2020).

EARCAR	3-day (-1, +1) absolute abnormal return centered on the earnings announcement date calculated as the daily return minus the CRSP value weighted market return.
FORM10K	Indicator variable equal to 1 if the annual report is filed as a 10-K, indicating a domestic registrant, 0 otherwise.
RF_COS	The cosine similarity between the CAM and the section 1A risk factors obtained from CalcBench. See footnote 8.
ACCPOL_COS	The cosine similarity between the CAM and the significant accounting policies obtained from CalcBench. See footnote 8.
LIT_RISK	The continuous litigation risk using the coefficients from Model 2 of Kim and Skinner (2012).
UNCERTAINTY	The number of uncertain words scaled by total words.
STRONG_MODAL	The number of strong modal words scaled by total words.
LITIGIOUS	The number of litigious words scaled by total words.
RESTATED	Indicator variable equal to 1 if a firm announced a "Big-R" restatement during the fiscal year, 0 otherwise.
LnASSETS	Natural logarithm of total assets.
LnEMPL	Natural logarithm of total employees.
LnSEG	Natural logarithm of one plus the number of business segments.
LnFOREIGN	Natural logarithm of one plus the number of geographic segments.
INV	Inventory divided by total assets.
REC	Receivables divided by total assets.
EXIT	Indicator variable equal to 1 if the firm reports any extraordinary or special items, 0 otherwise.
CR	Current ratio defined as current assets divided by current liabilities.
GC	Indicator variable equal to 1 if the firm was given a going-concern opinion, 0 otherwise.
BUSY	Indicator variable equal to 1 for year-ends in December, 0 otherwise.
MW	Indicator variable equal to 1 if the firm reported a material control weakness, 0 otherwise.
VOLUME	Trading volume (millions).
PRICE	Daily stock price, obtained from the CRSP file.

Appendix B – CAM Categories

CAM Topic_name (Audit Analytics)	Grouping category
Depreciation and amortization Goodwill Goodwill and intangibles Other intangible assets Property, plant and equipment Proven and unproven reserves Long-lived assets Leases Deferred and capitalized costs	CAM_long_assets
Other revenue Revenue from customer contracts Sales return and allowances Interest revenue	CAM_revenue
Business combinations Subsidiary/affiliate Consolidation Equity investments and joint ventures	CAM_MA
Other income taxes Deferred income taxes Uncertain tax positions	CAM_taxes
Accounts/loans receivable Allowance for credit losses Other liabilities and provisions	CAM_credit_losses
Related party transactions Internal controls Policy changes	CAM_governance
Other contingent liabilities Warranty liabilities Insurance contract liabilities	CAM_contingencies
Inventory Research and development expenses Vendor/supplier rebates	CAM_inventory
Other investments Derivatives and hedging Long-term investments Real estate investments	CAM_investments
Deferred and stock-based compensation Pension and other post-employment	CAM_compensation
Asset retirement and environmental Discontinued operations Disposals and divestures	CAM_disposal
Financial statements and disclosures	CAM_FS_pres

continued Balance sheet classification Foreign currency translation	
Selling, general and administrative expenses Other expenses	CAM_expenses
Going concern Fresh start accounting	CAM_distressed
Other debt	CAM_debt
Other assets	CAM_other_asset
Shareholder valuation	CAM_sh_val
Regulatory assets and liabilities	CAM_regulatory

Appendix C – Distinct Calculation

To understand the calculation of our measure of topical distinctiveness (*Distinct),* we provide a hypothetical example to demonstrate the intuition and calculation. Assume there are 10 firms in an industry with 14 total CAM disclosures. We first identify the relevant CAM group using Appendix B for each CAM. We identify the below distribution of CAM groups:

CAM group	Number of disclosures
Revenue recognition	7
Taxes	4
Contingencies	2
Debt	1
Total CAMs:	14
Total Firms:	10

Intuitively, we identify revenue recognition as a relatively common disclosure and conversely identify contingencies/debt as more distinct for that industry. To quantify our distinct variable, we use the following calculation:

$$Distinct_{i,j} = 1 - n_i/N_j$$

where n_i is the number of disclosures in relating to topic i in industry j and N_j represents the number of firms in industry j. We take the complement, or 1 minus our calculated frequency, to interpret higher numbers as *more* distinct. See the table below for the calculation of *Distinct* in continuation of the example:

CAM group	Number of disclosures	*Distinct*
Revenue recognition	7	1 – (7/10) = *0.3*
Taxes	4	1 – (4/10) = *0.6*
Contingencies	2	1 – (2/10) = *0.8*
Debt	1	1 – (1/10) = *0.9*
Total CAMs:	14	
Total Firms:	10	

Our measure for topical distinctiveness is similar to the "unexpected CAM" construct found in Burke et al. (2023). However, a key difference between our measure and the unexpected CAM measure used in supplemental analysis by Burke et al. (2023) is that our measure captures *any* distinct CAM within an industry rather than the seven most common CAM topics across industries used by Burke et al. Unlike their measure, our measure does not require the investor to make ad hoc predictions on what the firm should have disclosed using a logistic regression model. Thus, we believe our measure is i) more intuitive since it relies on deviations from a known industry benchmark, ii) parsimonious since it is easy to compute and does not rely on any modeling assumptions, and iii) comprehensive since it incorporates all CAMs an investor might encounter.

Table 1 – Sample Selection

1. Merge of Audit Analytics, Compustat, CRSP for fiscal years 2019-2022 containing three years of data	7,839
Missing data for *Distinct* or *DisSim*	(173)
Missing data for control variables	(760)
2. Final Sample for Market return tests	6.906
Missing data for *SPREAD*	(36)
3. Final sample for bid-ask spread tests	6,870
Remove banks/utilities or missing data for audit model variables	(2,354)
4. Final sample for audit fee analysis	4,552

Table 1 presents the sample selection for our main analyses. Note that samples 3 and 4 are calculated as subtractions from the final sample for market returns tests (i.e., 6,906 less 2,354 for the audit fee test sample of 4,552).

Table 2 Panel A – Descriptive Statistics

Variable	N	Mean	Std	P25	Median	P75
CAR	6,906	0.05	0.07	0.01	0.03	0.06
SPREAD	6,870	0.00	0.03	-0.02	0.00	0.02
LnAF	4,552	14.65	1.05	14.03	14.63	15.32
Distinct	6,906	0.63	0.30	0.48	0.72	0.86
DisSim	6,906	0.63	0.09	0.57	0.64	0.69
MW	6,906	0.04	0.20	0.00	0.00	0.00
RESTATED	6,906	0.01	0.11	0.00	0.00	0.00
GC	6,906	0.02	0.13	0.00	0.00	0.00
RF_COS	6,906	0.23	0.09	0.17	0.22	0.29
ACCPOL_COS	6,906	0.33	0.14	0.23	0.35	0.44
LIT_RISK	6,906	0.12	0.14	0.04	0.07	0.13
UNCERTAINTY	6,906	944.86	473.35	650.00	854.00	1152.00
STRONG_MODAL	6,906	195.27	181.76	94.00	144.00	237.00
LITIGIOUS	6,906	1110.03	1599.71	449.00	711.00	1188.00
LnMKT	6,906	7.84	1.94	6.67	7.88	9.09
ROA	6,906	-0.01	0.21	-0.01	0.02	0.06
LOSS	6,906	0.29	0.45	0.00	0.00	1.00
MTB	6,906	1.78	272.34	1.13	2.10	4.37
LEV	6,906	0.33	0.27	0.11	0.30	0.47
LAG	6,906	30.13	27.61	6.00	23.00	54.00
CHNI	6,906	-0.32	26.38	-0.53	0.00	0.40
BETA	6,906	1.10	0.49	0.78	1.08	1.38
SALEGRTH	6,906	0.64	19.14	-0.04	0.06	0.18
EARCAR	6,906	0.00	0.08	-0.04	0.00	0.03
FORM10K	6,906	0.98	0.14	1.00	1.00	1.00
LnASSETS	4,552	7.71	1.83	6.62	7.72	8.9
LnEMPL	4,552	2.97	2.94	0.99	2.07	3.87
LnSEG	4,552	1.12	0.50	0.69	0.69	1.61
LnFOREIGN	4,552	1.29	0.57	0.69	1.1	1.61
INV	4,552	0.09	0.11	0.00	0.05	0.13
REC	4,552	0.11	0.10	0.05	0.09	0.15
EXIT	4,552	0.84	0.36	1.00	1.00	1.00
CR	4,552	2.89	5.35	1.25	1.86	3.06
BUSY	4,552	0.85	0.35	1.00	1.00	1.00
PRICE	6,870	77.40	188.45	16.64	37.87	81.73
VOLUME	6,870	3.02	9.67	0.28	0.86	2.40

Table 2 Panel A presents the descriptive statistics for the variables used in our main analyses. Refer to Appendix A for variable definitions.

Table 2 Panel B – Evidence of Herding

Variable	(1) Year 1	(2) Year 2	(3) Year 3	(1) - (2)	Pr(T>t)	(2) - (3)	Pr(T>t)
Distinct	0.645	0.622	0.627	0.022	0.006***	-0.005	0.708
DisSim	0.634	0.627	0.626	0.007	0.015**	0.002	0.281

Table 2 Panel B presents our analysis of CAMs for firms' first three years of disclosure. We compare the first, second, and third years of disclosure to provide evidence of herding, or a reduction in informativeness, over time. Statistical significance (two-sided) is denoted by *** p<0.01, ** p<0.05, * p<0.1. Please see Appendix A for variable definitions.

Table 3 – Pearson Correlation Coefficients

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) CAR	1.00												
(2) SPREAD	**-0.14**	1.00											
(3) LnAF	**-0.16**	**-0.05**	1.00										
(4) Distinct	**0.11**	**0.03**	**0.03**	1.00									
(5) DisSim	**0.10**	0.02	0.03	**0.69**	1.00								
(6) MW	**0.07**	0.01	**-0.06**	**0.06**	**0.08**	1.00							
(7) RESTATED	0.01	-0.01	0.00	0.00	**0.01**	**0.11**	1.00						
(8) GC	**0.14**	-0.01	**-0.22**	**0.06**	**0.06**	**0.11**	**0.05**	1.00					
(9) RF_COS	**-0.07**	**-0.03**	-0.02	**-0.33**	**-0.34**	**-0.04**	**-0.03**	**-0.04**	1.00				
(10) ACCPOL_COS	**-0.04**	0.01	0.01	**-0.19**	**-0.25**	**-0.03**	-0.01	-0.02	**0.33**	1.00			
(11) LIT_RISK	**0.16**	0.02	**0.08**	0.02	**0.03**	**0.03**	0.01	**0.07**	-0.02	**-0.04**	1.00		
(12) UNCERTAINTY	**0.05**	-0.01	**0.12**	**0.03**	0.01	-0.02	-0.00	0.01	-0.00	**-0.09**	**0.19**	1.00	
(13) STRONG_MODAL	**0.05**	0.00	**0.06**	**0.08**	**0.08**	-0.00	0.01	**0.05**	**-0.04**	**-0.09**	**0.17**	**0.77**	1.00
(14) LITIGIOUS	**0.02**	0.01	**0.13**	**0.06**	**0.05**	-0.00	0.00	-0.01	**-0.03**	**-0.04**	**0.10**	**0.66**	**0.71**
(15) LnMKT	**-0.21**	**-0.07**	**0.73**	**0.10**	**0.13**	**-0.15**	**-0.04**	**-0.27**	**-0.06**	**-0.04**	-0.01	**0.16**	**0.11**
(16) ROA	**-0.18**	**-0.07**	**0.32**	**-0.04**	**-0.03**	**-0.10**	**-0.03**	**-0.46**	0.02	0.01	**-0.22***	**-0.12**	**-0.14**
(17) LOSS	**0.25**	**0.06**	**-0.28**	**0.11**	**0.13**	**0.12**	**0.04**	**0.20**	**-0.09**	**-0.08**	**0.30**	**0.12**	**0.14**
(18) MTB	-0.01	0.02	0.00	-0.00	-0.02	-0.00	0.00	0.00	0.01	0.01	-0.00	-0.00	0.00
(19) LEV	**0.08**	-0.00	**0.15**	**0.17**	**0.13**	0.02	0.02	**0.09**	**-0.13**	**-0.13**	**0.14**	**0.05**	**0.08**
(20) LAG	**-0.07**	0.00	0.02	-0.02	**-0.04**	**0.04**	**0.12**	-0.02	**-0.16**	-0.00	**0.04**	**0.03**	0.01
(21) CHNI	-0.02	-0.00	-0.00	0.01	0.00	-0.00	0.00	0.00	-0.00	0.00	-0.01	-0.01	-0.01
(22) BETA	**0.16**	0.01	**0.03**	**0.08**	**0.10**	**0.05**	**0.03**	**-0.03**	**-0.07**	**-0.04**	**0.25**	**0.09**	**0.03**
(23) SALEGRTH	0.01	0.01	-0.03	0.01	0.01	-0.00	-0.00	-0.00	-0.01	-0.00	0.02	**0.05**	**0.07**
(24) EARCAR	**0.03**	**0.07**	0.01	0.00	-0.01	-0.01	0.00	0.00	-0.00	-0.00	-0.01	0.00	0.01
(25) FORM10K	**0.04**	-0.01	0.02	-0.02	-0.00	-0.14	-0.03	-0.04	0.02	-0.01	-0.01	**0.20**	**0.10**
(26) LnASSETS	**-0.20**	**-0.06**	**0.86**	**-0.05**	**-0.03**	**-0.15**	**-0.03**	**-0.30**	0.02	0.01	**0.10**	**0.08**	**0.04**
(27) LnEMPL	**-0.16**	**-0.03**	**0.66**	0.02	**0.05**	**-0.09**	-0.02	**-0.13**	**-0.06**	0.02	**0.06**	**-0.07**	**-0.04**
(28) LnSEG	**-0.09**	**-0.03**	**0.29**	0.02	**-0.04**	0.02	-0.01	**-0.08**	0.01	0.02	**-0.04**	**-0.11**	**-0.12**
(29) LnFOREIGN	**-0.07**	**-0.04**	**0.39**	**0.12**	**0.04**	0.01	-0.01	**-0.07**	-0.01	**0.03**	**-0.06**	**-0.05**	**-0.05**
(30) INV	**-0.05**	0.00	-0.03	**0.08**	-0.01	0.00	0.00	-0.01	**-0.08**	0.00	**-0.07**	**-0.23**	**-0.20**
(31) REC	0.01	-0.03	**0.05**	0.02	-0.02	0.02	0.02	-0.02	**0.07**	**0.04**	**-0.12**	**-0.16**	**-0.16**
(32) EXIT	-0.01	-0.02	**0.27**	0.00	**-0.05**	0.02	0.01	**-0.07**	-0.02	-0.01	**0.05**	0.02	-0.01
(33) CR	**0.05**	**-0.05**	**-0.23**	**0.08**	**0.06**	**0.04**	**0.06**	-0.02	**-0.04**	**-0.04**	0.01	**0.05**	**0.07**
(34) BUSY	**0.05**	-0.02	**-0.15**	**-0.07**	**-0.09**	0.02	-0.01	**0.05**	**0.13**	-0.02	**0.05**	**0.14**	**0.11**
(35) PRICE	**-0.08**	-0.01	**0.16**	**0.04**	**0.08**	**-0.05**	-0.02	**-0.05**	**-0.06**	-0.01	**-0.05**	**-0.03**	**-0.03**
(36) VOLUME	**0.22**	**-0.10**	**0.19**	**0.07**	**0.09**	-0.01	-0.01	-0.00	**-0.05**	**-0.05**	**0.25**	**0.13**	**0.12**

Variables	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
(15) LnMKT	**0.14**	1.00												
(16) ROA	**-0.03**	**0.34**	1.00											
(17) LOSS	**0.04**	**-0.36**	**-0.53**	1.00										
(18) MTB	0.00	-0.01	0.02	-0.02	1.00									
(19) LEV	**0.08**	**0.04**	**-0.13**	**0.11**	0.01	1.00								
(20) LAG	**0.04**	**-0.03**	0.01	**0.04**	-0.02	**0.04**	1.00							
(21) CHNI	0.00	0.01	0.00	**-0.04**	0.00	-0.00	-0.01	1.00						
(22) BETA	**0.04**	0.00	**-0.12**	**0.26**	-0.01	**0.08**	**0.05**	**-0.06**	1.00					
(23) SALEGRTH	0.02	-0.00	**-0.03**	0.01	0.00	**-0.03**	-0.01	-0.00	0.01	1.00				
(24) EARCAR	0.02	0.02	0.02	-0.00	-0.01	0.01	-0.02	0.02	0.00	0.02	1.00			
(25) FORM10K	**0.07**	**0.06**	**0.04**	**-0.06**	0.00	-0.01	**-0.10**	-0.00	0.00	0.00	0.00	1.00		
(26) LnASSETS	**0.12**	**0.85**	**0.43**	**-0.39**	-0.00	**0.15**	**0.04**	0.00	-0.00	-0.02	0.02	**0.03**	1.00	
(27) LnEMPL	**0.06**	**0.60**	**0.25**	**-0.30**	-0.01	**0.11**	0.02	0.02	**-0.08**	**-0.03**	0.01	0.02	**0.69**	1.00
(28) LnSEG	-0.02	**0.14**	**0.16**	**-0.19**	0.00	0.00	0.01	0.02	-0.03	-0.03	-0.00	0.01	**0.26**	**0.22**
(29) LnFOREIGN	0.01	**0.25**	**0.15**	**-0.13**	0.02	**-0.07**	-0.01	-0.00	**0.07**	**-0.03**	-0.00	-0.00	**0.25**	**0.20**
(30) INV	**-0.11**	**-0.08**	**0.12**	**-0.15**	-0.02	**-0.05**	0.02	0.01	-0.02	-0.02	**-0.03**	**0.03**	**-0.03**	0.03
(31) REC	**-0.06**	**-0.08**	**0.13**	**-0.14**	0.01	**-0.15**	-0.03	-0.03	**-0.04**	-0.03	0.00	0.02	**-0.07**	**0.06**
(32) EXIT	**0.03**	**0.11**	**0.08**	**-0.05**	**0.03**	**0.14**	**0.04**	-0.01	**0.04**	**-0.05**	0.00	0.00	**0.23**	**0.13**
(33) CR	-0.01	**-0.11**	**-0.04**	**0.10**	0.01	**-0.15**	-0.02	-0.00	0.00	**0.06**	-0.02	0.01	**-0.20**	**-0.19**
(34) BUSY	**0.06**	**-0.16**	**-0.12**	**0.10**	0.02	-0.02	**-0.09**	-0.02	**-0.05**	0.01	-0.00	-0.01	**-0.17**	**-0.22**
(35) PRICE	0.01	**0.32**	**0.14**	**-0.15**	0.01	-0.02	-0.01	0.01	**-0.06**	-0.01	0.02	**0.03**	**0.23**	**0.20**
(36) VOLUME	**0.11**	**0.23**	**-0.07**	**0.06**	0.01	**0.10**	**-0.05**	0.03	**0.07**	-0.00	0.03	-0.03	**0.22**	**0.18**

Variables	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)
(29) LnFOREIGN	**0.22**	1.00							
(30) INV	**0.05**	**0.10**	1.00						
(31) REC	**0.17**	**0.15**	**0.10**	1.00					
(32) EXIT	**0.18**	**0.15**	-0.01	0.02	1.00				
(33) CR	**-0.12**	**-0.08**	-0.01	**-0.11**	**-0.12**	1.00			
(34) BUSY	**-0.08**	**-0.07**	**-0.17**	-0.00	**-0.04**	**0.06**	1.00		
(35) PRICE	0.02	**0.06**	**0.05**	-0.03	**-0.07**	-0.02	**-0.05**	1.00	
(36) VOLUME	-0.01	0.05	**-0.09**	**-0.10**	0.05	0.00	-0.00	-0.03	1.00

Table 3 presents Peason correlations for all main model variables. Values in bold represent significance at the 0.05 level.

Table 4 – CAM Disclosures and Equity Market Returns

$$|CAR_t| = \alpha_0 + \beta(Distinct|DisSim)*First\_year + \alpha_1(Distinct|DisSim) + \alpha_2 First\_year_t + \alpha_3 MW_t + \alpha_4 RESTATED_t + \alpha_5 GC_t + \alpha_6 RF\_COS_t + \alpha_7 ACCPOL\_COS_t + \alpha_8 LIT\_RISK_t + \alpha_9 UNCERTAINTY_t + \alpha_{10} STRONG\_MODAL_t + \alpha_{11} LITIGIOUS_t + \alpha_{12} LnMKT_t + \alpha_{13} ROA_t + \alpha_{14} LOSS_t + \alpha_{15} MTB_t + \alpha_{16} LEV_t + \alpha_{17} LAG_t + \alpha_{18} CHNI_t + \alpha_{19} BETA_t + \alpha_{20} EARCAR_t + \alpha_{21} FORM10K_t + \alpha_{22} SALEGRTH_t + Auditor \& Industry\ FEs + \epsilon$$

	Absolute Cumulative Abnormal Returns (CAR)			
	(1)		(2)	
Variable	**Coeff.**	**t-stat.**	**Coeff.**	**t-stat.**
Distinct	0.002	0.61		
*Distinct*First_year*	0.033***	6.10		
DisSim			0.006	0.52
*DisSim*First_year*			0.085***	4.33
First_year	-0.003	-0.65	-0.035***	-2.79
MW	0.004	1.12	0.004	1.09
RESTATED	-0.005	-0.75	-0.006	-0.79
GC	0.039***	5.55	0.039***	5.50
RF_COS	-0.004	-0.44	-0.007	-0.74
ACCPOL_COS	0.004	0.6	0.004	0.76
LIT_RISK	0.046***	7.41	0.046***	7.52
UNCERTAINTY	0.000***	3.67	0.000***	3.75
STRONG_MODAL	0.000	-1.38	0.000	-1.34
LITIGIOUS	0.000	-0.17	0.000	-0.21
LnMKT	-0.007***	-12.97	-0.007***	-13.01
ROA	0.011**	2.14	0.012**	2.28
LOSS	0.012***	5.47	0.012***	5.41
MTB	0.000	-0.43	0.000	-0.43
LEV	0.010***	3.2	0.011**	3.52
LAG	0.000**	-2.32	0.000**	-2.39
CHNI	0.000	-0.89	0.000	-0.90
BETA	0.012***	6.8	0.012***	6.63
EARCAR	0.031***	3.46	0.031***	3.41
FORM10K	0.016***	2.87	0.016***	2.80
SALEGRTH	0.000	-0.52	0.000	-0.52
Auditor fixed effects	Included		Included	
Industry fixed effects	Included		Included	
Observations	6,906		6,906	
Adj. R-squared	0.160		0.156	

Table 4 presents OLS regression results on the association between absolute cumulative abnormal returns and the first three years of distinct and dissimilar CAM disclosures. *CAR* is calculated as 3-day (-1, +1) absolute abnormal return centered on the annual report filing date calculated as daily return minus the CRSP value weighted market return. Our variables of interest are the interactions with *First_year*, which measures the abnormal returns for the first year of CAM disclosures. All tables contain auditor and industry fixed effects, and statistical significance (two-sided) is denoted by *** p<0.01, ** p<0.05, * p<0.1. Please see Appendix A for the remaining variable definitions.

Table 5 – Cross-Sectional Analysis

Panel A – Analyst Following	Absolute Cumulative Abnormal Return			
	(1)		(2)	
Variable	Coeff.	t-stat.	Coeff.	t-stat.
Distinct	0.024***	4.40		
DisSim			0.063***	2.77
Analyst_following	-0.004	-0.37	0.030	0.73
*Analyst_following*Distinct*	0.032*	1.92		
*Analyst_following*DisSim*			-0.027	-0.41
Controls and fixed effects	Yes		Yes	
Observations	3152		3030	
Adj. R-Squared	0.182		0.180	

Panel B – Managerial ability	Absolute Cumulative Abnormal Return			
	(1)		(1)	
Variable	Coeff.	t-stat.	Coeff.	t-stat.
Distinct	0.040***	4.94		
DisSim			0.089***	2.89
MA_Score	0.063*	1.78	0.324***	2.71
*MA_Score*Distinct*	-0.079*	-1.67		
*MA_Score*DisSim*			-0.487***	-2.68
Controls and fixed effects	Yes		Yes	
Observations	2,128		2,012	
Adj. R-Squared	0.171		0.168	

Panel C – #Numbers	Absolute Cumulative Abnormal Return			
	(1)		(2)	
Variable	Coeff.	t-stat.	Coeff.	t-stat.
Distinct	0.019**	2.06		
DisSim			0.001	0.04
#Numbers	-0.000	-0.00	-0.004**	-1.97
*#Numbers*Distinct*	0.001	1.09		
*#Numbers*DisSim*			0.007**	2.30
Controls and fixed effects	Yes		Yes	
Observations	3,152		3,030	
Adj. R-Squared	0.180		0.184	

Panel D – Litigation Risk	Absolute Cumulative Abnormal Return			
	(1)		(2)	
Variable	Coeff.	t-stat.	Coeff.	t-stat.
Distinct	0.018***	2.61		
DisSim			0.016	0.59
LIT_RISK	0.006	0.23	-0.165**	-2.02
*LIT_RISK*Distinct*	0.072**	2.25		
*LIT_RISK*DisSim*			0.344***	2.75
Controls and fixed effects	Yes		Yes	
Observations	3,152		3,030	
Adj. R-Squared	0.179		0.180	

Table 5 extends the equity market return results in Table 4 to present several cross-sectional analyses. This table includes only the first year of disclosure, as such the sample size is considerably smaller than in Table 5 and there is no *First_year* in the interaction term. In Panel A, *Analyst_Following* is an indicator variable equal to 1 if a firm is in the bottom quartile of analyst coverage, 0 otherwise. In Panel B, *MA_Score* represents the managerial ability score as calculated in Demerjian et al. (2012). In Panel C, *#Numbers* represents the number of numbers in the CAM. In Panel D, *LIT_RISK* is the continuous litigation risk measures from Kim and Skinner (2012). All tables contain auditor and industry fixed effects, and statistical significance (two-sided) is denoted by *** p<0.01, ** p<0.05, * p<0.1. Controls have been suppressed for expositional economy. Please see Appendix A for the remaining variable definitions.

Table 6 – CAM Disclosures and Bid-Ask Spread

$$SPREAD_t = \alpha_0 + \beta(Distinct|DisSim)*First\_year + \alpha_1(Distinct|DisSim) + \alpha_2 First\_year_t + \alpha_3 MW_t + \alpha_4 RESTATED_t + \alpha_5 GC_t + \alpha_6 RF\_COS_t + \alpha_7 ACCPOL\_COS_t + \alpha_8 LIT\_RISK_t + \alpha_9 UNCERTAINTY_t + \alpha_{10} STRONG\_MODAL_t + \alpha_{11} LITIGIOUS_t + \alpha_{12} LnMKT_t + \alpha_{13} ROA_t + \alpha_{14} LOSS_t + \alpha_{15} MTB_t + \alpha_{16} LEV_t + \alpha_{17} LAG_t + \alpha_{18} CHNI_t + \alpha_{19} BETA_t + \alpha_{20} CAR_t + \alpha_{21} FORM10K_t + \alpha_{22} SALEGRTH_t + \alpha_{23} PRICE_t + \alpha_{24} VOLUME_t + Auditor \& Industry FEs + \epsilon$$

	Bid-Ask Spread			
	(1)		(2)	
Variable	**Coeff.**	**t-stat.**	**Coeff.**	**t-stat.**
Distinct	0.002	0.96		
*Distinct*First_year*	0.007**	2.49		
DisSim			0.004	0.73
*DisSim*First_year*			0.021**	2.24
First_year	-0.005**	-2.50	-0.014**	-2.31
MW	0.001	0.31	0.001	0.28
RESTATED	-0.003	-0.94	-0.003	-0.97
GC	-0.009***	-2.65	-0.009***	-2.68
RF_COS	-0.005	-1.00	-0.005	-1.12
ACCPOL_COS	0.004	1.25	0.004	1.36
LIT_RISK	0.007**	2.20	0.007**	2.23
UNCERTAINTY	-0.001	-0.49	0.000	-0.57
STRONG_MODAL	0.000	-0.62	0.000	-0.55
LITIGIOUS	0.000**	2.10	0.000**	2.08
LnMKT	-0.001***	-3.38	-0.001***	-3.40
ROA	-0.008***	-3.16	-0.008***	-3.09
LOSS	0.003**	2.47	0.003**	2.42
MTB	0.000	1.16	0.000	1.17
LEV	0.001	0.59	0.001	0.79
LAG	0.000	-1.51	0.000	-1.52
CHNI	0.000	-0.22	0.000	-0.21
BETA	0.001	1.48	0.001	1.40
CAR	-0.088***	-14.73	-0.087***	-14.61
FORM10K	-0.001	-0.49	-0.002	-0.55
SALEGRTH	0.000	0.88	0.000	0.88
PRICE	0.000	0.79	0.000	0.74
VOLUME	0.000	0.11	0.000	0.07
Auditor fixed effects	Included		Included	
Industry fixed effects	Included		Included	
Observations	6,870		6,870	
Adj. R-squared	0.053		0.052	

Table 6 presents OLS regression results on the association between bid-ask spreads and the first three years of distinct and dissimilar CAM disclosures. Bid-ask spreads are calculated as the single day bid-ask spread in Corwin and Schultz (2012). Our variables of interest are the interactions with *First_year*, which measures the effect for the first year of CAM disclosures. All tables contain auditor and industry fixed effects, and statistical significance (two-sided) is denoted by *** p<0.01, ** p<0.05, * p<0.1. Please see Appendix A for the remaining variable definitions.

Table 7 – CAM Disclosures and Audit Fees

$$LnAF_t = \alpha_0 + \beta(Distinct|DisSim)*First\_year + \alpha_1(Distinct|DisSim) + \alpha_2 First\_year_t + \alpha_3 MW_t + \alpha_4 RESTATED_t + \alpha_5 GC_t + \alpha_6 RF\_COS_t + \alpha_7 ACCPOL\_COS_t + \alpha_8 LIT\_RISK_t + \alpha_9 UNCERTAINTY_t + \alpha_{10} STRONG\_MODAL_t + \alpha_{11} LITIGIOUS_t + \alpha_{12} FORM10K_t + \alpha_{13} LnASSETS_t + \alpha_{14} LnEMPL_t + \alpha_{15} LnSEG_t + \alpha_{16} LnFOREIGN_t + \alpha_{17} INV_t + \alpha_{18} REC_t + \alpha_{19} ROA_t + \alpha_{20} LOSS_t + \alpha_{21} EXIT_t + \alpha_{22} LEV_t + \alpha_{23} CR_t + \alpha_{24} BUSY_t + Auditor \& Industry\ FEs + \varepsilon$$

	Audit Fees			
	(1)		(2)	
Variable	**Coeff.**	**t-stat.**	**Coeff.**	**t-stat.**
Distinct	0.170***	5.17		
*Distinct*First_year*	0.009	0.16		
DisSim			0.737***	7.30
*DisSim*First_year*			-0.062	-0.34
First_year	0.049	1.22	0.096	0.82
MW	0.103*	1.68	0.099	1.62
RESTATED	0.208***	4.02	0.210***	4.07
GC	0.019	0.34	0.017	0.30
RF_COS	-0.091	-1.13	-0.091	-1.15
ACCPOL_COS	0.006	0.13	0.045	0.98
LIT_RISK	-0.01	-0.22	0.002	0.05
UNCERTAINTY	0.000***	9.41	0.000***	9.57
STRONG_MODAL	0.000***	-3.49	0.000***	-3.83
LITIGIOUS	0.000***	-2.85	0.000***	-2.66
FORM10K	0.001	0.03	-0.012	-0.21
LnASSETS	0.394***	59.72	0.395***	60.03
LnEMPL	0.045***	14.00	0.043***	13.50
LnSEG	0.052***	4.01	0.057***	4.38
LnFOREIGN	0.207***	17.02	0.208***	17.17
INV	0.155**	2.27	0.176***	2.60
REC	1.009***	14.37	1.023***	14.63
ROA	-0.250***	-5.32	-0.251***	-5.36
LOSS	0.066***	3.82	0.060***	3.48
EXIT	0.107***	6.13	0.115***	6.62
LEV	0.224***	8.91	0.231***	9.22
CR	-0.006***	-3.50	-0.006***	-3.57
BUSY	0.017	1.03	0.019	1.12
Auditor fixed effects	Included		Included	
Industry fixed effects	Included		Included	
Observations	4,551		4,551	
Adj. R-squared	0.859		0.860	

Table 7 presents OLS regression results on the association between audit fees and the first three years of distinct and dissimilar CAM disclosures. *LnAF* is the natural logarithm of audit fees from Audit Analytics. All tables contain auditor and industry fixed effects, and statistical significance (two-sided) is denoted by *** p<0.01, ** p<0.05, * p<0.1. Please see Appendix A for variable definitions.