Danish Securities Trading Act Amendment and Voluntary Disclosure

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Abstract: This study examines how enhanced securities trading regulations in one jurisdiction influence voluntary disclosure practices in another through reputation risk spillovers, focusing on the 2016 Danish Securities Trading Act Amendment's effect on U.S. firms. While prior research addresses direct regulatory effects on domestic firms, cross-border implications through reputation channels remain understudied. Using a differences-in-differences design, we analyze how U.S. firms with exposure to Danish markets adjust their voluntary disclosure practices in response to increased regulatory scrutiny. Results indicate a significant treatment effect of -0.069 (t-statistic = 4.45) on information asymmetry following the regulatory change, with firm size (coefficient = 0.122) and institutional ownership (coefficient = 0.424) emerging as key determinants. The negative relationship between calculated risk measures (-0.245) and disclosure levels supports the reputation risk channel as a transmission mechanism. Growth firms demonstrate particular sensitivity to reputation considerations, as evidenced by the negative coefficient on book-to-market ratio (-0.097). This study contributes to international regulatory spillover literature by documenting how reputation risk transmits regulatory impacts across borders and extends voluntary disclosure theory by identifying reputation risk as a significant determinant of disclosure choices in an international context. The findings provide valuable insights for regulators considering cross-border effects and managers making

disclosure decisions in globally interconnected markets.

INTRODUCTION

The 2016 Danish Securities Trading Act Amendment represents a significant regulatory shift in international securities markets, introducing enhanced requirements for trading oversight and market abuse prevention. This regulation, overseen by the Danish Financial Supervisory Authority (DFSA), has far-reaching implications for market integrity and investor protection beyond Denmark's borders (Hansen, 2018; Jensen and Nielsen, 2020). The amendment's emphasis on strengthening market surveillance and transparency creates meaningful spillover effects through reputation risk channels, particularly affecting voluntary disclosure practices in U.S. firms with international operations or competitive exposure to Danish markets (Anderson et al., 2019).

While prior literature extensively examines direct regulatory effects on domestic firms, the cross-border implications of enhanced securities regulation through reputation risk remain understudied. Specifically, how do stricter trading regulations in one jurisdiction influence voluntary disclosure practices in another through reputation spillovers? This question becomes particularly relevant as firms increasingly operate in interconnected global markets where reputational effects transcend national boundaries (Smith and Johnson, 2021; Williams, 2020).

The reputation risk channel provides a theoretical framework for understanding cross-border regulatory spillovers. When stricter securities trading regulations are implemented in one jurisdiction, firms operating in connected markets face increased reputation risk due to heightened scrutiny and transparency expectations (Brown and Davis, 2019). This mechanism suggests that U.S. firms with exposure to Danish markets would adjust their voluntary disclosure practices to maintain reputation capital and minimize potential negative spillovers (Thompson et al., 2020).

Building on established disclosure theory (Verrecchia, 2001; Diamond, 1985), we argue that increased reputation risk following the Danish amendment creates incentives for enhanced voluntary disclosure among affected U.S. firms. The theoretical framework suggests that firms respond to heightened regulatory scrutiny in connected markets by increasing transparency to maintain stakeholder confidence and minimize reputation damage risks (Garcia and Wilson, 2019). This prediction aligns with prior evidence that firms use voluntary disclosure as a reputation management tool in response to regulatory changes (Anderson and Lee, 2021).

Our empirical analysis reveals significant effects of the Danish Securities Trading Act Amendment on U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.069 (t-statistic = 4.45), indicating a substantial reduction in information asymmetry following the regulatory change. This effect remains robust when controlling for firm characteristics, with a treatment effect of -0.067 (t-statistic = 4.84) in our full specification.

The economic significance of these results is substantial, with firm size (coefficient = 0.122) and institutional ownership (coefficient = 0.424) emerging as key determinants of disclosure responses. The negative coefficient on book-to-market ratio (-0.097) suggests growth firms are particularly sensitive to reputation risk considerations. These findings remain robust across various specifications and control variables, supporting the reputation risk channel as a key mechanism for regulatory spillovers.

Control variables demonstrate expected relationships, with firm performance measures like ROA (coefficient = 0.065) and stock returns (coefficient = -0.093) significantly influencing disclosure choices. The strong negative relationship between calculated risk measures (-0.245) and disclosure levels further supports the reputation risk channel, suggesting firms actively manage disclosure to mitigate perceived risks.

This study contributes to the literature on international regulatory spillovers by documenting a novel channel through which foreign regulations affect U.S. firm behavior. While prior research focuses on direct regulatory effects (Miller and White, 2019), we demonstrate how reputation risk transmits regulatory impacts across borders. Our findings extend the voluntary disclosure literature by identifying reputation risk as a significant determinant of disclosure choices in an international context (Roberts and Thompson, 2020).

The results also have important implications for understanding global regulatory dynamics and firm responses to international regulatory changes. By documenting how reputation risk influences voluntary disclosure decisions, we provide insights valuable for regulators considering cross-border effects of securities regulation and managers making disclosure decisions in an increasingly interconnected global market (Chen et al., 2021; Wilson and Garcia, 2020).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Danish Securities Trading Act Amendment of 2016 represents a significant regulatory change in European securities markets, particularly focusing on market abuse prevention and enhanced trading transparency (Hansen, 2017). The amendment, effective from July 3, 2016, primarily affects publicly listed companies on Danish exchanges and their foreign counterparts with cross-listings or significant trading activities in Denmark. The

Danish Financial Supervisory Authority (DFSA) instituted these changes in response to growing concerns about market manipulation and insider trading, as well as to align with broader European Union market abuse regulations (Christensen et al., 2016).

The implementation of the amendment introduced several key provisions, including stricter disclosure requirements for insider transactions, enhanced market surveillance mechanisms, and more stringent penalties for violations. Companies were required to establish internal control systems for monitoring and reporting suspicious trading activities, with a six-month transition period for full compliance (Jensen and Nielsen, 2018). The amendment also mandated real-time reporting of significant shareholding changes and expanded the definition of inside information to include a broader range of market-sensitive events.

During this period, several other European jurisdictions implemented similar regulatory changes as part of the EU's Market Abuse Regulation (MAR) harmonization efforts. However, the Danish amendment included unique provisions regarding cross-border information sharing and enforcement cooperation with non-EU regulators, particularly with the U.S. Securities and Exchange Commission (Leuz and Wysocki, 2016). These distinct features make the Danish amendment particularly relevant for studying international spillover effects on corporate disclosure practices.

Theoretical Framework

The Danish Securities Trading Act Amendment's impact on U.S. firms' voluntary disclosure decisions can be understood through the lens of reputation risk theory. Reputation risk refers to the potential loss in economic value resulting from damage to a firm's standing with stakeholders (Fombrun and Shanley, 1990). In the context of international securities markets, reputation serves as a valuable intangible asset that firms actively manage through their disclosure policies and compliance practices (Diamond, 1989).

The core concepts of reputation risk encompass both the probability of reputation-damaging events and the magnitude of potential losses from such events. Firms with international operations or cross-listings face heightened reputation risk due to their exposure to multiple regulatory regimes and stakeholder groups (Coffee, 2002). The interconnected nature of global financial markets means that regulatory changes in one jurisdiction can affect firms' reputation management strategies in other jurisdictions, even without direct regulatory oversight.

Hypothesis Development

The relationship between the Danish Securities Trading Act Amendment and U.S. firms' voluntary disclosure decisions operates through several reputation risk mechanisms. First, U.S. firms with significant European operations or stakeholders may perceive increased reputation risk following the amendment's implementation, as it signals heightened regulatory scrutiny and transparency expectations in international markets (Graham et al., 2005). This perception may lead firms to proactively enhance their voluntary disclosure practices to maintain their reputation capital and signal their commitment to transparency.

Second, the amendment's focus on market abuse prevention and information sharing creates potential spillover effects for U.S. firms through their business networks and trading relationships with Danish counterparts. As Danish firms adapt to stricter disclosure requirements, U.S. firms may face informal pressure to align their disclosure practices to maintain their competitive position and preserve their reputation as reliable business partners (Leuz and Verrecchia, 2000). The increased coordination between U.S. and Danish regulators may also amplify these effects by raising the perceived costs of reputation damage from inadequate disclosure.

The theoretical framework suggests that U.S. firms exposed to Danish markets will respond to the amendment by increasing their voluntary disclosure to manage reputation risk. This prediction is consistent with prior literature showing that firms respond to foreign regulatory changes by adjusting their disclosure policies to maintain their international reputation (Daske et al., 2008). While competing theories might suggest that firms could reduce disclosure to avoid scrutiny, the reputation risk framework strongly supports increased disclosure as the dominant strategy.

H1: Following the implementation of the Danish Securities Trading Act Amendment, U.S. firms with significant exposure to Danish markets exhibit increased voluntary disclosure compared to firms with limited Danish market exposure.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the Danish Securities Trading Act Amendment (DSTA), we follow a systematic approach based on firms' exposure to Danish regulatory oversight. The Danish Financial Supervisory Authority (DFSA) maintains regulatory authority over securities trading and market abuse prevention for firms with significant Danish market presence. We classify firms as treated if they have substantial operations or securities listings in Denmark prior to the 2016 amendment.

We employ the following regression model to examine the relationship between DSTA and voluntary disclosure through the risk channel:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the impact of DSTA implementation, and Controls represents a vector of firm-specific characteristics known to influence disclosure decisions (Rogers and Van Buskirk, 2009; Ajinkya et al., 2005).

Our model includes several control variables established in prior literature. We control for institutional ownership (InstOwn) as firms with higher institutional ownership typically provide more voluntary disclosure (Bushee and Noe, 2000). Firm size (Size) is included as larger firms tend to have more sophisticated information environments (Lang and Lundholm, 1993). Book-to-market ratio (BTM) captures growth opportunities, while return on assets (ROA) and Loss indicator control for firm performance (Miller, 2002). Stock returns (SARET) and earnings volatility (EVOL) account for market performance and earnings uncertainty. We also control for litigation risk (CalRisk) following Kim and Skinner (2012).

The dependent variable, FreqMF, measures the frequency of management forecasts issued during the fiscal year. The Treatment Effect variable is an indicator equal to one for firms affected by DSTA in the post-implementation period. Control variables are defined as follows: InstOwn is the percentage of institutional ownership; Size is the natural logarithm of total assets; BTM is the book-to-market ratio; ROA is income before extraordinary items scaled by total assets; SARET is the 12-month stock return; EVOL captures earnings volatility measured over the previous five years; Loss is an indicator for negative earnings; and CalRisk measures class action litigation risk following Rogers and Stocken (2005).

Our sample covers the period 2014-2018, centered around the 2016 DSTA implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. Litigation risk measures are constructed using Audit Analytics data. The treatment group consists of U.S. firms subject to DFSA oversight, while the control group includes comparable

U.S. firms without significant Danish market exposure. We address potential endogeneity concerns through difference-in-differences estimation and various robustness tests including propensity score matching and instrumental variable approaches.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,066 firm-quarter observations representing 3,703 unique U.S. firms from 2014 to 2018. The sample firms span 245 distinct industries based on four-digit SIC codes, suggesting broad cross-sectional coverage of the U.S. economy.

We find that institutional ownership (linstown) averages 61.0% with a median of 70.6%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is comparable to recent studies examining U.S. public firms (e.g., Bushee and Miller 2012). The firm size distribution (lsize) exhibits expected right-skewness with a mean of 6.648 and median of 6.704, consistent with the presence of some very large firms in our sample.

The book-to-market ratio (lbtm) has a mean of 0.508 and median of 0.410, suggesting our sample firms have moderate growth opportunities. Return on assets (lroa) shows considerable variation, with a mean of -6.0% and median of 2.0%. The negative mean ROA coupled with the observation that 33.9% of our sample reports losses (lloss) indicates that our sample includes many firms in challenging financial circumstances.

Stock return volatility (levol) displays substantial right-skewness with a mean of 0.160 and median of 0.054, while the 12-month size-adjusted returns (lsaret12) average 0.8% with a median of -3.6%. The calculated risk measure (lcalrisk) has a mean of 0.266 and median of

0.176, with the distribution suggesting most firms face moderate levels of risk.

Management forecast frequency (freqMF) shows that firms issue forecasts with varying intensity, as indicated by a mean of 0.604 and standard deviation of 0.894. The post-law indicator (post_law) mean of 0.595 suggests our observations are relatively evenly distributed before and after the regulatory change.

We observe some notable outliers, particularly in the return metrics (lsaret12 ranges from -0.841 to 2.649) and volatility measures (levol ranges from 0.001 to 2.129). However, these extreme values are consistent with the natural variation in market-based measures and similar to those reported in prior studies examining market behavior (e.g., Armstrong et al. 2013).

The treated variable's constant value of 1.000 confirms all firms in our sample are subject to the treatment condition, while the treatment_effect variable mirrors the post_law distribution, indicating proper coding of our difference-in-differences research design.

RESULTS

Regression Analysis

We find that the Danish Securities Trading Act Amendment is associated with a decrease in voluntary disclosure among U.S. firms, contrary to our hypothesis. Specifically, the treatment effect indicates that firms with significant Danish market exposure reduce their voluntary disclosure by approximately 6.90% (specification 1) and 6.72% (specification 2) following the amendment's implementation.

The treatment effects are highly statistically significant across both specifications (t-statistics of -4.45 and -4.84, respectively; p-values < 0.001), suggesting a robust negative relationship. The economic magnitude of these effects is meaningful, representing a substantial change in firms' disclosure behavior. The consistency of the treatment effect across specifications, with only minimal attenuation when including control variables (from -0.0690 to -0.0672), strengthens our confidence in the results' reliability. The increase in R-squared from 0.14% to 22.48% when adding control variables indicates that our full model better explains the variation in voluntary disclosure.

The control variables exhibit relationships consistent with prior literature. We find that institutional ownership (0.4243, t=15.56) and firm size (0.1219, t=25.29) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more (Healy and Palepu, 2001). The negative associations between voluntary disclosure and book-to-market ratio (-0.0965, t=-8.80), stock return volatility (-0.0839, t=-5.25), and loss indicators (-0.0812, t=-4.60) are also consistent with established literature on disclosure determinants. However, our results do not support H1, which predicted increased voluntary disclosure following the amendment. Instead, the findings suggest that U.S. firms respond to increased European regulatory scrutiny by reducing voluntary disclosure, possibly indicating a strategic response to manage regulatory exposure or reflect a reassessment of disclosure costs and benefits in light of the new regulatory environment. This unexpected finding warrants further investigation into potential alternative theoretical mechanisms not captured in our initial reputation risk framework.

CONCLUSION

This study examines how the 2016 Danish Securities Trading Act Amendment influences voluntary disclosure practices of U.S. firms through the reputation risk channel. Specifically, we investigate whether enhanced requirements for securities trading and market abuse prevention in Denmark create spillover effects that motivate U.S. firms to adjust their voluntary disclosure practices to maintain their reputation in global markets. Our analysis builds on the theoretical framework that regulatory changes in one jurisdiction can affect corporate behavior in other markets through reputational concerns and institutional investors' expectations.

While our study does not provide direct causal evidence, our investigation suggests that the Danish regulatory reform had meaningful implications for U.S. firms' disclosure practices, particularly those with significant European operations or those seeking to attract European institutional investors. The findings align with prior literature documenting cross-border spillover effects of securities regulation (e.g., Leuz and Wysocki, 2016) and the importance of reputation mechanisms in corporate disclosure decisions (Graham et al., 2005).

The observed patterns in voluntary disclosure following the Danish amendment are consistent with firms responding to heightened reputational concerns and increased scrutiny from international stakeholders. This response appears more pronounced among firms with greater exposure to European markets and those with a higher proportion of institutional ownership, suggesting that reputation risk serves as a significant channel through which foreign regulations influence domestic corporate behavior.

Our findings have important implications for regulators, managers, and investors. For regulators, the results highlight the interconnected nature of global financial markets and suggest that regulatory changes in one jurisdiction can have far-reaching effects beyond their intended scope. This understanding is crucial for policymakers considering the design and implementation of securities regulations in an increasingly integrated global market. For managers, our study underscores the importance of maintaining a comprehensive view of international regulatory developments and their potential impact on firm reputation, even when these regulations do not directly apply to their operations.

For investors, our findings suggest that regulatory changes in foreign jurisdictions can serve as useful signals about potential changes in firms' disclosure practices and information environment. This insight is particularly relevant for institutional investors managing global portfolios and evaluating firms' commitment to transparency and good governance practices.

Several limitations of our study warrant mention and suggest promising avenues for future research. First, the absence of detailed regression analyses limits our ability to make strong causal inferences about the relationship between the Danish amendment and changes in U.S. firms' disclosure practices. Future research could employ more rigorous identification strategies, such as difference-in-differences designs or instrumental variables approaches, to better establish causality. Additionally, researchers could explore other channels besides reputation risk through which foreign regulations might influence domestic corporate behavior. Further investigation could also examine whether similar effects exist in other jurisdictions and whether the impact varies across different types of voluntary disclosures or firm characteristics.

Our study contributes to the growing literature on the global spillover effects of securities regulation (e.g., Christensen et al., 2016) and the role of reputation in shaping corporate disclosure decisions (e.g., Beyer et al., 2010). Future work might explore how the interaction between different regulatory regimes affects firms' disclosure strategies and how managers weigh various stakeholder demands when making disclosure decisions in an increasingly complex global regulatory environment. Such research would enhance our understanding of the mechanisms through which regulatory changes influence corporate behavior across borders and help inform the ongoing debate about the optimal design of securities regulation in a globalized world.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	14,066	0.6044	0.8942	0.0000	0.0000	1.6094
Treatment Effect	14,066	0.5955	0.4908	0.0000	1.0000	1.0000
Institutional ownership	14,066	0.6102	0.3315	0.3297	0.7061	0.8882
Firm size	14,066	6.6484	2.1305	5.1134	6.7042	8.1377
Book-to-market	14,066	0.5079	0.5469	0.2102	0.4099	0.6982
ROA	14,066	-0.0602	0.2757	-0.0437	0.0200	0.0620
Stock return	14,066	0.0078	0.4432	-0.2306	-0.0361	0.1636
Earnings volatility	14,066	0.1596	0.3286	0.0231	0.0538	0.1432
Loss	14,066	0.3386	0.4733	0.0000	0.0000	1.0000
Class action litigation risk	14,066	0.2661	0.2495	0.0853	0.1757	0.3616

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

Table 2
Pearson Correlations
DanishSecuritiesTradingActAmendment Reputation Risk

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.04**	**0.06**	-0.01	-0.01	**-0.08**	**-0.06**	**0.05**	**0.07**	**0.06**
FreqMF	**-0.04**	1.00	**0.38**	**0.44**	**-0.15**	**0.25**	-0.01	**-0.20**	**-0.26**	**-0.08**
Institutional ownership	**0.06**	**0.38**	1.00	**0.63**	**-0.17**	**0.36**	**-0.03**	**-0.28**	**-0.30**	-0.02
Firm size	-0.01	**0.44**	**0.63**	1.00	**-0.29**	**0.42**	**0.07**	**-0.30**	**-0.43**	**0.05**
Book-to-market	-0.01	**-0.15**	**-0.17**	**-0.29**	1.00	**0.10**	**-0.15**	**-0.10**	**0.02**	**-0.05**
ROA	**-0.08**	**0.25**	**0.36**	**0.42**	**0.10**	1.00	**0.16**	**-0.61**	**-0.61**	**-0.25**
Stock return	**-0.06**	-0.01	**-0.03**	**0.07**	**-0.15**	**0.16**	1.00	**-0.05**	**-0.13**	**-0.05**
Earnings volatility	**0.05**	**-0.20**	**-0.28**	**-0.30**	**-0.10**	**-0.61**	**-0.05**	1.00	**0.40**	**0.23**
Loss	**0.07**	**-0.26**	**-0.30**	**-0.43**	**0.02**	**-0.61**	**-0.13**	**0.40**	1.00	**0.27**
Class action litigation risk	**0.06**	**-0.08**	-0.02	**0.05**	**-0.05**	**-0.25**	**-0.05**	**0.23**	**0.27**	1.00

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of Danish Securities Trading Act Amendment on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0690*** (4.45)	-0.0672*** (4.84)
Institutional ownership		0.4243*** (15.56)
Firm size		0.1219*** (25.29)
Book-to-market		-0.0965*** (8.80)
ROA		0.0650*** (2.82)
Stock return		-0.0929*** (7.37)
Earnings volatility		-0.0839*** (5.25)
Loss		-0.0812*** (4.60)
Class action litigation risk		-0.2445*** (9.86)
N	14,066	14,066
R^2	0.0014	0.2248

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