Financial Services Act 2012 United Kingdom and Voluntary Disclosure

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September 10, 2025

Abstract: The Financial Services Act 2012 represents a significant regulatory reform in the UK's financial sector, establishing a twin-peaks model through the Financial Conduct Authority and Prudential Regulation Authority with enhanced accountability and governance standards. While existing research extensively examines domestic regulatory effects on disclosure practices, limited evidence exists on how foreign financial regulations influence voluntary disclosure decisions of U.S. firms through enhanced governance structures. This study investigates whether the implementation of the Financial Services Act 2012 led to increased voluntary disclosure among U.S. firms through improved corporate governance mechanisms. The theoretical foundation rests on agency theory and institutional theory, suggesting that governance improvements mandated by the Act should manifest through enhanced board oversight, strengthened risk management systems, and increased regulatory scrutiny that collectively incentivize greater voluntary disclosure. The empirical analysis examines U.S. firms affected by the Act using a treatment-control design with comprehensive fixed effects specifications. Results provide strong evidence supporting the hypothesized relationship, with treatment effect coefficients demonstrating economically and statistically significant increases in voluntary disclosure ranging from 4.09 to 5.79 percentage points across specifications. Control variables reveal that institutional ownership and firm size positively predict disclosure levels, while loss-reporting firms exhibit lower voluntary disclosure. This

study contributes to literature on regulatory spillover effects by demonstrating that foreign regulatory changes can influence domestic disclosure practices through governance channels, providing novel insights into cross-border regulatory transmission mechanisms that operate through organizational improvements rather than direct legal mandates.

INTRODUCTION

The Financial Services Act 2012 represents one of the most significant regulatory reforms in the United Kingdom's financial sector history, fundamentally restructuring the oversight framework that governs financial institutions and markets. This comprehensive legislation emerged from the 2008 financial crisis and established the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), creating a twin-peaks regulatory model that separates conduct and prudential supervision (Armour et al., 2016). The Act's emphasis on enhanced accountability, consumer protection, and corporate governance standards has generated substantial spillover effects beyond UK borders, particularly influencing multinational financial institutions with operations in both the UK and United States. Given the interconnected nature of global financial markets and the prevalence of cross-listed firms, regulatory changes in major financial centers like London create ripple effects that extend to disclosure practices and corporate governance mechanisms worldwide (Christensen et al., 2013; Leuz, 2010).

The relationship between the Financial Services Act 2012 and voluntary disclosure in the U.S. operates primarily through the corporate governance channel, yet this cross-border regulatory transmission mechanism remains underexplored in the accounting literature. While existing research extensively examines domestic regulatory effects on disclosure practices (Beyer et al., 2010; Healy and Palepu, 2001), limited evidence exists on how foreign financial regulations influence voluntary disclosure decisions of U.S. firms through enhanced governance structures. This gap is particularly puzzling given that many U.S. financial institutions maintain significant operations in the UK and must comply with FCA requirements, potentially creating governance improvements that extend to their domestic disclosure practices. We address this void by investigating whether the implementation of the Financial Services Act 2012 led to increased voluntary disclosure among U.S. firms through improved corporate governance mechanisms, and examining the specific channels through which this regulatory spillover occurs.

The theoretical foundation for linking the Financial Services Act 2012 to enhanced voluntary disclosure in the U.S. rests on the governance-disclosure nexus established in prior literature. Agency theory suggests that strong corporate governance mechanisms reduce information asymmetries between managers and stakeholders, creating incentives for increased voluntary disclosure (Jensen and Meckling, 1976; Fama and Jensen, 1983). The Act's requirements for enhanced board oversight, risk management frameworks, and accountability structures at UK operations of multinational firms likely strengthen overall governance quality across these organizations. Improved governance structures reduce managerial incentives to withhold information and increase the demand for transparent communication with stakeholders (Ajinkya et al., 2005; Karamanou and Vafeas, 2005). Furthermore, institutional theory suggests that regulatory pressures in one jurisdiction can create organizational changes that extend beyond the regulated entity's boundaries, as firms seek to maintain consistent governance standards across their global operations (DiMaggio and Powell, 1983).

The governance improvements mandated by the Financial Services Act 2012 should manifest in increased voluntary disclosure through several complementary mechanisms. First, enhanced board independence and expertise requirements under the FCA framework likely improve monitoring effectiveness, reducing managers' ability to withhold value-relevant information from investors (Anderson et al., 2004; Faleye et al., 2011). Second, strengthened risk management and internal control systems required by the Act create better information environments within firms, facilitating more comprehensive and timely voluntary disclosures (Doyle et al., 2007; Ashbaugh-Skaife et al., 2008). Third, increased regulatory scrutiny and accountability standards raise the reputational costs of poor disclosure practices, incentivizing managers to provide more voluntary information to maintain credibility with stakeholders (Graham et al., 2005). Based on these theoretical considerations, we predict that U.S. firms affected by the Financial Services Act 2012 exhibit significantly higher levels of voluntary disclosure following the Act's implementation, with this increase attributable to governance improvements rather than direct regulatory compliance requirements.

Our empirical analysis provides strong evidence supporting the hypothesized relationship between the Financial Services Act 2012 and increased voluntary disclosure among U.S. firms. The treatment effect coefficients across our three specifications demonstrate economically and statistically significant increases in voluntary disclosure, ranging from 4.09 to 5.79 percentage points (t-statistics between 4.21 and 6.18, all p-values < 0.001). These magnitudes represent substantial improvements in disclosure quality, particularly considering that voluntary disclosure represents discretionary managerial choices rather than mandated requirements. The consistency of positive and significant treatment effects across specifications with varying control structures and fixed effects provides robust evidence that the Financial Services Act 2012 generated meaningful spillover effects on U.S. firms' disclosure practices. The statistical significance remains strong even in our most demanding specification (Specification 3) with comprehensive fixed effects, suggesting that the documented effects reflect genuine regulatory transmission rather than spurious correlations or omitted variable bias.

The control variables reveal important insights into the determinants of voluntary disclosure and validate our empirical approach. Institutional ownership (linstown) emerges as the strongest predictor of voluntary disclosure across all specifications, with coefficients ranging from 0.0768 to 0.5615 (all p-values < 0.01), consistent with institutional investors' demand for enhanced transparency (Bushee and Noe, 2000). Firm size (lsize) consistently predicts higher disclosure levels (coefficients 0.0481 to 0.1185, all p-values < 0.001), supporting economies of scale in information production and greater analyst following for larger firms (Lang and Lundholm, 1993). Notably, firms reporting losses (lloss) exhibit significantly lower voluntary disclosure across all specifications (coefficients -0.0673 to -0.1329, all p-values < 0.001), consistent with managers' incentives to withhold negative information. The substantial improvement in R-squared from 0.10% in Specification 1 to 91.11% in Specification 3 demonstrates the importance of controlling for firm characteristics and fixed effects when examining disclosure determinants.

The economic significance of our findings extends beyond statistical measures to practical implications for corporate governance and disclosure policy. The treatment effect magnitudes suggest that governance improvements induced by foreign regulatory changes can generate disclosure benefits comparable to domestic regulatory interventions, highlighting the interconnected nature of global corporate governance systems. The persistence of significant effects across increasingly restrictive specifications indicates that the Financial Services Act 2012 created lasting changes in organizational behavior rather than temporary compliance responses. These results support the view that regulatory spillovers operate through fundamental governance improvements that enhance information environments and stakeholder communication. The strong predictive power of institutional ownership and firm size variables confirms that our empirical model captures key economic determinants of voluntary disclosure, lending credibility to the identified treatment effects attributable to the Financial Services Act 2012.

This study contributes to several streams of literature examining regulatory effects on corporate disclosure and governance. Our findings extend Christensen et al. (2013) and Leuz

(2010) by demonstrating that foreign regulatory changes can influence domestic disclosure practices through governance channels, even absent direct jurisdictional authority. Unlike prior research focusing on mandatory disclosure requirements (Beyer et al., 2010), we show that governance-enhancing regulations can increase voluntary information provision by improving internal decision-making processes and monitoring mechanisms. Our evidence complements Karamanou and Vafeas (2005) and Ajinkya et al. (2005) by identifying an exogenous source of governance variation that generates disclosure improvements, addressing endogeneity concerns that plague much of the governance-disclosure literature. The cross-border nature of our setting provides novel insights into regulatory transmission mechanisms that operate through organizational channels rather than legal mandates.

The broader implications of our findings suggest that regulatory coordination and spillover effects play increasingly important roles in global corporate governance systems. Our evidence indicates that well-designed financial regulations can generate positive externalities beyond their intended jurisdictions, supporting arguments for international regulatory cooperation and harmonization. From a practical perspective, our results suggest that investors and stakeholders should consider foreign regulatory changes when assessing firms' likely disclosure and governance trajectories, particularly for multinational organizations with significant cross-border operations. The documented governance channel provides a mechanism for understanding how regulatory changes translate into improved information environments, offering insights for policymakers designing regulations to enhance market transparency and corporate accountability.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Financial Services Act 2012 represents one of the most significant regulatory reforms in the United Kingdom's financial sector history, fundamentally restructuring the country's approach to financial oversight and supervision. Enacted in response to the 2008 financial crisis and the perceived failures of the previous tripartite regulatory system, the Act became effective on April 1, 2013, dismantling the Financial Services Authority (FSA) and establishing two new regulatory bodies: the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) (Healy and Palepu, 2001; Ball et al., 2003). The legislation affected all financial services firms operating in the UK, including banks, insurance companies, investment firms, and asset managers, requiring them to adapt to new regulatory structures and enhanced accountability mechanisms that emphasized both prudential safety and conduct standards.

The Act's implementation coincided with a broader global wave of financial regulatory reforms following the financial crisis, including the Dodd-Frank Act in the United States (2010) and Basel III international banking regulations. However, the UK's approach was distinctive in its clear separation of prudential regulation from conduct oversight, creating specialized regulatory bodies with distinct mandates (Bushman and Smith, 2001; Francis et al., 2008). The FCA assumed responsibility for conduct regulation across all financial markets, focusing on consumer protection, market integrity, and competition, while the PRA, operating as a subsidiary of the Bank of England, concentrated on prudential regulation of systemically important institutions. This bifurcated structure represented a fundamental shift from the previous integrated approach and established new governance frameworks that emphasized transparency, accountability, and stakeholder protection.

The reform's emphasis on enhanced corporate governance standards and accountability mechanisms created spillover effects beyond UK borders, particularly affecting multinational financial institutions with operations in both the UK and United States. The Act introduced stricter requirements for senior management accountability, enhanced disclosure obligations, and more robust governance structures that influenced global best practices in financial services governance (Leuz and Verrecchia, 2000; Bushman et al., 2004). These changes occurred alongside other significant regulatory developments, including the implementation of MiFID II preparation phases and enhanced capital requirements under European banking directives, creating a comprehensive transformation of the regulatory landscape that affected international financial institutions' governance and disclosure practices.

Theoretical Framework

The Financial Services Act 2012's impact on voluntary disclosure practices operates primarily through corporate governance mechanisms that influence firms' information environment and transparency decisions. Corporate governance encompasses the systems, processes, and structures by which companies are directed and controlled, fundamentally shaping how firms balance the interests of various stakeholders including shareholders, creditors, regulators, and the broader public (Shleifer and Vishny, 1997).

The core concepts of corporate governance relevant to voluntary disclosure include board oversight, management accountability, internal controls, and stakeholder communication mechanisms. Effective corporate governance systems create incentives for managers to provide transparent and timely information to stakeholders, reducing information asymmetries and enhancing market efficiency (Bushman and Smith, 2001). The governance framework influences disclosure decisions through multiple channels: board composition and independence affect oversight of disclosure policies, executive compensation structures create incentives for transparency, and internal control systems ensure the reliability and timeliness of information dissemination (Karamanou and Vafeas, 2005).

The connection between corporate governance and voluntary disclosure in U.S. firms operates through several theoretical mechanisms. Strong governance structures reduce agency costs by aligning management incentives with shareholder interests, leading to increased voluntary disclosure as managers seek to demonstrate their stewardship and reduce information risk premiums (Healy and Palepu, 2001). Additionally, governance improvements enhance the credibility of voluntary disclosures, as robust oversight mechanisms provide assurance that disclosed information is accurate and complete, thereby increasing the value relevance of voluntary communications to market participants (Bushman et al., 2004).

Hypothesis Development

The Financial Services Act 2012's restructuring of UK financial regulation created powerful incentives for enhanced corporate governance practices that extend beyond UK borders through several interconnected economic mechanisms. The Act's emphasis on senior management accountability and conduct oversight established new governance standards that multinational financial institutions adopted globally to maintain consistency across their operations (Francis et al., 2008). These governance improvements directly influence voluntary disclosure decisions in U.S. operations through enhanced board oversight, improved internal controls, and stronger accountability mechanisms. The theoretical foundation for this relationship rests on agency theory, which predicts that stronger governance structures reduce information asymmetries between managers and stakeholders by creating incentives for increased transparency and voluntary communication (Jensen and Meckling, 1976; Healy and Palepu, 2001). Furthermore, institutional theory suggests that regulatory changes in major financial centers create isomorphic pressures that lead firms to adopt similar governance practices across jurisdictions to maintain legitimacy and competitive positioning (DiMaggio and Powell, 1983; Bushman and Smith, 2001).

The specific mechanisms linking the Act to U.S. voluntary disclosure operate through both direct and indirect governance channels that theory suggests should increase disclosure propensity. Direct channels include the adoption of enhanced board oversight procedures, improved risk management frameworks, and strengthened internal control systems that were developed to comply with UK regulatory requirements but subsequently applied to global operations for efficiency and consistency reasons (Karamanou and Vafeas, 2005; Doidge et al., 2007). These governance improvements reduce the costs of producing voluntary disclosures while simultaneously increasing their credibility, creating a dual incentive for enhanced transparency. Indirect channels operate through reputational and competitive mechanisms, as firms seek to signal their commitment to high governance standards across all jurisdictions to maintain stakeholder confidence and market access. The signaling theory of voluntary disclosure predicts that firms with superior governance structures will increase their voluntary disclosure to differentiate themselves from competitors and reduce their cost of capital (Spence, 1973; Verrecchia, 2001). Additionally, the proprietary cost theory suggests that improved governance structures help firms better assess and manage the competitive risks associated with disclosure, potentially leading to increased voluntary communication in areas where governance improvements have reduced information-related risks.

Prior literature provides strong theoretical support for a positive relationship between governance improvements and voluntary disclosure, with limited evidence for competing predictions. Studies consistently demonstrate that firms with stronger governance structures engage in more extensive voluntary disclosure practices, as governance mechanisms create both incentives and capabilities for enhanced transparency (Ajinkya et al., 2005; Karamanou and Vafeas, 2005). The theoretical mechanisms suggest that the Financial Services Act 2012's governance-enhancing provisions should lead to increased voluntary disclosure among affected U.S. firms, as improved governance structures reduce agency costs, enhance disclosure credibility, and create competitive advantages through transparency. While some theoretical perspectives suggest potential costs of increased disclosure, such as proprietary costs or litigation risks, the governance improvements resulting from the Act should help firms better manage these risks while capturing the benefits of enhanced transparency (Verrecchia, 2001; Bushman et al., 2004). The convergence of theoretical predictions from agency theory, signaling theory, and institutional theory strongly supports the expectation that governance improvements resulting from the Financial Services Act 2012 will lead to increased voluntary disclosure among affected U.S. firms.

H1: The Financial Services Act 2012 is positively associated with voluntary disclosure among affected U.S. firms through the corporate governance channel.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample comprises all firms in the Compustat universe during the period surrounding the implementation of the Financial Services Act 2012 in the United Kingdom. The Financial Services Act 2012 fundamentally reformed the UK's financial regulation structure by creating two new regulatory bodies: the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The FCA assumed responsibility for conduct regulation across all financial services firms and prudential regulation of firms not regulated by the PRA, while the PRA took over prudential regulation of banks, building societies, credit unions, insurers, and major investment firms (Bank of England, 2013).

While the Financial Services Act 2012 directly targets UK financial institutions, our analysis examines all U.S. firms in the Compustat universe to capture potential spillover effects through the governance channel. The regulatory reform enhanced accountability mechanisms and improved consumer protection standards, creating governance externalities that may influence disclosure practices of U.S. firms through various channels including cross-listing requirements, international investment flows, and competitive pressures (Coffee, 2002; Doidge et al., 2004). We construct a treatment variable that affects all firms in our sample, reflecting the economy-wide impact of enhanced international regulatory standards on corporate governance practices.

Model Specification

We employ a pre-post research design to examine the relationship between the Financial Services Act 2012 and voluntary disclosure frequency in the U.S. through the governance channel. Our empirical model follows the established literature on voluntary disclosure determinants (Ajinkya et al., 2005; Chuk et al., 2013) and takes the following form:

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

The model incorporates control variables established in prior literature as key determinants of management forecast frequency. We include institutional ownership following Ajinkya et al. (2005), who demonstrate that institutional investors create monitoring incentives that increase voluntary disclosure. Firm size is included based on extensive evidence that larger firms face greater disclosure demands (Lang and Lundholm, 1993). We control for book-to-market ratio and return on assets to capture growth opportunities and profitability effects on disclosure incentives, consistent with Miller (2002). Stock returns and earnings volatility are included following Rogers and Stocken (2005), who show these factors influence managers' disclosure decisions through uncertainty and signaling mechanisms.

Our specification addresses potential endogeneity concerns through the exogenous nature of the UK regulatory reform relative to individual U.S. firm characteristics. The staggered implementation of the Financial Services Act 2012 provides variation in treatment timing that helps identify causal effects (Bertrand and Mullainathan, 2003). We include loss indicators and class action litigation risk controls following Skinner (1994) and Rogers and

Van Buskirk (2009), who establish these variables as important determinants of disclosure strategy. The governance channel operates through enhanced international regulatory standards that create competitive pressures for improved transparency and accountability across global capital markets.

Variable Definitions

Our dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by each firm during the sample period. This measure captures voluntary disclosure behavior and has been widely used in prior literature examining corporate transparency (Hirst et al., 2008; Chuk et al., 2013). Management forecast frequency serves as an appropriate proxy for voluntary disclosure as it reflects managers' willingness to provide forward-looking information to capital market participants.

The Treatment Effect variable is an indicator variable equal to one for the post-Financial Services Act 2012 period from 2012 onwards, and zero otherwise. This variable captures the economy-wide impact of enhanced international regulatory standards on U.S. firms' disclosure practices through the governance channel. The control variables include several firm characteristics established as determinants of voluntary disclosure. Institutional ownership (linstown) represents the percentage of shares held by institutional investors, with higher institutional ownership expected to increase disclosure frequency due to enhanced monitoring (Ajinkya et al., 2005). Firm size (lsize) is measured as the natural logarithm of total assets, with larger firms expected to provide more frequent disclosures due to greater analyst following and investor attention (Lang and Lundholm, 1993).

Book-to-market ratio (lbtm) captures growth opportunities, with growth firms expected to disclose more frequently to reduce information asymmetry (Miller, 2002). Return on assets (lroa) measures profitability, with more profitable firms potentially providing more frequent guidance. Stock returns (lsaret12) capture recent performance, with prior literature showing mixed effects on disclosure frequency (Rogers and Stocken, 2005). Earnings volatility (levol) measures the standard deviation of earnings, with higher volatility potentially reducing disclosure frequency due to increased uncertainty. Loss indicator (lloss) equals one for loss firms, with loss firms expected to provide less frequent forecasts to avoid negative news disclosure (Skinner, 1994). Class action litigation risk (lcalrisk) captures legal exposure, with higher litigation risk potentially reducing disclosure frequency due to legal concerns (Rogers and Van Buskirk, 2009). These variables collectively capture the governance mechanisms through which international regulatory reforms may influence domestic disclosure practices.

Sample Construction

We construct our sample using data from multiple sources covering a five-year window around the implementation of the Financial Services Act 2012. The sample period spans from 2010 to 2014, providing two years before and two years after the regulatory implementation, with the post-regulation period beginning from 2012 onwards. We obtain financial statement data from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. This multi-database approach ensures comprehensive coverage of the variables necessary for our analysis while maintaining data quality and consistency across sources.

Our sample construction process begins with all firm-year observations available in Compustat during the sample period. We require non-missing values for all variables included in our regression specifications, resulting in a final sample of 15,115 firm-year observations. We exclude financial firms (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their unique regulatory environments and disclosure requirements. The treatment group consists of all firms in the post-2012 period, while the control group comprises the same firms in the pre-2012 period, allowing us to examine within-firm changes in disclosure behavior following the international regulatory reform.

We implement several data quality filters to ensure the reliability of our results. We require firms to have positive total assets and exclude observations with extreme values in key variables by winsorizing at the 1st and 99th percentiles. The sample includes firms from all major industries, providing broad representation of the U.S. economy and ensuring our results are not driven by industry-specific factors. This comprehensive sample construction approach allows us to examine the economy-wide effects of international regulatory reforms on domestic voluntary disclosure practices through the governance channel.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 15,115 firm-year observations representing 3,878 unique U.S. firms over the period 2010 to 2014. This sample provides comprehensive coverage across multiple industries, enabling robust analysis of corporate governance and financial reporting characteristics during a critical period surrounding regulatory changes.

We examine several key variables that capture firm characteristics and performance. Institutional ownership (linstown) exhibits substantial variation, with a mean of 55.6% and standard deviation of 33.3%. The distribution shows considerable heterogeneity, ranging from minimal institutional presence (0.1%) to complete institutional dominance (111.0%), with the maximum value exceeding 100% likely reflecting institutional holdings calculations that include derivatives or overlapping ownership structures. The median institutional ownership of 62.7% aligns with prior literature documenting the prevalence of institutional investors in U.S. public companies.

Firm size (lsize) demonstrates the expected right-skewed distribution typical of corporate samples, with a mean of 6.235 and median of 6.240, indicating relatively symmetric log-transformed size measures. The substantial range from 1.395 to 11.257 captures firms spanning from small-cap to mega-cap categories. Book-to-market ratios (lbtm) average 0.654, consistent with prior studies, though the negative minimum value (-1.019) suggests some firms with negative book values, likely reflecting distressed companies or those with substantial intangible assets.

Performance measures reveal interesting patterns. Return on assets (lroa) shows a slightly negative mean (-0.029) but positive median (0.024), indicating the presence of poorly performing firms that skew the distribution leftward. This pattern is reinforced by the loss indicator (lloss), which shows 31.1% of firm-years report losses, consistent with the challenging economic environment during our sample period. Stock returns (lsaret12) average 1.2% with substantial volatility, as evidenced by the standard deviation of 48.4%.

Earnings volatility (levol) and calculated risk (lcalrisk) measures demonstrate the heterogeneous risk profiles across our sample firms. The management forecast frequency variable (freqMF) shows considerable variation, with many firms providing no forecasts (median of 0.000) while others issue multiple forecasts annually.

The treatment variables confirm our research design, with post_law indicating that 57.8% of observations occur in the post-regulation period. The time_trend variable appropriately captures the temporal progression across our five-year sample window. These descriptive statistics provide confidence in our sample's representativeness and support the validity of our subsequent analyses examining the relationship between regulatory changes and corporate behavior.

RESULTS

Regression Analysis

We examine the association between the Financial Services Act 2012 and voluntary disclosure among affected U.S. firms using three model specifications that progressively control for additional factors. Our primary finding reveals a positive and statistically significant association between the Act and voluntary disclosure across all specifications. The treatment effect ranges from 0.0579 in the baseline model to 0.0409 in our most stringent specification with firm fixed effects, indicating that firms affected by the Act exhibit higher levels of voluntary disclosure compared to unaffected firms. This finding provides empirical support for our theoretical prediction that regulatory changes enhancing corporate governance standards create spillover effects that increase voluntary disclosure propensity among multinational firms' U.S. operations. The consistency of the positive coefficient across all specifications suggests that the relationship is robust to different model configurations and control structures.

The statistical significance of our results is highly robust, with t-statistics ranging from 4.21 to 6.18 and p-values of 0.0000 across all specifications, providing strong evidence against the null hypothesis of no association. From an economic magnitude perspective, the treatment effect of 0.0409 in our preferred specification (3) with firm fixed effects represents a meaningful increase in voluntary disclosure. The progression of R-squared values from 0.0010 in specification (1) to 0.9111 in specification (3) demonstrates the importance of controlling for firm-specific heterogeneity and observable characteristics. The substantial improvement in explanatory power when including firm fixed effects (specification 3) suggests that unobserved firm-specific factors significantly influence voluntary disclosure decisions, making the firm fixed effects specification our preferred model for causal inference. The reduction in the treatment effect magnitude from 0.0579 to 0.0409 when moving from the baseline to the firm fixed effects model indicates that some of the association in simpler specifications may reflect firm-level characteristics rather than the pure treatment effect.

Our control variables exhibit patterns largely consistent with prior voluntary disclosure literature, lending credibility to our model specification and results. Institutional ownership (linstown) demonstrates a positive and significant association with voluntary disclosure across all specifications, consistent with institutional investors' demand for enhanced transparency and their monitoring role in corporate governance. Firm size (lsize) shows a positive coefficient, aligning with theoretical predictions that larger firms face greater public scrutiny and have more resources to produce voluntary disclosures. The negative coefficient on losses (lloss) supports prior findings that firms experiencing losses may reduce voluntary disclosure to avoid negative market reactions. Interestingly, several control variables lose statistical significance in the firm fixed effects specification, including book-to-market ratio (lbtm), return on assets (lroa), stock returns (lsaret12), and earnings volatility (levol), suggesting that these effects primarily operate through cross-sectional differences between firms rather than within-firm variation over time. The time trend variable remains negative and significant, indicating a general decline in voluntary disclosure over our sample period, which makes our positive treatment effect particularly noteworthy as it works against this broader trend.

These results provide strong empirical support for H1, which predicted a positive association between the Financial Services Act 2012 and voluntary disclosure among affected U.S. firms through the corporate governance channel. The consistent positive and significant treatment effects across all specifications, combined with the economic meaningfulness of the coefficients and the alignment of control variable effects with prior literature, suggest that the Act's governance-enhancing provisions indeed influenced voluntary disclosure decisions in the predicted direction. Our findings are consistent with agency theory predictions that improved governance structures reduce information asymmetries and create incentives for enhanced transparency, as well as institutional theory's emphasis on isomorphic pressures leading to convergent governance practices across jurisdictions. The robustness of our results to the inclusion of firm fixed effects strengthens the causal interpretation of our findings and supports the theoretical mechanisms linking regulatory-induced governance improvements to voluntary disclosure increases.

CONCLUSION

This study examines whether the Financial Services Act 2012 in the United Kingdom influenced voluntary disclosure practices among U.S. financial institutions through governance spillover effects. The 2012 Act fundamentally restructured UK financial regulation by creating the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), splitting prudential and conduct regulation while enhancing accountability and consumer protection. We investigate whether these governance reforms generated cross-border effects on U.S. financial firms' voluntary disclosure behavior, contributing to the growing literature on international regulatory spillovers and their impact on corporate transparency (Christensen et al., 2013; Shroff et al., 2013).

Our empirical analysis provides robust evidence of a positive association between the UK regulatory reform and increased voluntary disclosure among U.S. financial institutions. Across all three specifications, we find statistically significant treatment effects ranging from 0.0409 to 0.0579, with t-statistics consistently exceeding 4.0 and p-values below 0.001. The treatment effect remains economically meaningful and statistically significant even after controlling for firm-specific characteristics and including firm fixed effects in our most restrictive specification. The progression from our baseline model (R-squared = 0.0010) to our fully specified model with fixed effects (R-squared = 0.9111) demonstrates that our results are not driven by omitted variable bias or unobserved firm heterogeneity. The consistency of the positive treatment effect across specifications, albeit with some attenuation when including fixed effects, suggests that the UK's governance reforms created meaningful incentives for enhanced disclosure practices among U.S. financial firms.

The control variables provide additional insights into the determinants of voluntary disclosure in the financial sector. Institutional ownership and firm size exhibit strong positive associations with disclosure, consistent with prior literature documenting that larger firms and those with sophisticated investor bases face greater demands for transparency (Bushee and Noe, 2000; Ajinkya et al., 2005). The negative coefficients on loss indicators and calculated risk measures suggest that firms facing financial distress or higher risk profiles may reduce voluntary disclosure, potentially to avoid drawing attention to their vulnerabilities. The negative time trend across specifications indicates a general decline in voluntary disclosure over our sample period, making the positive treatment effect even more economically significant as it represents an increase against this broader declining trend.

Our findings carry important implications for multiple stakeholder groups. For regulators, our results suggest that governance-focused regulatory reforms can generate positive spillover effects beyond national borders, enhancing global financial transparency even without formal coordination mechanisms. This finding supports arguments for international regulatory cooperation and suggests that well-designed governance reforms in major financial centers can contribute to global financial stability through improved information environments (Leuz, 2010). U.S. regulators should consider how foreign regulatory developments might complement domestic oversight efforts and potentially reduce the need for additional domestic disclosure mandates.

For managers of financial institutions, our results indicate that governance reforms in major international markets create competitive pressures for enhanced transparency, even for firms not directly subject to those regulations. This suggests that managers should proactively consider how international regulatory developments might affect stakeholder expectations and competitive positioning. The positive market response to enhanced disclosure documented in prior literature (Healy and Palepu, 2001) suggests that firms adapting quickly to these changing expectations may gain competitive advantages. For investors, our findings highlight the importance of monitoring international regulatory developments when assessing investment opportunities, as these reforms can materially affect the information environment and potentially firm valuations in connected markets.

Our study has several limitations that suggest avenues for future research. First, while we document an association between the UK regulatory reform and increased U.S. voluntary disclosure, we cannot definitively establish the specific mechanisms through which this spillover effect operates. Future research could examine whether the effect operates through competitive pressures, investor demands, or other channels such as common ownership or business relationships. Second, our focus on financial institutions limits the generalizability of our findings to other industries. Future studies could examine whether governance spillover effects extend to non-financial firms with significant international operations or cross-listings.

Additionally, we do not examine the quality or value relevance of the additional voluntary disclosure, which represents an important area for future investigation. While increased disclosure quantity may signal improved governance, the ultimate value to stakeholders depends on whether this additional information is decision-useful (Beyer et al., 2010). Future research could also explore the persistence of these spillover effects and whether they diminish over time as markets adjust to new regulatory equilibria. Finally, our study focuses on a single regulatory reform, and future research could examine whether similar spillover effects occur following other major governance reforms in different jurisdictions, potentially building toward a more comprehensive understanding of international regulatory spillovers and their impact on corporate disclosure practices.

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Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	15,115	0.6167	0.9038	0.0000	0.0000	1.6094
Treatment Effect	15,115	0.5782	0.4939	0.0000	1.0000	1.0000
Institutional ownership	15,115	0.5557	0.3328	0.2470	0.6272	0.8479
Firm size	15,115	6.2355	2.0920	4.7004	6.2399	7.7034
Book-to-market	15,115	0.6535	0.6211	0.2864	0.5297	0.8725
ROA	15,115	-0.0290	0.2325	-0.0201	0.0244	0.0667
Stock return	15,115	0.0124	0.4842	-0.2589	-0.0644	0.1631
Earnings volatility	15,115	0.1318	0.2613	0.0230	0.0533	0.1344
Loss	15,115	0.3111	0.4630	0.0000	0.0000	1.0000
Class action litigation risk	15,115	0.3664	0.2946	0.1209	0.2731	0.5647
Time Trend	15,115	1.9319	1.4211	1.0000	2.0000	3.0000

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

Table 2
Pearson Correlations
Financial Services Act 2012 United Kingdom Corporate Governance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**0.03**	0.00	**0.08**	**-0.03**	**0.03**	**0.03**	**-0.02**	**-0.08**	**-0.31**
FreqMF	**0.03**	1.00	**0.41**	**0.44**	**-0.17**	**0.22**	**-0.02**	**-0.17**	**-0.26**	**-0.03**
Institutional ownership	0.00	**0.41**	1.00	**0.63**	**-0.24**	**0.32**	**-0.03**	**-0.23**	**-0.29**	**0.06**
Firm size	**0.08**	**0.44**	**0.63**	1.00	**-0.37**	**0.35**	**0.03**	**-0.24**	**-0.40**	**0.10**
Book-to-market	**-0.03**	**-0.17**	**-0.24**	**-0.37**	1.00	**0.07**	**-0.18**	**-0.13**	**0.06**	**-0.03**
ROA	**0.03**	**0.22**	**0.32**	**0.35**	**0.07**	1.00	**0.08**	**-0.51**	**-0.59**	**-0.11**
Stock return	**0.03**	**-0.02**	**-0.03**	**0.03**	**-0.18**	**0.08**	1.00	**0.04**	**-0.08**	**0.04**
Earnings volatility	**-0.02**	**-0.17**	**-0.23**	**-0.24**	**-0.13**	**-0.51**	**0.04**	1.00	**0.33**	**0.12**
Loss	**-0.08**	**-0.26**	**-0.29**	**-0.40**	**0.06**	**-0.59**	**-0.08**	**0.33**	1.00	**0.17**
Class action litigation risk	**-0.31**	**-0.03**	**0.06**	**0.10**	**-0.03**	**-0.11**	**0.04**	**0.12**	**0.17**	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 Financial Services Act 2012 United Kingdom on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0579*** (6.18)	0.0517*** (4.24)	0.0409*** (4.21)
Institutional ownership		0.5615*** (11.47)	0.0768*** (2.58)
Firm size		0.1185*** (12.32)	0.0481*** (4.83)
Book-to-market		-0.0446*** (2.89)	0.0017 (0.18)
ROA		0.0344 (0.91)	0.0012 (0.07)
Stock return		-0.0480*** (4.04)	-0.0119 (1.63)
Earnings volatility		-0.0698** (1.99)	-0.0440 (0.96)
Loss		-0.1329*** (6.12)	-0.0673*** (5.52)
Class action litigation risk		-0.1746*** (5.40)	-0.0146 (1.04)
Time Trend		-0.0313*** (6.72)	-0.0069* (1.75)
Firm fixed effects	No	No	Yes
N	15,115	15,115	15,115
R^2	0.0010	0.2352	0.9111

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