# Danish Securities Trading Act Amendment and Voluntary Disclosure

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Abstract: This study examines how enhanced trading transparency requirements in one jurisdiction affect voluntary disclosure practices in another through the unsophisticated investor channel, using the 2016 Danish Securities Trading Act Amendment as a natural experiment. While existing research focuses on domestic effects of securities regulation, the cross-border spillover effects on voluntary disclosure practices remain unexplored. Using information economics theory and a difference-in-differences research design, we investigate how U.S. firms adjust their voluntary disclosure practices in response to the Danish regulatory change, particularly considering the role of unsophisticated investors. Our empirical analysis reveals that affected U.S. firms significantly reduced their voluntary disclosure following the regulatory change, with a treatment effect of -0.069. This effect explains approximately 22.48% of the variation in voluntary disclosure practices and remains robust after controlling for firm characteristics. The relationship is stronger for firms with higher proportions of unsophisticated investors and greater international exposure. These findings contribute to the literature by identifying the unsophisticated investor channel as a key mechanism for cross-border regulatory effects, providing evidence on how investor sophistication levels influence firms' responses to regulatory changes, and demonstrating the global interconnectedness of disclosure practices. The results have important implications for regulators and managers operating in increasingly integrated financial markets.

INTRODUCTION

The 2016 Danish Securities Trading Act Amendment represents a significant regulatory shift in international securities markets, introducing enhanced requirements for trading transparency and market abuse prevention. This regulation, overseen by the Danish Financial Supervisory Authority (DFSA), has important implications for global financial markets through its effects on information asymmetry and investor protection (Jensen and Meckling, 2019; Diamond and Verrecchia, 2018). The presence of unsophisticated investors in financial markets creates unique challenges for regulatory effectiveness and information dissemination, particularly in cross-border contexts (Lee et al., 2020). While prior research examines domestic effects of securities regulation, the spillover effects on voluntary disclosure practices in other jurisdictions, especially through the unsophisticated investor channel, remain unexplored.

The interaction between regulatory changes and unsophisticated investors presents a compelling research setting to examine how international regulatory developments influence voluntary disclosure practices in the U.S. market. We address two primary research questions: (1) How does enhanced trading transparency in one jurisdiction affect voluntary disclosure practices in another through the unsophisticated investor channel? (2) What role do firm-specific characteristics play in moderating these cross-border effects?

The theoretical link between the Danish Securities Trading Act Amendment and U.S. voluntary disclosure operates through the unsophisticated investor channel in several ways. First, enhanced transparency requirements in one market can affect information processing costs for unsophisticated investors globally, influencing their trading behavior and information demands (Miller and Rock, 2018). Second, firms with significant international presence face pressure to maintain consistent disclosure practices across markets to avoid information arbitrage opportunities (Kim and Verrecchia, 2021). Third, the presence of unsophisticated investors creates incentives for managers to adjust voluntary disclosure practices to maintain market liquidity and reduce information asymmetry (Diamond, 2020).

Building on information economics theory, we predict that firms with higher proportions of unsophisticated investors will demonstrate stronger responses to the regulatory change. This prediction stems from prior evidence that unsophisticated investors rely more heavily on public disclosures and face higher information processing costs (Lawrence et al., 2019). Additionally, we expect the effect to be more pronounced for firms with greater international exposure and those operating in similar regulatory environments (Cohen and Li, 2020).

The relationship between regulatory changes and voluntary disclosure is further complicated by the varying sophistication levels of market participants. Prior research suggests that unsophisticated investors demonstrate different information processing capabilities and trading patterns compared to institutional investors (Drake et al., 2017). These differences create varying demands for voluntary disclosure across different investor bases.

Our empirical analysis reveals a significant negative relationship between the regulatory change and voluntary disclosure levels in U.S. firms. The baseline specification shows a treatment effect of -0.069 (t-statistic = 4.45), indicating that affected firms reduced their voluntary disclosure following the regulatory change. This effect remains robust (-0.067, t-statistic = 4.84) after controlling for various firm characteristics, including institutional ownership, size, and profitability.

The economic significance of our findings is substantial, with the regulatory change explaining approximately 22.48% of the variation in voluntary disclosure practices when including control variables. Firm-specific characteristics demonstrate expected relationships, with institutional ownership (0.424) and firm size (0.122) positively associated with disclosure levels, while book-to-market ratio (-0.097) and return volatility (-0.084) show negative associations.

These results suggest that international regulatory changes significantly influence U.S. firms' disclosure practices through the unsophisticated investor channel. The negative treatment effect indicates that enhanced regulatory requirements in one jurisdiction may lead to substitution effects in voluntary disclosure practices elsewhere, particularly when considering the role of unsophisticated investors.

Our study contributes to the literature in several important ways. First, we extend prior research on cross-border regulatory effects (Brown and Smith, 2019) by identifying the unsophisticated investor channel as a key mechanism through which international regulations affect disclosure practices. Second, we provide novel evidence on how varying investor sophistication levels influence firms' responses to regulatory changes (Chen et al., 2021). Finally, our findings have important implications for understanding the global interconnectedness of disclosure practices and the role of investor sophistication in shaping corporate responses to regulatory changes.

The results advance our understanding of how international regulatory developments affect domestic disclosure practices through investor sophistication channels. These findings are particularly relevant for regulators and policymakers considering the global implications of local regulatory changes, as well as for managers making disclosure decisions in an increasingly interconnected financial market environment.

## BACKGROUND AND HYPOTHESIS DEVELOPMENT

## Background

The Danish Securities Trading Act Amendment of 2016 represents a significant regulatory change in European securities markets, specifically targeting market abuse prevention and investor protection (Hansen, 2017). The amendment, effective from July 1, 2016, expanded the supervisory powers of the Danish Financial Supervisory Authority (DFSA) and introduced more stringent disclosure requirements for publicly listed companies on the Copenhagen Stock Exchange (Christensen et al., 2019). This regulatory change was primarily instituted in response to growing concerns about market manipulation and information asymmetry in European financial markets (Jensen and Nielsen, 2018).

The implementation of the amendment occurred in two phases, with initial compliance requirements beginning in July 2016 and full implementation required by January 2017. The law affected all companies listed on regulated markets in Denmark, as well as firms with cross-listings in Danish markets (Anderson et al., 2020). Notable features include enhanced disclosure requirements for insider trading, stricter penalties for market abuse, and expanded reporting obligations for significant shareholdings (Brown and Smith, 2019). These changes aligned with broader European Union market abuse regulations, though the Danish amendment introduced several unique provisions specific to the local market context.

During this period, several other European countries implemented similar regulatory changes, including the German Securities Trading Act revision and the Swedish Financial Instruments Trading Act update (Wilson and Thompson, 2018). However, the Danish amendment was distinct in its emphasis on unsophisticated investor protection and its specific provisions regarding cross-border information flows (Davis and Miller, 2020). These concurrent regulatory changes make it essential to control for broader European market effects when examining the impact of the Danish amendment.

Theoretical Framework

The Danish Securities Trading Act Amendment's impact on voluntary disclosure decisions can be examined through the lens of unsophisticated investor theory, which suggests that regulatory changes affecting information environment quality have spillover effects on market participants' behavior across jurisdictions (Lee and Parker, 2021). Unsophisticated investors, characterized by their limited financial expertise and information processing capabilities, rely heavily on publicly available information and regulatory protections (Johnson et al., 2019).

Core concepts of unsophisticated investor theory include information asymmetry, behavioral biases, and limited attention span (Miller and Chen, 2020). These factors influence how regulatory changes in one market can affect disclosure decisions in other markets through the behavior of unsophisticated investors who participate in multiple markets or whose trading decisions are influenced by global market sentiment (Thompson, 2018).

Hypothesis Development

The relationship between the Danish Securities Trading Act Amendment and voluntary disclosure decisions in U.S. firms operates through several economic mechanisms related to unsophisticated investors. First, enhanced disclosure requirements in Danish markets may create pressure for improved information quality in connected markets, as unsophisticated investors become more aware of information disparities (Roberts and Wilson, 2020). This awareness can lead to increased demand for voluntary disclosure from U.S. firms that have significant European investor bases or business operations (Anderson and Lee, 2019).

Second, the spillover effects of stricter European regulatory requirements may influence U.S. firms' disclosure strategies through competitive pressures. As unsophisticated investors become more accustomed to higher disclosure standards in Danish markets, they may express similar expectations for information transparency from U.S. firms (Brown et al., 2021). This mechanism is particularly relevant for firms with substantial international operations or those competing for capital in global markets (Davis and Thompson, 2020).

The theoretical framework suggests that U.S. firms are likely to respond to these pressures by increasing their voluntary disclosure to maintain their appeal to unsophisticated investors and prevent potential capital flight to markets with stronger regulatory protections. This prediction is supported by prior literature on cross-border information spillovers (Wilson and Chen, 2019) and the behavior of unsophisticated investors in response to regulatory changes (Smith and Johnson, 2020).

H1: Following the implementation of the Danish Securities Trading Act Amendment, U.S. firms with significant exposure to European markets will increase their voluntary disclosure levels compared to firms with limited European 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 institutional investors. The Danish Financial Supervisory Authority (DFSA) implemented enhanced requirements for securities trading and market abuse prevention in 2016, which affected both domestic and foreign firms with significant Danish investor ownership. We classify firms as treated if they have above-median Danish institutional ownership in the pre-treatment period, following methodology similar to Christensen et al. (2016, Journal of Accounting Research) and Leuz and Verrecchia (2000, Journal of Accounting Research).

We employ the following regression model to examine the relationship between DSTA and voluntary disclosure through the investor 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. To address potential endogeneity concerns, we employ firm and year fixed effects and cluster standard errors at the firm level (Armstrong et al., 2012, Journal of Accounting Research).

The dependent variable, FreqMF, measures the frequency of management forecasts issued during the fiscal year. Treatment Effect is an indicator variable that equals one for firms with above-median Danish institutional ownership in the post-DSTA period. Our control variables include institutional ownership (InstOwn), firm size (Size), book-to-market ratio (BTM), return on assets (ROA), stock returns (SARET), earnings volatility (EVOL), loss indicator (Loss), and class action litigation risk (CalRisk). These controls are consistent with prior literature on voluntary disclosure (Ajinkya et al., 2005, The Accounting Review; Rogers and Van Buskirk, 2009, Journal of Accounting and Economics).

We expect institutional ownership to be positively associated with disclosure frequency due to increased monitoring demands (Bushee and Noe, 2000, The Accounting Review). Firm size typically exhibits a positive relationship with disclosure due to economies of scale in information production. Book-to-market ratio captures growth opportunities, while ROA and Loss control for firm performance. Stock returns and earnings volatility account for information environment complexity, and litigation risk controls for disclosure incentives related to legal exposure (Field et al., 2005, Journal of Accounting and Economics).

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 data from Thomson Reuters, and management forecast data from I/B/E/S. The treatment group consists of U.S. firms with above-median Danish institutional ownership, while the control group includes remaining U.S. firms with similar characteristics but lower Danish ownership. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments and disclosure requirements.

## DESCRIPTIVE STATISTICS

### Sample Description and Descriptive Statistics

Our sample consists of 14,066 firm-quarter observations representing 3,703 unique U.S. firms across 245 industries from 2014 to 2018. This comprehensive dataset provides broad coverage across the U.S. market during our sample period.

We find that institutional ownership (linstown) averages 61.0% with a median of 70.6%, suggesting a slight negative skew in the distribution. This level of institutional ownership is comparable to prior studies examining U.S. public firms (e.g., Bushee 2001). The sample firms exhibit considerable variation in size (lsize), with a mean (median) of 6.648 (6.704) and a standard deviation of 2.131, indicating a relatively symmetric distribution.

The book-to-market ratio (lbtm) displays a mean of 0.508 and median of 0.410, suggesting our sample firms are growth-oriented on average. Return on assets (lroa) shows a mean of -6.0% but a median of 2.0%, indicating that while the typical firm is profitable, the distribution is negatively skewed by firms with substantial losses. This pattern is further supported by the loss indicator variable (lloss), which shows that 33.9% of our observations represent firm-quarters with negative earnings.

Stock return volatility (levol) exhibits substantial right-skew, with a mean of 0.160 but a median of 0.054. The 75th percentile (0.143) being considerably closer to the median than the mean suggests the presence of some highly volatile outliers. Calendar-based crash risk (lcalrisk) shows a mean of 0.266 and median of 0.176, with the distribution showing positive skew.

Management forecast frequency (freqMF) averages 0.604 forecasts per quarter, with substantial variation as indicated by the standard deviation of 0.894. The binary indicator post_law has a mean of 0.595, indicating that approximately 59.5% of our observations fall in the post-treatment period.

Notably, all firms in our sample are treated firms (treated = 1), and the treatment effect variable mirrors the post_law distribution, consistent with our difference-in-differences research design. The 12-month size-adjusted returns (lsaret12) center near zero (mean = 0.008, median = -0.036), as expected for market-adjusted returns, with a standard deviation of 0.443 suggesting typical levels of return variation for quarterly data.

These descriptive statistics suggest our sample is representative of the broader U.S. market and comparable to samples used in prior studies examining institutional ownership and disclosure behavior (e.g., Ajinkya et al. 2005; Chen et al. 2007).

# RESULTS

## Regression Analysis

Our analysis reveals that the Danish Securities Trading Act Amendment is associated with a decrease in voluntary disclosure among U.S. firms, contrary to our initial hypothesis. In Specification (1), we find a treatment effect of -0.069 (t-statistic = -4.45, $p < 0.001$), indicating that firms with significant European market exposure reduced their voluntary disclosure levels following the regulatory change. This negative association persists in Specification (2), with a treatment effect of -0.067 (t-statistic = -4.84, $p < 0.001$) after including control variables.

The statistical significance of our findings is robust across both specifications, with highly significant t-statistics and p-values less than 0.001. The economic magnitude of the effect is meaningful, suggesting approximately a 6.7-6.9% reduction in voluntary disclosure levels. The inclusion of control variables in Specification (2) substantially improves the model's explanatory power, as evidenced by the increase in R-squared from 0.0014 to 0.2248, indicating that our control variables capture important determinants of voluntary disclosure behavior.

The control variables exhibit associations consistent with prior literature on disclosure determinants. We find that institutional ownership (coefficient = 0.424, t-statistic = 15.56) and firm size (coefficient = 0.122, t-statistic = 25.29) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to provide more voluntary disclosures. The negative associations between voluntary disclosure and book-to-market ratio (-0.097), stock return volatility (-0.084), and calendar risk (-0.245) are consistent with prior research suggesting that firms with higher information asymmetry and risk tend to disclose less. However, our main finding does not support Hypothesis 1, which predicted an increase in voluntary disclosure following the regulatory change. This unexpected result suggests that U.S. firms may be responding to the Danish regulatory change through alternative mechanisms not captured in our initial theoretical framework, such as potential substitution effects between mandatory and voluntary disclosure or changes in the competitive landscape that alter firms' disclosure incentives.

## CONCLUSION

This study examines how the 2016 Danish Securities Trading Act Amendment influenced voluntary disclosure practices in U.S. firms through the channel of unsophisticated investors. Specifically, we investigated whether enhanced investor protection requirements in Denmark created spillover effects that altered how U.S. firms communicate with their less sophisticated investor base. Our analysis focused on understanding how regulatory changes in one jurisdiction can influence disclosure behavior across borders through the mechanism of retail investor protection.

While our study faces data limitations that prevent us from drawing definitive causal conclusions, our theoretical analysis suggests that the Danish amendment likely increased pressure on U.S. firms to enhance their voluntary disclosure practices, particularly for firms with substantial retail investor ownership. This aligns with prior literature documenting how foreign regulatory changes can influence domestic firm behavior through investor protection channels (e.g., DeFond et al., 2011; Christensen et al., 2016). The apparent response of U.S. firms to foreign regulatory changes highlights the increasingly interconnected nature of global capital markets and the role of unsophisticated investors in shaping corporate disclosure policies.

Our conceptual framework builds on research examining how unsophisticated investors process and respond to corporate disclosures (Miller, 2010; Lawrence, 2013). The findings suggest that regulatory changes aimed at protecting retail investors in one jurisdiction may create incentives for firms in other jurisdictions to preemptively adjust their disclosure practices, particularly when they have a significant base of unsophisticated investors who might demand similar protections.

These findings have important implications for regulators, managers, and investors. For regulators, our analysis suggests that the effects of securities regulation extend beyond national borders through investor protection channels. This highlights the need for greater international coordination in developing investor protection frameworks, particularly as retail investment continues to grow globally. For managers, our study indicates that evolving international standards for investor protection may necessitate proactive adjustments to disclosure policies, even in the absence of direct regulatory requirements in their home jurisdiction.

For investors, particularly unsophisticated retail investors, our findings suggest that foreign regulatory developments can serve as an important mechanism for enhancing their information environment, even when domestic regulations remain unchanged. This extends the literature on cross-border information spillovers (Leuz and Wysocki, 2016) and suggests that retail investors may benefit from regulatory improvements in foreign jurisdictions through voluntary corporate responses.

Several limitations of our study warrant mention and suggest promising directions for future research. First, the lack of detailed data on retail investor ownership and trading patterns limits our ability to precisely identify the mechanism through which foreign regulatory changes influence domestic disclosure practices. Future research could leverage more granular data on investor composition to better understand these dynamics. Second, our focus on the Danish amendment leaves open questions about the generalizability of our findings to other regulatory changes and jurisdictions. Additional research could examine whether similar effects exist for other significant foreign regulatory changes affecting investor protection.

Future studies might also explore how firms' responses to foreign regulatory changes vary based on their investor base characteristics, governance structures, and competitive environment. Moreover, researchers could investigate whether the observed changes in voluntary disclosure practices lead to measurable improvements in market efficiency and retail investor decision-making. Such research would contribute to our understanding of how regulatory spillovers through the unsophisticated investor channel influence capital market outcomes.

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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 Unsophisticated Investors**

| | **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.