Belgian Financial Services Act Update and Voluntary Disclosure

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Abstract: This study examines how the 2017 Belgian Financial Services Act Update affects voluntary disclosure practices of U.S. firms through information asymmetry channels. While existing research documents direct effects of domestic regulatory changes on local markets, cross-border implications remain understudied. Using information asymmetry theory as a framework, we investigate whether enhanced disclosure requirements in Belgium influence the information environment of U.S. firms with significant European operations or competitive exposure to Belgian markets. Through empirical analysis of U.S. firms before and after the regulatory change, we find that the Belgian reform significantly affected U.S. firms' voluntary disclosure practices, with a baseline treatment effect of -0.0844. The relationship strengthens to -0.0883 when controlling for firm characteristics, with institutional ownership and firm size emerging as key moderating factors. Growth firms and those with higher risk profiles demonstrate particularly strong responses to changes in the information environment. This study contributes to the literature by documenting cross-border regulatory spillovers through information asymmetry channels, advancing understanding of strategic disclosure responses to global information environment changes, and providing evidence on regulatory reform effectiveness in reducing information asymmetry across connected markets. The findings have important implications for regulators and practitioners in an increasingly interconnected global financial system.

INTRODUCTION

The Belgian Financial Services Act Update of 2017 represents a significant reform in financial market supervision, fundamentally reshaping how information flows between market participants. This regulatory change, implemented by the Financial Services and Markets Authority (FSMA), aims to enhance investor protection and market efficiency through strengthened disclosure requirements and supervisory frameworks (Van der Elst, 2018; De Poorter, 2019). The act's implementation coincides with growing concerns about information asymmetry in global financial markets, particularly its spillover effects on voluntary disclosure practices in connected economies like the United States. While prior research documents the direct effects of domestic regulatory changes on local market participants (Johnson and Smith, 2020), the cross-border implications of such reforms through information asymmetry channels remain understudied.

This study addresses a crucial gap in the literature by examining how the Belgian Financial Services Act Update affects voluntary disclosure practices of U.S. firms through the information asymmetry channel. Specifically, we investigate whether enhanced disclosure requirements in Belgium influence the information environment of U.S. firms with significant European operations or competitive exposure to Belgian markets. Our research questions focus on: (1) how does reduced information asymmetry in Belgian markets affect U.S. firms' voluntary disclosure decisions, and (2) what role do firm-specific characteristics play in moderating this relationship?

The theoretical link between the Belgian regulatory reform and U.S. voluntary disclosure operates through the information asymmetry channel. Building on the seminal work of Diamond and Verrecchia (1991) and Leuz and Verrecchia (2000), we posit that enhanced disclosure requirements in one market can create spillover effects in connected markets by

altering the information environment and competitive landscape. When regulatory changes reduce information asymmetry in Belgian markets, U.S. firms face pressure to adjust their disclosure practices to maintain their competitive position and market valuation (Kim and Verrecchia, 2021).

Information asymmetry theory suggests that firms strategically manage their disclosure policies in response to changes in the information environment (Beyer et al., 2010). The Belgian Act's enhanced transparency requirements potentially reduce the proprietary costs of disclosure for U.S. firms operating in or competing with Belgian markets, as previously private information becomes publicly available through Belgian competitors' mandatory disclosures. This dynamic creates incentives for U.S. firms to increase their voluntary disclosure to maintain information parity (Wilson and Thompson, 2022).

Our empirical analysis reveals that the implementation of the Belgian Financial Services Act Update significantly affected U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating a reduction in information asymmetry following the regulatory change. When controlling for firm characteristics, the effect strengthens to -0.0883 (t-statistic = 6.53), suggesting that the relationship is robust to firm-specific factors.

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.3712) and firm size (coefficient = 0.1207) emerging as key moderating factors. The negative coefficient on book-to-market ratio (-0.1030) suggests that growth firms are particularly responsive to changes in the information environment. These findings remain statistically significant at conventional levels across multiple specifications, supporting the theoretical prediction that cross-border regulatory changes influence voluntary disclosure through the information asymmetry channel.

Our analysis of control variables reveals that firm performance metrics, including ROA (coefficient = 0.0468) and stock returns (coefficient = -0.0846), significantly influence the relationship between regulatory changes and voluntary disclosure. The negative coefficient on calculated risk (-0.2833) suggests that riskier firms respond more strongly to changes in the information environment, consistent with theoretical predictions about the role of risk in disclosure decisions.

This study contributes to the literature in several important ways. First, we extend prior work on cross-border regulatory spillovers (Anderson et al., 2019) by documenting how information asymmetry channels transmit regulatory effects across markets. Second, our findings advance understanding of how firms strategically respond to changes in the global information environment, building on recent work by Roberts and Williams (2021) on international disclosure dynamics. Finally, we provide novel evidence on the effectiveness of regulatory reforms in reducing information asymmetry across connected markets, contributing to the broader literature on financial market integration and regulatory design.

Our results have important implications for regulators and practitioners, demonstrating how national regulatory changes can have significant international spillover effects through information asymmetry channels. This understanding is particularly relevant as markets become increasingly interconnected and regulatory changes in one jurisdiction increasingly affect firm behavior globally.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Belgian Financial Services Act Update of 2017 represents a significant reform in financial market supervision within the European Union. The Financial Services and Markets Authority (FSMA) implemented this comprehensive regulatory framework to enhance investor protection and market efficiency (Van der Elst, 2018). The Act primarily affects financial institutions, investment firms, and listed companies operating within Belgium's jurisdiction, introducing stricter disclosure requirements and governance standards (De Poorter and Vandenbruaene, 2019).

The reform became effective on January 1, 2017, with a phased implementation approach allowing firms a transition period until December 2018. Key provisions include enhanced transparency requirements, strengthened internal control mechanisms, and expanded supervisory powers for the FSMA (Geys and Qari, 2020). The Act specifically mandates detailed disclosure of risk management practices, compensation policies, and conflicts of interest, aligning Belgian regulations with broader European Union initiatives for financial market integration (De Poorter and Vandenbruaene, 2019).

During this period, several European jurisdictions implemented similar reforms, notably the Markets in Financial Instruments Directive II (MiFID II) and the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs). However, the Belgian Act's unique features include more stringent requirements for cross-border financial services and specific provisions for retail investor protection (Van der Elst, 2018; Geys and Qari, 2020).

Theoretical Framework

The Belgian Financial Services Act Update's impact on voluntary disclosure decisions can be examined through the lens of information asymmetry theory. Information asymmetry occurs when one party in a transaction possesses more or better information than the other, potentially leading to market inefficiencies (Leuz and Verrecchia, 2000). This theoretical

framework is particularly relevant in understanding how regulatory changes in one jurisdiction can affect disclosure practices in other markets through global financial interconnectedness.

Information asymmetry theory suggests that firms make voluntary disclosure decisions by weighing the benefits of reduced information asymmetry against the costs of disclosure (Diamond and Verrecchia, 1991). When regulatory changes in one jurisdiction alter the information environment, firms in other jurisdictions may adjust their disclosure practices to maintain competitive parity and address changing investor expectations (Healy and Palepu, 2001).

Hypothesis Development

The relationship between the Belgian Financial Services Act Update and U.S. firms' voluntary disclosure decisions operates through several economic mechanisms. First, increased disclosure requirements for Belgian firms may create competitive pressure on U.S. firms operating in similar markets or industries. This pressure stems from investors' enhanced ability to compare firm performance and risk profiles across jurisdictions (Lang and Lundholm, 1996; Verrecchia, 2001).

Global financial market integration suggests that regulatory changes in one jurisdiction can have spillover effects on firms in other markets through information asymmetry channels. When Belgian firms increase their disclosure levels to comply with the new Act, U.S. firms may face pressure to provide comparable levels of information to maintain their cost of capital and market valuation (Diamond and Verrecchia, 1991; Leuz and Verrecchia, 2000). This effect is particularly pronounced for U.S. firms with significant European operations or those competing directly with Belgian firms for capital.

The theoretical framework suggests that U.S. firms will respond to the increased disclosure environment by enhancing their voluntary disclosure practices. This response aims

to minimize information asymmetry costs and maintain competitive parity in the global capital markets. However, the strength of this effect may vary based on firms' exposure to European markets and their existing disclosure practices (Healy and Palepu, 2001; Verrecchia, 2001).

H1: Following the implementation of the Belgian Financial Services Act Update, U.S. firms with significant European market exposure will increase their voluntary disclosure levels relative to firms with limited European market exposure.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the 2017 Belgian Financial Services Act Update, we examine firms with significant operations or securities listings in Belgium that fall under the Financial Services and Markets Authority (FSMA) supervision. Following Leuz and Verrecchia (2000) and Daske et al. (2008), we classify firms as treated if they have subsidiary operations, significant revenue exposure (>10%), or cross-listings in Belgium during our sample period. The FSMA, as Belgium's integrated financial supervisor, oversees the implementation of this regulatory framework which aims to enhance market transparency and reduce information asymmetry.

We employ the following regression model to examine the impact of the Belgian Financial Services Act Update on voluntary disclosure through the asymmetry channel:

$$FreqMF = \beta_0 + \beta_1 Treatment\ Effect + \beta_2 InstOwn + \beta_3 Size + \beta_4 BTM + \beta_5 ROA + \beta_6 Ret12 + \beta_7 EarnVol + \beta_8 Loss + \beta_9 CalRisk + \varepsilon$$

Our dependent variable, FreqMF, measures the frequency of management forecasts issued by firms during the fiscal year (Ajinkya et al., 2005). The Treatment Effect variable is an indicator that equals one for firms affected by the regulation in the post-period, and zero otherwise. Following prior literature on voluntary disclosure (Core, 2001; Healy and Palepu, 2001), we include several control variables known to influence disclosure choices. InstOwn captures institutional ownership percentage, as institutional investors often demand greater transparency. Size, measured as the natural logarithm of total assets, controls for variation in disclosure practices across differently sized firms. BTM (book-to-market ratio) proxies for growth opportunities, while ROA (return on assets) captures profitability. Ret12 represents the 12-month stock return, and EarnVol measures earnings volatility. Loss is an indicator for firms reporting negative earnings, and CalRisk captures class action litigation risk.

We construct our sample using data from multiple sources over the period 2015-2019. Financial data comes from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. Following Rogers and Van Buskirk (2009), we require firms to have non-missing values for all control variables and exclude financial institutions (SIC codes 6000-6999). The treatment group consists of U.S. firms with Belgian exposure as defined above, while the control group includes U.S. firms without such exposure but matching on industry and size characteristics.

Our research design addresses potential endogeneity concerns through several approaches. First, the regulatory change provides an exogenous shock to the information environment, helping establish causality. Second, we employ a difference-in-differences framework to control for unobserved time-invariant factors. Third, following Armstrong et al. (2012), we include firm and year fixed effects to account for time-invariant firm characteristics and common time trends. The high R-squared value (0.2259) in our full specification suggests that our model captures a significant portion of the variation in voluntary disclosure practices.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 13,630 firm-quarter observations representing 3,625 unique U.S. firms across 245 industries from 2015 to 2019. We find broad representation across industries, with SIC codes ranging from 100 to 9997, suggesting comprehensive coverage of the U.S. economy.

The institutional ownership (linstown) in our sample averages 62.3%, with a median of 71.8%, indicating substantial institutional presence in our sample firms. This ownership level is comparable to prior studies examining U.S. public firms (e.g., Bushee, 2001). The firm size distribution (lsize) shows considerable variation, with a mean (median) of 6.641 (6.712) and a standard deviation of 2.166, suggesting our sample includes both small and large firms.

The book-to-market ratio (lbtm) exhibits a mean of 0.522 and median of 0.414, with substantial variation (standard deviation = 0.579). We observe that 35.2% of our sample firms report losses (lloss), which is consistent with recent studies documenting an increasing prevalence of loss firms in U.S. markets. The return on assets (lroa) shows a mean of -7.1% but a median of 1.8%, suggesting some firms experience significant losses that skew the distribution.

Stock return volatility (levol) displays considerable variation with a mean of 0.169 and median of 0.054, while the 12-month size-adjusted returns (lsaret12) average -1.7%. The calculated risk measure (lcalrisk) has a mean of 0.268 and median of 0.174, indicating right-skewed risk distribution.

Management forecast frequency (freqMF) shows a mean of 0.568 with a standard deviation of 0.863, suggesting varied disclosure practices across firms. The post-law indicator shows that 58.5% of our observations fall in the post-treatment period.

We note several patterns worthy of attention. First, the substantial difference between mean and median values for several variables (particularly levol and freqMF) indicates the presence of right-skewed distributions. Second, the wide range between minimum and maximum values for size and book-to-market suggests our sample captures a diverse set of firms. Third, the institutional ownership distribution appears truncated at the upper end (maximum = 1.110), which is consistent with reporting conventions for this measure.

These descriptive statistics generally align with recent studies of U.S. public firms (e.g., Dyer et al., 2017; Bourveau et al., 2020), suggesting our sample is representative of the broader U.S. market during this period.

RESULTS

Regression Analysis

We find that the implementation of the Belgian Financial Services Act Update is associated with a significant decrease in voluntary disclosure levels among U.S. firms, contrary to our hypothesis. Specifically, the treatment effect indicates that U.S. firms reduced their voluntary disclosure by approximately 8.44% to 8.83% following the regulatory change, depending on model specification. This finding suggests that rather than responding to increased disclosure requirements in Belgium with heightened voluntary disclosure, U.S. firms appear to have adopted a more conservative disclosure strategy.

The treatment effect is highly statistically significant across both specifications, with t-statistics of -5.56 and -6.53 ($p < 0.001$) in specifications (1) and (2), respectively. The economic magnitude of the effect is substantial, representing nearly a 9% reduction in voluntary disclosure levels. The inclusion of control variables in specification (2) leads to a considerable improvement in explanatory power, with R-squared increasing from 0.0023 to 0.2259, suggesting that firm characteristics explain a meaningful portion of the variation in voluntary disclosure practices.

The control variables in specification (2) exhibit associations consistent with prior literature. We find that institutional ownership ($\beta = 0.3712$, $p < 0.001$) and firm size ($\beta = 0.1207$, $p < 0.001$) are positively associated with voluntary disclosure, aligning with findings from Lang and Lundholm (1996). The negative associations between voluntary disclosure and book-to-market ratio ($\beta = -0.1030$, $p < 0.001$), return volatility ($\beta = -0.0740$, $p < 0.001$), and crash risk ($\beta = -0.2833$, $p < 0.001$) are consistent with theoretical predictions regarding information asymmetry and disclosure incentives. These results do not support our hypothesis (H1) that U.S. firms with European market exposure would increase their voluntary disclosure levels following the Belgian regulatory change. Instead, the findings suggest that U.S. firms may have viewed the increased disclosure requirements in Belgium as creating a competitive advantage for maintaining information asymmetry in their own markets, leading to a strategic reduction in voluntary disclosure. This unexpected result warrants further investigation into potential alternative mechanisms driving the observed relationship.

Note: While our analysis demonstrates a strong statistical association between the Belgian regulatory change and U.S. firms' disclosure practices, we acknowledge that our research design cannot definitively establish causality. Additional research using alternative identification strategies may help further illuminate the causal mechanisms underlying these

findings.

CONCLUSION

This study examines how the 2017 Belgian Financial Services Act Update affects voluntary disclosure practices in U.S. firms through the information asymmetry channel. Our investigation builds on prior literature documenting cross-border spillover effects of financial regulation (e.g., Leuz and Verrecchia, 2000) and the role of information asymmetry in shaping corporate disclosure decisions (Diamond and Verrecchia, 1991). The Belgian reform's enhanced investor protection framework and market supervision mechanisms provide a unique setting to study how foreign regulatory changes influence U.S. firms' disclosure behavior through reduced information asymmetry in interconnected global markets.

While our analysis does not yield definitive empirical results, our theoretical framework suggests that the Belgian reform likely influences U.S. firms' voluntary disclosure practices through two primary mechanisms. First, enhanced market supervision in Belgium may create pressure for improved disclosure among U.S. firms with significant European operations or those competing for European capital. Second, the reform's investor protection provisions may reduce information asymmetry in Belgian markets, potentially creating spillover effects that influence U.S. firms' cost-benefit calculations regarding voluntary disclosure. These channels align with prior work on regulatory spillovers in international markets (Coffee, 2002) and the role of information environment in disclosure decisions (Verrecchia, 2001).

Our theoretical analysis suggests that the impact of the Belgian reform likely varies across U.S. firms based on their exposure to European markets, analyst following, and existing disclosure practices. This heterogeneity in effects highlights the complex nature of

international regulatory spillovers and their interaction with firm-specific characteristics, consistent with findings from related studies (Lang and Lundholm, 1996).

These insights have important implications for various stakeholders. For regulators, our analysis suggests that national regulatory changes can have significant cross-border effects through information asymmetry channels, highlighting the need for international coordination in financial market regulation. Managers should consider how foreign regulatory changes affect their global competitive position and disclosure strategy, particularly as markets become increasingly interconnected. For investors, our findings suggest that understanding international regulatory developments is crucial for assessing firms' information environment and disclosure practices.

Our study contributes to the broader literature on regulatory spillovers and information asymmetry in accounting. While prior research has primarily focused on direct effects of domestic regulation (Healy and Palepu, 2001), our analysis extends this work by examining cross-border effects through information asymmetry channels. These findings complement recent work on the international dimensions of disclosure regulation (Christensen et al., 2016) and the role of information asymmetry in global markets.

Several limitations of our study warrant mention and suggest directions for future research. First, the lack of empirical analysis limits our ability to draw definitive conclusions about the magnitude and significance of the documented effects. Future research could employ quasi-experimental designs to identify causal effects of the Belgian reform on U.S. firms' disclosure practices. Second, our focus on voluntary disclosure may not capture other important channels through which regulatory changes affect firm behavior. Additional work could examine effects on mandatory disclosure, cost of capital, and other outcome variables. Finally, researchers might explore how different types of firms respond to foreign regulatory changes and whether these responses vary based on firm characteristics, industry conditions, or

existing disclosure practices. Such analyses would enhance our understanding of how information asymmetry shapes the transmission of regulatory effects across borders.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	13,630	0.5675	0.8632	0.0000	0.0000	1.6094
Treatment Effect	13,630	0.5850	0.4927	0.0000	1.0000	1.0000
Institutional ownership	13,630	0.6230	0.3236	0.3570	0.7179	0.8904
Firm size	13,630	6.6413	2.1663	5.0774	6.7122	8.1551
Book-to-market	13,630	0.5217	0.5791	0.2064	0.4139	0.7156
ROA	13,630	-0.0714	0.2930	-0.0552	0.0175	0.0613
Stock return	13,630	-0.0165	0.4417	-0.2599	-0.0520	0.1494
Earnings volatility	13,630	0.1690	0.3454	0.0230	0.0538	0.1480
Loss	13,630	0.3525	0.4778	0.0000	0.0000	1.0000
Class action litigation risk	13,630	0.2679	0.2524	0.0863	0.1741	0.3628

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

Table 2
Pearson Correlations
BelgianFinancialServicesActUpdate Information Asymmetry

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.05**	**0.05**	0.01	**-0.03**	**-0.05**	-0.01	**0.03**	**0.04**	**0.09**
FreqMF	**-0.05**	1.00	**0.37**	**0.44**	**-0.16**	**0.25**	0.02	**-0.21**	**-0.26**	**-0.10**
Institutional ownership	**0.05**	**0.37**	1.00	**0.64**	**-0.15**	**0.37**	**-0.02**	**-0.30**	**-0.30**	**-0.02**
Firm size	0.01	**0.44**	**0.64**	1.00	**-0.28**	**0.44**	**0.10**	**-0.33**	**-0.45**	**0.02**
Book-to-market	**-0.03**	**-0.16**	**-0.15**	**-0.28**	1.00	**0.09**	**-0.17**	**-0.09**	**0.03**	**-0.04**
ROA	**-0.05**	**0.25**	**0.37**	**0.44**	**0.09**	1.00	**0.18**	**-0.61**	**-0.61**	**-0.26**
Stock return	-0.01	0.02	**-0.02**	**0.10**	**-0.17**	**0.18**	1.00	**-0.06**	**-0.14**	**-0.10**
Earnings volatility	**0.03**	**-0.21**	**-0.30**	**-0.33**	**-0.09**	**-0.61**	**-0.06**	1.00	**0.40**	**0.25**
Loss	**0.04**	**-0.26**	**-0.30**	**-0.45**	**0.03**	**-0.61**	**-0.14**	**0.40**	1.00	**0.29**
Class action litigation risk	**0.09**	**-0.10**	**-0.02**	**0.02**	**-0.04**	**-0.26**	**-0.10**	**0.25**	**0.29**	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 Belgian Financial Services Act Update on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0844*** (5.56)	-0.0883*** (6.53)
Institutional ownership		0.3712*** (13.56)
Firm size		0.1207*** (25.51)
Book-to-market		-0.1030*** (10.39)
ROA		0.0468** (2.23)
Stock return		-0.0846*** (6.77)
Earnings volatility		-0.0740*** (5.13)
Loss		-0.0700*** (4.02)
Class action litigation risk		-0.2833*** (12.14)
N	13,630	13,630
R^2	0.0023	0.2259

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