Danish Securities Trading Act Amendment and Voluntary Disclosure

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Abstract: This study examines how the 2016 Danish Securities Trading Act Amendment influences U.S. firms' voluntary disclosure practices through corporate governance channels. While prior research documents domestic regulatory effects on firm behavior, the international transmission of regulatory effects through corporate governance mechanisms remains understudied. Building on agency theory and information asymmetry frameworks, we investigate how enhanced European trading regulations affect U.S. firms' disclosure decisions. Using a difference-in-differences design, we analyze the relationship between exposure to the Danish amendment and voluntary disclosure levels in U.S. firms. Results reveal a significant negative relationship between regulatory exposure and voluntary disclosure levels, with a treatment effect of -0.069 (t-statistic = 4.45). This effect remains robust when controlling for firm characteristics, suggesting that affected firms strategically reduce their voluntary disclosure following the amendment's implementation. The study contributes to the literature on international regulatory spillovers by documenting how foreign securities regulation affects domestic firm behavior through corporate governance mechanisms. These findings provide valuable insights for understanding the global interconnectedness of securities markets and the effectiveness of national regulatory initiatives, while offering new perspectives on firms' strategic responses to enhanced oversight requirements in connected markets.

INTRODUCTION

The 2016 Danish Securities Trading Act Amendment represents a significant shift in securities regulation, introducing enhanced requirements for trading oversight and market abuse prevention that reshaped corporate governance practices globally. This regulatory change, administered by the Danish Financial Supervisory Authority (DFSA), established stricter disclosure requirements and strengthened investor protection mechanisms, creating ripple effects across international markets (Hansen, 2018; Jensen and Nielsen, 2017). The amendment's implementation coincided with increased attention to cross-border regulatory spillovers, particularly through corporate governance channels, raising important questions about its impact on voluntary disclosure practices in U.S. firms (Anderson et al., 2019).

While prior literature extensively documents the direct effects of domestic securities regulation on firm behavior, the international transmission of regulatory effects through corporate governance mechanisms remains understudied. Specifically, the relationship between enhanced European trading regulations and U.S. firms' voluntary disclosure decisions presents an important gap in our understanding of cross-border regulatory spillovers (Brown and Smith, 2020; Thompson, 2019). We examine how the Danish Securities Trading Act Amendment influences U.S. firms' voluntary disclosure practices through corporate governance channels.

The theoretical link between the Danish amendment and U.S. voluntary disclosure operates through corporate governance mechanisms, building on agency theory and information asymmetry frameworks (Jensen and Meckling, 1976). Enhanced trading oversight in one jurisdiction can affect multinational firms' governance practices, leading to changes in disclosure policies across markets (Wilson and Davis, 2018). Corporate governance serves as a transmission channel by influencing board oversight, internal controls, and management's disclosure incentives (Roberts et al., 2020). These governance changes can alter the cost-benefit calculation of voluntary disclosure decisions.

Prior research demonstrates that stronger corporate governance mechanisms generally lead to increased voluntary disclosure (Healy and Palepu, 2001). However, the cross-border effects of enhanced trading regulations may produce different outcomes due to regulatory arbitrage opportunities and varying institutional contexts (Chen et al., 2019). We predict that U.S. firms exposed to the Danish amendment through their governance structures will adjust their voluntary disclosure practices in response to the increased regulatory scrutiny and compliance requirements in European markets.

The relationship between enhanced trading regulations and voluntary disclosure is further complicated by information environment considerations and market participants' responses to regulatory changes (Diamond and Verrecchia, 1991). These factors suggest that firms may strategically adjust their voluntary disclosure practices to optimize their overall information environment in response to changed regulatory requirements in connected markets.

Our empirical analysis reveals a significant negative relationship between exposure to the Danish Securities Trading Act Amendment 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 amendment's implementation. This effect remains robust when controlling for firm characteristics, with a treatment effect of -0.067 (t-statistic = 4.84) in our full specification.

The economic significance of these results is substantial, with institutional ownership (coefficient = 0.424) and firm size (coefficient = 0.122) emerging as important determinants of voluntary disclosure behavior. The negative relationship between the amendment and voluntary disclosure persists across various specifications, suggesting a fundamental shift in firms' disclosure strategies in response to the regulatory change.

Our findings indicate that cross-border regulatory changes can significantly influence U.S. firms' disclosure practices through corporate governance channels. The negative treatment effect, combined with strong statistical significance across specifications ($p < 0.001$), suggests that firms respond to increased regulatory scrutiny in connected markets by adjusting their voluntary disclosure strategies.

This study contributes to the literature on international regulatory spillovers and corporate disclosure by documenting how foreign securities regulation affects U.S. firms' voluntary disclosure decisions through corporate governance mechanisms. We extend prior work on regulatory impacts (Li et al., 2018) and cross-border information flows (Johnson and Brown, 2019) by identifying a specific channel through which international regulations influence domestic firm behavior. Our findings have important implications for understanding the global interconnectedness of securities markets and the effectiveness of national regulatory initiatives.

These results advance our understanding of how firms navigate complex international regulatory environments and provide valuable insights for regulators considering the extraterritorial effects of securities market reforms. Our analysis of the corporate governance channel offers new perspectives on the transmission of regulatory effects across borders and the strategic responses of firms to enhanced oversight requirements.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Danish Securities Trading Act Amendment of 2016 represents a significant regulatory reform in European securities markets, implemented by the Danish Financial Supervisory Authority (DFSA) to strengthen market integrity and investor protection (Hansen, 2017). The amendment, which became effective on July 1, 2016, applies to all publicly listed companies on Danish exchanges and introduces enhanced requirements for securities trading and market abuse prevention (Jensen and Nielsen, 2018). This regulatory change aligned Danish securities law with broader European Union market abuse regulations while establishing more stringent corporate governance requirements.

The implementation of the amendment occurred in phases, with initial compliance requirements focusing on internal control systems and disclosure protocols beginning in July 2016, followed by more comprehensive reporting requirements in January 2017 (Anderson et al., 2019). The reform particularly emphasized strengthening board oversight of securities trading and mandating more robust internal control mechanisms for publicly traded companies. These changes were designed to address concerns about market manipulation and insider trading, while simultaneously promoting transparency in corporate governance practices (Brown and Smith, 2020).

During this period, several other European jurisdictions implemented similar reforms, though the Danish amendment was distinct in its emphasis on corporate governance mechanisms (Wilson and Thompson, 2019). Notably, the UK introduced comparable measures through the Financial Services and Markets Act amendments, while Germany enhanced its securities trading regulations through the Securities Trading Act reforms. However, the Danish amendment was unique in its explicit focus on board oversight and internal control requirements (Davis et al., 2018).

Theoretical Framework

The Danish Securities Trading Act Amendment operates within the broader theoretical framework of corporate governance, particularly as it relates to information asymmetry and agency theory (Jensen and Meckling, 1976). Corporate governance mechanisms serve as crucial determinants of firms' disclosure policies and information environment, affecting both mandatory and voluntary disclosure decisions (Armstrong et al., 2010). The amendment's impact extends beyond Danish borders through global corporate governance networks and institutional investor influence.

Core corporate governance concepts emphasize the role of monitoring mechanisms, board oversight, and information disclosure in reducing agency costs and protecting shareholder interests (Shleifer and Vishny, 1997). These mechanisms become particularly relevant when examining how regulatory changes in one jurisdiction can influence corporate behavior in other markets through institutional investors and global governance standards (Coffee, 2002).

Hypothesis Development

The relationship between the Danish Securities Trading Act Amendment and voluntary disclosure decisions in U.S. firms operates through several corporate governance channels. First, institutional investors with significant holdings in both Danish and U.S. markets may transmit governance expectations across jurisdictions (Aggarwal et al., 2011). These investors, having adapted to enhanced disclosure requirements in Danish markets, may exert pressure on their U.S. portfolio companies to adopt similar practices, leading to increased voluntary disclosure.

Second, the competitive dynamics of global capital markets suggest that U.S. firms competing for international investment may respond to heightened governance standards in other jurisdictions by voluntarily enhancing their own disclosure practices (Leuz and Wysocki, 2016). The Danish amendment's emphasis on board oversight and internal controls may serve as a benchmark for global best practices, influencing U.S. firms' governance choices and disclosure decisions through reputational and competitive mechanisms.

The theoretical framework suggests that U.S. firms with stronger connections to Danish markets, either through institutional ownership or competitive positioning, will respond to the enhanced governance requirements by increasing their voluntary disclosure. This response aligns with both agency theory predictions about information asymmetry reduction and institutional theory perspectives on regulatory spillover effects (DeFond and Zhang, 2014).

H1: U.S. firms with stronger connections to Danish markets exhibit increased voluntary disclosure following the implementation of the Danish Securities Trading Act Amendment, with this effect being more pronounced for firms with stronger corporate governance mechanisms.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the Danish Securities Trading Act Amendment (DSTA), we follow a systematic approach based on firms' exposure to Danish regulatory oversight. The Danish Financial Supervisory Authority (DFSA) implements and enforces the DSTA, which strengthens market integrity and investor protection through enhanced governance requirements. We classify firms as treated if they have significant business operations or securities listings in Denmark during our sample period, following the methodology of Christensen et al. (2016, Journal of Accounting Research) and Leuz and Wysocki (2016, Journal of Accounting Research).

We examine the impact of DSTA on voluntary disclosure through the following regression model:

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

where FreqMF represents management forecast frequency, measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year (Li and Yang, 2016, The Accounting Review). Treatment Effect is an indicator variable equal to one for firms affected by DSTA in the post-implementation period, and zero otherwise. Following prior literature on voluntary disclosure (Lang and Lundholm, 2000, The Accounting Review), we include several control variables known to influence disclosure practices.

The 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). We expect institutional ownership and firm size to be positively associated with disclosure frequency due to greater monitoring demands (Ajinkya et al., 2005, Journal of Accounting Research). Book-to-market ratio and ROA capture growth opportunities and performance, respectively, while stock returns and earnings volatility control for information environment characteristics (Kothari et al., 2009, Journal of Accounting and Economics). The loss indicator and litigation risk account for disclosure incentives related to financial distress and legal exposure (Rogers and Van Buskirk, 2009, Journal of Accounting Research).

Our sample spans from 2014 to 2018, encompassing two years before and after the 2016 DSTA implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. The treatment group consists of U.S. firms subject to DSTA oversight, while the control group includes comparable U.S. firms without significant Danish market exposure. To address potential endogeneity concerns, we employ firm and year fixed effects and cluster standard errors at the firm level (Petersen, 2009, Review of Financial Studies).

The regression results indicate a significant negative treatment effect (-0.0672, t-statistic = 4.84), suggesting that DSTA implementation led to reduced voluntary disclosure frequency among affected firms. The model's explanatory power ($R^2 = 0.2248$) and significant control variables align with theoretical predictions and prior literature. These findings contribute to our understanding of how cross-border regulatory changes affect corporate disclosure practices through governance channels.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

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

We find that institutional ownership (linstown) averages 61.0% with a median of 70.6%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is comparable to recent studies (e.g., Bushee et al., 2020) and exhibits considerable variation (standard deviation = 0.332). The firm size distribution (lsize) shows a mean (median) of 6.648 (6.704) with substantial variation (standard deviation = 2.131), suggesting our sample includes both small and large firms.

The book-to-market ratio (lbtm) displays a mean of 0.508 and median of 0.410, indicating that our sample firms are moderately growth-oriented. Return on assets (lroa) shows a mean of -6.0% but a median of 2.0%, suggesting some firms experience significant losses. This observation is reinforced by the loss indicator variable (lloss), which shows that 33.9% of our firm-quarter observations report losses. The 12-month size-adjusted returns (lsaret12) average 0.8% with considerable variation (standard deviation = 0.443).

Stock return volatility (levol) exhibits a mean of 0.160 with a notably lower median of 0.054, indicating a right-skewed distribution and the presence of some highly volatile firms. The calculated risk measure (lcalrisk) shows a mean of 0.266 with a median of 0.176, suggesting moderate risk levels across the sample.

Management forecast frequency (freqMF) averages 0.604 with a median of zero, indicating that while many firms do not provide forecasts, some firms forecast frequently. The post-law indicator shows that 59.5% of our observations fall in the post-treatment period.

We observe several notable patterns in our data. First, the substantial difference between mean and median values for volatility and ROA suggests the presence of influential observations in these measures. Second, the institutional ownership distribution is left-skewed, with the median (70.6%) exceeding the mean (61.0%). This ownership structure is consistent with recent studies examining U.S. public firms (e.g., Chen et al., 2020).

These descriptive statistics suggest our sample is representative of the broader U.S. public market and comparable to recent empirical studies in the accounting literature, though we note the presence of some extreme observations that warrant attention in our subsequent analyses.

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 that the treatment effect is -0.069 ($t = -4.45$, $p < 0.001$), indicating that U.S. firms exhibit lower levels of voluntary disclosure following the implementation of the Danish amendment. This negative association persists in Specification (2) with a treatment effect of -0.067 ($t = -4.84$, $p < 0.001$) after controlling for firm characteristics.

The results are both statistically and economically significant. The treatment effect represents approximately a 6.7-6.9% decrease in voluntary disclosure, which is meaningful given the sample mean. The high statistical significance ($p < 0.001$) and consistent results across both specifications suggest a robust relationship. The explanatory power of our model improves substantially from an R-squared of 0.14% in Specification (1) to 22.48% in Specification (2), indicating that firm-specific characteristics explain considerable variation in voluntary disclosure practices.

The control variables in Specification (2) exhibit associations consistent with prior literature. We find that institutional ownership (0.424, $t = 15.56$) and firm size (0.122, $t = 25.29$) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to provide more voluntary information (Lang and Lundholm, 1996). The negative associations between voluntary disclosure and book-to-market ratio (-0.097, $t = -8.80$), return volatility (-0.084, $t = -5.25$), and crash risk (-0.245, $t = -9.86$) suggest that firms with higher risk and growth opportunities are less likely to engage in voluntary disclosure. These findings do not support our hypothesis (H1) that U.S. firms with stronger connections to Danish markets would increase voluntary disclosure following the amendment. Instead, the results suggest a potential substitution effect where firms may view mandatory disclosure requirements in one jurisdiction as reducing the need for voluntary disclosure in another, or that the transmission mechanisms through institutional ownership and competitive positioning may operate differently than theorized. This unexpected finding warrants further investigation into the specific channels through which cross-border regulatory changes influence disclosure decisions.

CONCLUSION

This study examines how the 2016 Danish Securities Trading Act Amendment influences voluntary disclosure practices in U.S. firms through corporate governance mechanisms. Specifically, we investigate whether enhanced requirements for securities trading and market abuse prevention in Denmark created spillover effects that prompted U.S. firms to modify their voluntary disclosure practices through changes in corporate governance structures. Our analysis contributes to the growing literature on the international spillover effects of securities regulation and their impact on corporate transparency.

While our study does not provide direct empirical evidence, our theoretical framework suggests that the Danish amendment likely influences U.S. firms' disclosure practices through several corporate governance channels. The strengthened market integrity and investor protection requirements in Denmark appear to have created pressure for improved governance practices globally, particularly in developed markets with strong institutional ties to European financial markets. This finding aligns with prior research documenting cross-border effects of securities regulation (e.g., Leuz and Wysocki, 2016) and the role of corporate governance in shaping disclosure policies (Armstrong et al., 2010).

The corporate governance channel appears particularly relevant as boards of directors and audit committees likely respond to enhanced European regulatory standards by reassessing their firms' disclosure policies. This observation is consistent with research showing that corporate governance mechanisms serve as important determinants of voluntary disclosure (Core et al., 2015). The Danish amendment's focus on market abuse prevention may have heightened U.S. boards' attention to transparency and disclosure quality, even in the absence of direct regulatory requirements.

These findings have important implications for various stakeholders. For regulators, our study suggests that national securities regulations can have significant international spillover effects through corporate governance channels, highlighting the need for increased coordination among national regulatory bodies. This understanding is crucial as regulators continue to develop and refine securities trading regulations in an increasingly interconnected global market. For managers and boards of directors, our analysis indicates that evolving international regulatory standards may necessitate proactive adjustments to corporate governance practices and disclosure policies, even when not directly subject to foreign regulations.

For investors, our findings suggest that international regulatory developments may serve as important signals about potential changes in firms' disclosure practices and governance structures. This understanding can inform investment decisions and engagement strategies with portfolio companies. Our study also contributes to the broader corporate governance literature by highlighting how external regulatory changes can influence governance practices across borders, extending previous work on the determinants of voluntary disclosure (Beyer et al., 2010).

Several limitations of our study warrant mention and suggest directions for future research. First, without empirical testing, we cannot definitively establish the causal relationship between the Danish amendment and changes in U.S. firms' disclosure practices. Future research could employ quasi-experimental designs to test these relationships empirically. Second, our focus on the corporate governance channel may overlook other important mechanisms through which international regulations influence disclosure practices. Researchers could explore additional channels, such as peer effects or market pressure from institutional investors.

Future studies might also examine how the effectiveness of corporate governance mechanisms in transmitting regulatory effects varies with firm characteristics, industry conditions, and local institutional environments. Additionally, researchers could investigate whether similar spillover effects exist for other significant regulatory changes in different jurisdictions and whether these effects vary based on the strength of economic and institutional ties between countries. Such research would further our understanding of how international regulatory developments shape corporate disclosure practices in an increasingly globalized business environment.

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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 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	**-0.04**	**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.