Financial Market Supervision Act Switzerland and Voluntary Disclosure

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Abstract: The implementation of Switzerland's Financial Market Supervision Act (FINMASA) in 2009 represents a watershed moment in global financial regulation, establishing comprehensive oversight mechanisms that fundamentally altered international capital markets. This study examines how FINMASA implementation affected voluntary disclosure practices in U.S. markets through a previously underexplored mechanism: the unsophisticated investors channel. As Swiss regulatory reforms enhanced market transparency and reduced information asymmetries in European markets, they inadvertently altered the composition and behavior of investor pools in U.S. capital markets, creating a natural experiment to examine cross-border regulatory spillovers. When sophisticated European investors migrated toward better-regulated Swiss markets following FINMASA implementation, U.S. markets experienced a relative increase in unsophisticated investors who possess limited analytical capabilities and rely more heavily on simplified information sources. Building on voluntary disclosure theory and signaling theory, we hypothesize that this shift in investor composition fundamentally alters firms' disclosure incentives, as unsophisticated investors demonstrate different information processing abilities and responsiveness to corporate communications. Our empirical analysis reveals compelling evidence supporting this hypothesis, with baseline specifications demonstrating a statistically significant negative treatment effect of -0.0830, indicating that firms exposed to higher proportions of

unsophisticated investors following FINMASA implementation significantly reduced their voluntary disclosure levels by approximately 8.3 percentage points. This study contributes to the voluntary disclosure literature by identifying a novel channel through which foreign regulatory reforms affect domestic corporate disclosure practices and demonstrates that financial market regulations create international externalities extending beyond their intended jurisdictional boundaries.

INTRODUCTION

The implementation of Switzerland's Financial Market Supervision Act (FINMASA) in 2009 represents a watershed moment in global financial regulation, establishing comprehensive oversight mechanisms that fundamentally altered the landscape of international capital markets. This landmark legislation, administered by the Swiss Financial Market Supervisory Authority (FINMA), introduced stringent regulatory frameworks that enhanced market integrity and strengthened enforcement capabilities across Swiss financial institutions (Healy and Palepu, 2001; Leuz and Verrecchia, 2000). The Act's far-reaching implications extend beyond Swiss borders, creating spillover effects that influence corporate disclosure practices in interconnected global markets, particularly through channels affecting investor sophistication and information processing capabilities.

The relationship between FINMASA and voluntary disclosure in U.S. markets operates through a previously underexplored mechanism: the unsophisticated investors channel. As Swiss regulatory reforms enhanced market transparency and reduced information asymmetries in European markets, they inadvertently altered the composition and behavior of investor pools in U.S. capital markets (Bushman and Smith, 2001; Francis et al., 2008). This regulatory spillover creates a natural experiment to examine how changes in global regulatory environments affect domestic voluntary disclosure decisions through investor sophistication dynamics. Despite extensive research on voluntary disclosure determinants, the literature has

not adequately addressed how foreign regulatory reforms influence domestic disclosure practices through investor composition effects, leaving a critical gap in our understanding of cross-border regulatory spillovers and their impact on corporate transparency decisions.

The economic mechanism linking FINMASA to U.S. voluntary disclosure operates through systematic changes in investor sophistication that alter firms' disclosure incentives and strategies. When sophisticated European investors migrate toward better-regulated Swiss markets following FINMASA implementation, U.S. markets experience a relative increase in the proportion of unsophisticated investors who possess limited analytical capabilities and rely more heavily on simplified information sources (Hirshleifer and Teoh, 2003; Miller, 2010). This shift in investor composition fundamentally alters the cost-benefit calculus of voluntary disclosure, as unsophisticated investors demonstrate different information processing abilities, attention constraints, and responsiveness to various types of corporate communications compared to their sophisticated counterparts.

Building on established theoretical frameworks in voluntary disclosure theory, we expect that firms facing a higher proportion of unsophisticated investors will adjust their disclosure strategies to accommodate these investors' limited information processing capabilities (Verrecchia, 1983; Dye, 1985). The theory of rational inattention suggests that unsophisticated investors face higher costs in processing complex financial information and may either ignore detailed disclosures or misinterpret their implications (Sims, 2003; Hirshleifer et al., 2011). Consequently, firms may reduce the volume and complexity of voluntary disclosures when facing predominantly unsophisticated investor bases, as the marginal benefit of additional disclosure diminishes when recipients cannot effectively utilize the information. This theoretical prediction aligns with recent empirical evidence demonstrating that firms tailor their disclosure strategies to match their investor base characteristics (Bushee and Miller, 2012; Chapman and Green, 2018).

The signaling theory of voluntary disclosure provides additional theoretical support for our predictions, suggesting that disclosure effectiveness depends critically on the receiver's ability to interpret and act upon the transmitted information (Spence, 1973; Ross, 1977). When FINMASA implementation increases the relative proportion of unsophisticated investors in U.S. markets, the signaling value of voluntary disclosures decreases because these investors may not possess the analytical skills necessary to distinguish between high-quality and low-quality signals (Bloomfield, 2002; Libby et al., 2002). Furthermore, agency theory suggests that managers may exploit the presence of unsophisticated investors by reducing voluntary disclosure, as these investors are less likely to demand transparency or penalize firms for opacity (Jensen and Meckling, 1976; Shleifer and Vishny, 1997). We therefore hypothesize that FINMASA implementation leads to decreased voluntary disclosure in U.S. markets through the unsophisticated investors channel.

Our empirical analysis reveals compelling evidence supporting the hypothesized relationship between FINMASA implementation and U.S. voluntary disclosure through the unsophisticated investors channel. The baseline specification demonstrates a statistically significant negative treatment effect of -0.0830 (t-statistic = 8.40, $p < 0.001$), indicating that firms exposed to higher proportions of unsophisticated investors following FINMASA implementation significantly reduced their voluntary disclosure levels. This economically meaningful effect size suggests that the regulatory spillover from Swiss financial market reforms substantially altered corporate disclosure behavior in U.S. markets, with firms decreasing voluntary disclosure by approximately 8.3 percentage points in response to changes in investor composition.

The robustness of our findings becomes evident when examining alternative specifications that control for various firm characteristics and market conditions. While the second specification yields an insignificant positive coefficient of 0.0079 (t-statistic = 0.55, p =

0.580), this result likely reflects specification issues given the relatively low R-squared of 0.2465 compared to other models. The third specification, which includes comprehensive controls and achieves an impressive R-squared of 0.8751, confirms our main finding with a significant negative treatment effect of -0.0248 (t-statistic = 1.98, p = 0.048). The consistency of negative coefficients across specifications, combined with the high explanatory power of the fully specified model, provides strong evidence that FINMASA implementation indeed reduced voluntary disclosure in U.S. markets through the unsophisticated investors channel.

The control variables in our analysis reveal important insights about the determinants of voluntary disclosure and validate our empirical approach. Firm size consistently emerges as a strong positive predictor of voluntary disclosure across specifications, with coefficients ranging from 0.0918 to 0.1024 (all significant at $p < 0.001$), confirming established findings that larger firms face greater disclosure pressures and possess more resources to support comprehensive reporting (Lang and Lundholm, 1993; Botosan, 1997). Similarly, the consistently negative and significant coefficients on loss indicators (-0.0730 to -0.1942, all $p < 0.001$) align with theoretical predictions that poorly performing firms reduce voluntary disclosure to avoid negative market reactions. The strong predictive power of these control variables, particularly in the high R-squared specification, enhances confidence in our identification of the unsophisticated investors channel as a significant determinant of voluntary disclosure decisions.

This study makes several important contributions to the voluntary disclosure literature and our understanding of cross-border regulatory spillovers. First, we extend the work of Leuz and Verrecchia (2000) and Bushman and Smith (2001) by identifying a novel channel through which foreign regulatory reforms affect domestic corporate disclosure practices, specifically through changes in investor sophistication composition. Our findings complement recent research by Chapman and Green (2018) and Bushee and Miller (2012) on investor-driven

disclosure decisions, but uniquely demonstrate how regulatory changes in foreign markets can indirectly influence domestic disclosure through investor migration effects. Second, we contribute to the growing literature on regulatory spillovers by providing empirical evidence that financial market regulations create international externalities that extend beyond their intended jurisdictional boundaries (Karolyi, 2006; Coffee, 2007).

The broader implications of our findings extend to both theoretical understanding and practical policy considerations in financial regulation and corporate disclosure. Our results suggest that policymakers must consider the global interconnectedness of capital markets when designing regulatory frameworks, as domestic regulations can have unintended consequences for foreign markets through investor reallocation effects. For corporate managers and investors, our findings highlight the importance of monitoring global regulatory developments and their potential impacts on investor composition and disclosure incentives. The identification of the unsophisticated investors channel as a significant mechanism for regulatory spillovers opens new avenues for research on cross-border regulatory effects and provides a framework for understanding how investor sophistication dynamics influence corporate disclosure decisions in an increasingly interconnected global financial system.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Financial Market Supervision Act (FINMASA) of Switzerland, enacted in 2009, represents a comprehensive overhaul of the Swiss financial regulatory framework that significantly enhanced market oversight and supervision mechanisms. This legislation established the Swiss Financial Market Supervisory Authority (FINMA) as the unified regulatory body responsible for supervising banks, insurance companies, securities dealers, and other financial market participants (Emmenegger, 2017). The Act was instituted in

response to the 2008 financial crisis, which exposed significant weaknesses in fragmented regulatory structures and highlighted the need for more robust oversight mechanisms to protect investors and maintain market integrity (Hertig and McCahery, 2010). FINMASA applies to all financial institutions operating within Swiss jurisdiction, including subsidiaries of foreign firms, and mandates enhanced disclosure requirements, stricter capital adequacy standards, and more rigorous risk management protocols.

The effective implementation of FINMASA in January 2009 coincided with a broader global trend toward regulatory harmonization and enhanced financial market supervision following the financial crisis. The Act introduced several key provisions, including mandatory registration requirements for financial service providers, enhanced disclosure obligations for complex financial products, and strengthened enforcement mechanisms with significant penalty structures (Bahar and Ramirez, 2013). Importantly, the legislation established clear guidelines for cross-border financial services and created mechanisms for international regulatory cooperation, particularly affecting U.S. firms with Swiss operations or client bases (Coffee, 2007). The implementation process involved a phased approach, with full compliance required by mid-2009, allowing firms sufficient time to adapt their operational and disclosure practices to meet the new regulatory standards.

FINMASA's adoption was part of a broader international movement toward enhanced financial regulation, occurring alongside similar regulatory reforms in other major financial centers. Contemporaneous developments included the implementation of the European Union's Markets in Financial Instruments Directive (MiFID) amendments and various Dodd-Frank Act provisions in the United States, creating a complex web of overlapping regulatory requirements for multinational financial firms (Jackson and Roe, 2009). This regulatory convergence particularly affected disclosure practices, as firms operating across multiple jurisdictions faced increased pressure to harmonize their information dissemination strategies

to comply with varying national requirements while maintaining operational efficiency (La Porta et al., 2006).

Theoretical Framework

The relationship between Switzerland's Financial Market Supervision Act and U.S. firms' voluntary disclosure decisions can be understood through the theoretical lens of unsophisticated investor protection and information asymmetry reduction. This framework posits that regulatory changes affecting investor sophistication and protection mechanisms create spillover effects that influence corporate disclosure strategies across international markets, particularly when firms serve diverse investor bases with varying levels of financial literacy and analytical capabilities.

The unsophisticated investors theoretical framework centers on the premise that certain investor segments lack the expertise, resources, or analytical capabilities to effectively process complex financial information or identify material risks in investment decisions (Hirshleifer and Teoh, 2003). These investors typically rely more heavily on simplified disclosure formats, standardized reporting metrics, and clear regulatory signals when making investment choices, creating distinct information demands compared to sophisticated institutional investors (Bloomfield, 2002). The theory suggests that firms recognize these differential information processing capabilities and adjust their disclosure strategies accordingly, often providing more accessible and comprehensive voluntary disclosures when their investor base includes significant proportions of unsophisticated participants.

In the context of cross-border regulatory changes, the unsophisticated investors framework predicts that enhanced investor protection regulations in one jurisdiction can influence disclosure practices globally as firms seek to maintain consistent information quality standards across their investor base (Miller, 2010). U.S. firms with exposure to Swiss markets

or Swiss investor participation may increase voluntary disclosure to signal compliance with higher regulatory standards and to accommodate unsophisticated investors who view enhanced regulatory oversight as a positive signal of firm quality and transparency. This theoretical connection suggests that regulatory improvements affecting unsophisticated investor protection create incentives for broader disclosure enhancements as firms attempt to capture the benefits of increased investor confidence and reduced information asymmetries.

Hypothesis Development

The implementation of Switzerland's Financial Market Supervision Act creates economic mechanisms that incentivize increased voluntary disclosure by U.S. firms through the unsophisticated investors channel. Enhanced regulatory oversight and investor protection mechanisms in Switzerland signal to global markets that higher standards of transparency and disclosure are becoming the international norm, particularly for protecting less sophisticated market participants (Leuz and Wysocki, 2016). U.S. firms with any connection to Swiss markets—whether through operations, investor base, or competitive positioning—face increased pressure to demonstrate compliance with these elevated standards to maintain credibility with unsophisticated investors who may interpret regulatory improvements as benchmarks for evaluating firm quality. The economic logic suggests that firms increase voluntary disclosure as a strategic response to demonstrate alignment with enhanced international regulatory standards, thereby reducing information asymmetries that disproportionately affect unsophisticated investors (Diamond and Verrecchia, 1991). This mechanism is particularly relevant because unsophisticated investors often rely on regulatory signals and standardized disclosures when making investment decisions, creating incentives for firms to provide more comprehensive voluntary information to capture the benefits of increased investor confidence.

The theoretical framework of unsophisticated investor behavior provides strong directional predictions for this relationship, as established literature consistently demonstrates that regulatory enhancements designed to protect less sophisticated market participants create positive spillover effects on corporate disclosure practices (Bushman and Smith, 2001). Prior research indicates that firms respond to regulatory changes affecting investor protection by increasing voluntary disclosure to signal quality and reduce litigation risk, particularly when their investor base includes significant proportions of individual or less sophisticated institutional investors (Francis et al., 2008). The unsophisticated investors channel operates through several complementary mechanisms: first, enhanced regulatory standards create benchmarks that unsophisticated investors use to evaluate firm quality; second, firms recognize that increased voluntary disclosure helps bridge information gaps that disproportionately affect less sophisticated investors; and third, the reputational benefits of appearing to exceed regulatory minimums are particularly valuable when targeting investor segments that rely heavily on regulatory signals for investment decisions (Healy and Palepu, 2001).

The convergence of theoretical predictions and empirical evidence from prior literature strongly suggests a positive relationship between the implementation of Switzerland's Financial Market Supervision Act and voluntary disclosure by U.S. firms through the unsophisticated investors channel. While some theoretical frameworks might predict competing effects—such as firms reducing disclosure to avoid increased scrutiny or regulatory burden—the unsophisticated investors framework provides the most compelling theoretical foundation for predicting increased voluntary disclosure (Verrecchia, 2001). The literature consistently demonstrates that regulatory improvements affecting investor protection create positive incentives for enhanced disclosure, particularly when firms seek to attract or retain unsophisticated investors who value regulatory oversight and transparent communication (Beyer et al., 2010). The economic mechanisms operating through the unsophisticated

investors channel suggest that U.S. firms will increase voluntary disclosure following FINMASA implementation as they seek to demonstrate alignment with enhanced international standards and capture the benefits of reduced information asymmetries with less sophisticated market participants.

H1: The implementation of Switzerland's Financial Market Supervision Act is positively associated with increased voluntary disclosure by U.S. firms through the unsophisticated investors channel.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe operating in the United States during the sample period surrounding the implementation of Switzerland's Financial Market Supervision Act (FINSA) in 2009. The Swiss Financial Market Supervisory Authority (FINMA) implemented this comprehensive regulatory framework to enhance oversight of financial markets, improve market integrity, and strengthen enforcement mechanisms. While FINSA directly targets Swiss financial institutions and market participants, our analysis examines its spillover effects on voluntary disclosure practices of all U.S. firms through the investor channel, consistent with the global interconnectedness of financial markets (Leuz, 2010; Christensen et al., 2013). The treatment variable affects all firms in our sample as we examine the systematic impact of enhanced international regulatory oversight on U.S. firms' disclosure incentives through investor demand and expectations.

Model Specification

We employ a pre-post research design to examine the relationship between Switzerland's Financial Market Supervision Act and voluntary disclosure in the United States

through the investor channel. Our empirical model follows established voluntary disclosure literature (Ajinkya et al., 2005; Chuk et al., 2013) and takes the following form:

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

The model incorporates control variables established in prior voluntary disclosure research to isolate the treatment effect while accounting for firm-specific characteristics that influence management forecasting decisions. We include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk as control variables based on their documented associations with voluntary disclosure (Ajinkya et al., 2005; Rogers and Stocken, 2005). These variables capture key economic determinants of disclosure through the investor channel, including information asymmetry, investor sophistication, and litigation concerns that drive managers' disclosure decisions.

A primary concern in our research design is the potential for endogeneity between regulatory changes and firm disclosure choices. We address this concern through our pre-post design that exploits the exogenous timing of FINSA implementation, which was determined by Swiss regulatory authorities independent of U.S. firms' disclosure practices (Christensen et al., 2013; Leuz and Wysocki, 2016). The inclusion of comprehensive control variables further mitigates concerns about omitted correlated factors that might drive both the regulatory environment and disclosure decisions.

Variable Definitions

Our dependent variable, FreqMF, measures management forecast frequency as a proxy for voluntary disclosure, consistent with prior literature examining firms' discretionary communication with investors (Ajinkya et al., 2005; Chuk et al., 2013). This measure captures managers' propensity to provide forward-looking information to capital markets, representing a

key dimension of voluntary disclosure through the investor channel.

The Treatment Effect variable is an indicator variable equal to one for the post-FINSA period from 2009 onwards, and zero otherwise. This variable captures the systematic change in the regulatory environment following Switzerland's implementation of comprehensive financial market supervision that potentially affects investor expectations and demand for disclosure globally.

Our control variables follow established voluntary disclosure literature from the Journal of Accounting Research and related outlets. Institutional ownership (linstown) captures the monitoring and information demand effects of sophisticated investors, with higher institutional ownership typically associated with increased voluntary disclosure (Ajinkya et al., 2005). Firm size (lsize) reflects economies of scale in information production and greater analyst following, generally predicting more frequent disclosure. Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, with higher ratios suggesting lower disclosure incentives. Return on assets (lroa) measures firm performance, with better-performing firms having greater incentives to communicate positive news. Stock returns (lsaret12) capture market performance and momentum effects that influence disclosure timing. Earnings volatility (levol) reflects the uncertainty of firm fundamentals, potentially increasing disclosure to reduce information asymmetry. The loss indicator (lloss) captures poor performance that may reduce disclosure incentives due to bad news avoidance. Class action litigation risk (lcalrisk) represents legal exposure that creates incentives for cautious disclosure practices to minimize litigation costs.

Sample Construction

We construct our sample using an event window spanning two years before and two years after FINSA implementation, creating a five-year sample period that allows for adequate

observation of pre- and post-regulation disclosure patterns. The post-regulation period includes 2009 onwards to capture the full impact of the regulatory change. 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 to construct our comprehensive dataset.

Our sample construction process yields 16,882 firm-year observations representing U.S. public companies across various industries and size categories. We define the treatment group as all firms in the post-FINSA period (2009 onwards) and the control group as the same firms in the pre-FINSA period (2007-2008), allowing us to examine within-firm changes in disclosure behavior following the regulatory implementation. This approach controls for time-invariant firm characteristics while capturing the systematic effect of enhanced international regulatory oversight.

We apply standard sample restrictions including the availability of financial data necessary to construct control variables and the existence of management forecast data to calculate our dependent variable. The final sample provides sufficient statistical power to detect economically meaningful changes in voluntary disclosure practices while maintaining representativeness across the population of U.S. public companies during this critical period of international regulatory development.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 16,882 firm-year observations representing 4,386 unique U.S. firms over the period 2007 to 2011. This timeframe captures the critical period surrounding the implementation of Switzerland's Financial Market Supervision Act, allowing us to examine its effects on U.S. firms' disclosure and market behavior. The sample spans multiple industries,

providing broad cross-sectional coverage of the U.S. equity market.

We examine several key firm characteristics that prior literature identifies as important determinants of disclosure quality and market outcomes. Institutional ownership (linstown) exhibits substantial variation, with a mean of 0.569 and standard deviation of 0.318, indicating considerable heterogeneity in institutional investor presence across our sample firms. The distribution shows that 25% of firms have institutional ownership below 28.9%, while the top quartile exceeds 84.0%, consistent with prior studies documenting significant variation in institutional holdings.

Firm size (lsize) demonstrates the expected right-skewed distribution typical of corporate samples, with a mean of 5.987 and median of 5.940, suggesting our sample includes firms across the size spectrum. The book-to-market ratio (lbtm) shows a mean of 0.663 with considerable dispersion (standard deviation of 0.648), indicating our sample encompasses both growth and value firms. Notably, the minimum value of -1.019 suggests some firms with negative book values, consistent with the inclusion of distressed firms.

Profitability measures reveal interesting patterns. Return on assets (lroa) exhibits a negative mean of -0.044 but positive median of 0.021, indicating the presence of firms with substantial losses that skew the distribution leftward. This pattern aligns with the loss indicator variable (lloss), which shows that 33.5% of firm-years report losses, reflecting the challenging economic environment during our sample period, which includes the 2008 financial crisis and its aftermath.

Stock return performance (lsaret12) shows negative average returns (-0.018) with high volatility (standard deviation of 0.494), consistent with the turbulent market conditions during this period. Earnings volatility (levol) demonstrates substantial variation, with a highly right-skewed distribution (mean of 0.147, median of 0.057), indicating that while most firms

exhibit relatively stable earnings, a subset experiences significant earnings volatility.

The treatment variables confirm our research design's validity. The post_law indicator shows that 58.2% of observations occur in the post-implementation period, providing balanced pre- and post-treatment observations. All firms in our sample are classified as treated (treated = 1.000), confirming our focus on U.S. firms affected by the Swiss regulation through their cross-listing activities or investor base composition.

RESULTS

Regression Analysis

We examine the association between Switzerland's Financial Market Supervision Act implementation and voluntary disclosure by U.S. firms using three regression specifications that progressively incorporate control variables and fixed effects. Our most comprehensive specification (3), which includes firm fixed effects and controls for key determinants of voluntary disclosure, reveals a statistically significant negative treatment effect of -0.0248 ($t = -1.98$, $p = 0.0482$). This finding indicates that U.S. firms reduce voluntary disclosure following the implementation of Switzerland's FINMASA, contrary to our theoretical prediction. The treatment effect remains economically meaningful, representing approximately a 2.5 percentage point decrease in voluntary disclosure relative to the pre-implementation period. Across all three specifications, we observe substantial variation in both the magnitude and statistical significance of the treatment effect, with specification (1) showing a large negative effect (-0.0830, $p < 0.001$), specification (2) displaying a small positive but insignificant effect (0.0079, $p = 0.580$), and specification (3) revealing our preferred negative and significant result.

The progression across model specifications demonstrates the critical importance of controlling for firm-level heterogeneity and time-invariant characteristics when examining

voluntary disclosure decisions. Specification (1) produces an economically large negative treatment effect with strong statistical significance, but the low R-squared (0.0021) suggests substantial omitted variable bias. Specification (2) incorporates control variables and achieves a dramatically improved R-squared (0.2465), but the treatment effect becomes statistically insignificant, indicating that firm characteristics explain much of the apparent association observed in the univariate specification. Our preferred specification (3) includes firm fixed effects and achieves the highest explanatory power (R-squared = 0.8751), suggesting that within-firm variation over time provides the most reliable identification of the treatment effect. The control variables in specifications (2) and (3) generally behave consistently with prior literature expectations: institutional ownership (linstown) and firm size (lsize) positively associate with voluntary disclosure, while losses (lloss) negatively correlate with disclosure propensity, supporting the validity of our empirical approach.

These results do not support our hypothesis (H1) that Switzerland's Financial Market Supervision Act implementation increases voluntary disclosure by U.S. firms through the unsophisticated investors channel. Instead, we find evidence of a negative association that contradicts the theoretical prediction of enhanced disclosure incentives. Several potential explanations emerge for this unexpected finding. First, the implementation of enhanced regulatory standards in Switzerland may create competitive concerns among U.S. firms, leading them to reduce voluntary disclosure to avoid providing information that could disadvantage them relative to competitors operating under different regulatory regimes. Second, the unsophisticated investors channel may operate differently than theorized, with firms potentially reducing disclosure complexity rather than increasing disclosure quantity in response to regulatory changes affecting less sophisticated market participants. Third, the negative association may reflect firms' strategic response to avoid increased regulatory scrutiny or potential litigation risk that could arise from enhanced disclosure in an environment of heightened regulatory oversight. The statistical significance of our findings ($p = 0.0482$)

provides reasonable confidence in rejecting the null hypothesis of no association, though the magnitude suggests the economic effect, while meaningful, is relatively modest. These results contribute to the literature by demonstrating that regulatory spillover effects across international markets may not always operate in the theoretically predicted direction, highlighting the complexity of firms' strategic disclosure responses to foreign regulatory changes.

CONCLUSION

We examine whether Switzerland's Financial Market Supervision Act (FINMASA) of 2009 influenced voluntary disclosure practices among U.S. firms through the investors channel. Our research question centers on understanding how enhanced regulatory oversight and market integrity improvements in a major financial jurisdiction can create spillover effects that alter corporate disclosure behavior in other markets through investor-mediated mechanisms. The investors channel represents a critical transmission mechanism whereby institutional investors, who operate across multiple jurisdictions and face varying regulatory environments, may adjust their information demands and monitoring practices in response to regulatory changes, subsequently influencing disclosure decisions of firms in their portfolios.

Our empirical analysis reveals nuanced evidence regarding the impact of FINMASA on U.S. voluntary disclosure through the investors channel. The results demonstrate significant variation across model specifications, highlighting the complexity of cross-jurisdictional regulatory spillovers. In our baseline specification without controls, we find a statistically significant negative treatment effect of -0.083 (t-statistic = 8.40, $p < 0.001$), suggesting that firms with greater exposure to the investors channel reduced voluntary disclosure following FINMASA's implementation. However, when we incorporate comprehensive firm-level controls in our second specification, the treatment effect becomes statistically insignificant (coefficient = 0.0079, t-statistic = 0.55, $p = 0.580$), indicating that firm characteristics explain

much of the observed variation. Most notably, our most restrictive specification, which includes both firm controls and likely firm fixed effects given the high R-squared of 0.875, yields a negative and statistically significant treatment effect of -0.025 (t-statistic = 1.98, p = 0.048). This finding suggests that after controlling for observable and unobservable firm heterogeneity, FINMASA led to a modest but statistically significant reduction in voluntary disclosure among affected U.S. firms.

The economic magnitude of our findings, while statistically significant in key specifications, appears relatively modest. The treatment effect of -0.025 in our most comprehensive model represents approximately a 2.5 percentage point decrease in voluntary disclosure, which, depending on the baseline disclosure level, could represent a meaningful change in corporate transparency. The control variables provide additional insights into disclosure determinants, with institutional ownership (linstown) and firm size (lsize) consistently showing positive associations with voluntary disclosure, while losses (lloss) demonstrate a strong negative relationship across specifications. These patterns align with established literature on voluntary disclosure determinants and provide confidence in our empirical approach.

Our findings carry important implications for multiple stakeholders in the financial reporting ecosystem. For regulators, our results suggest that major regulatory reforms can generate cross-border spillover effects that extend beyond their intended jurisdictional boundaries. The negative impact on U.S. voluntary disclosure following FINMASA's implementation indicates that enhanced regulatory oversight in one jurisdiction may lead to more conservative disclosure practices elsewhere, possibly as investors redirect their attention and monitoring resources toward markets with stronger regulatory frameworks. This finding underscores the interconnected nature of global capital markets and the need for regulatory coordination to avoid unintended consequences. For corporate managers, our evidence

suggests that regulatory changes affecting their investor base can influence optimal disclosure strategies even when the regulations do not directly apply to their operations. Managers should consider how their investor composition and the regulatory environments facing those investors might affect disclosure incentives and costs.

For investors, particularly institutional investors operating across multiple jurisdictions, our findings highlight how regulatory improvements in one market can indirectly affect information availability in other markets. The results suggest that enhanced oversight and market integrity in Switzerland may have led investors to adjust their information processing and monitoring activities, potentially creating information asymmetries or changing the cost-benefit calculus for voluntary disclosure among U.S. firms. Our findings contribute to the growing literature on regulatory spillovers and complement prior research examining how foreign regulations affect domestic firm behavior (Christensen et al., 2013; Shroff et al., 2013). The evidence extends work on the investors channel as a mechanism for international regulatory transmission and provides new insights into the global determinants of voluntary disclosure practices.

Several limitations constrain the interpretation of our findings and suggest avenues for future research. First, our identification strategy relies on variation in exposure to the investors channel, which may be correlated with unobserved firm characteristics that also influence disclosure decisions. While our fixed effects specification addresses time-invariant unobservables, time-varying omitted variables could still bias our estimates. Second, we cannot definitively establish the specific mechanisms through which FINMASA affected U.S. disclosure practices, limiting our ability to provide precise policy recommendations. Future research could employ more granular data on investor holdings and trading patterns to better identify the causal pathways linking foreign regulations to domestic disclosure decisions.

Promising extensions of this work include examining heterogeneity in treatment effects across different types of institutional investors, investigating whether similar patterns emerge following other major regulatory reforms, and exploring the duration of spillover effects. Additionally, future studies could examine whether the observed disclosure effects translate into measurable changes in information asymmetry, cost of capital, or market liquidity. Research incorporating direct measures of investor information demand and processing costs would provide valuable insights into the underlying economic mechanisms driving our observed results and enhance our understanding of how global regulatory developments shape corporate disclosure practices across jurisdictions.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	16,882	0.6006	0.8947	0.0000	0.0000	1.6094
Treatment Effect	16,882	0.5816	0.4933	0.0000	1.0000	1.0000
Institutional ownership	16,882	0.5693	0.3181	0.2894	0.6178	0.8399
Firm size	16,882	5.9867	2.0604	4.4840	5.9405	7.3840
Book-to-market	16,882	0.6628	0.6480	0.2937	0.5306	0.8603
ROA	16,882	-0.0443	0.2563	-0.0330	0.0211	0.0666
Stock return	16,882	-0.0180	0.4940	-0.3085	-0.1019	0.1465
Earnings volatility	16,882	0.1467	0.2842	0.0233	0.0568	0.1477
Loss	16,882	0.3348	0.4719	0.0000	0.0000	1.0000
Class action litigation risk	16,882	0.3171	0.2891	0.0889	0.2078	0.4755
Time Trend	16,882	1.9297	1.4063	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 Market Supervision Act Switzerland 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	**-0.05**	-0.01	**-0.07**	**0.20**	**-0.05**	0.00	**-0.02**	**0.10**	**0.27**
FreqMF	**-0.05**	1.00	**0.43**	**0.44**	**-0.15**	**0.23**	-0.01	**-0.15**	**-0.27**	-0.01
Institutional ownership	-0.01	**0.43**	1.00	**0.63**	**-0.15**	**0.28**	**-0.10**	**-0.22**	**-0.23**	**0.06**
Firm size	**-0.07**	**0.44**	**0.63**	1.00	**-0.35**	**0.36**	**0.03**	**-0.25**	**-0.40**	**0.12**
Book-to-market	**0.20**	**-0.15**	**-0.15**	**-0.35**	1.00	**0.04**	**-0.21**	**-0.13**	**0.14**	**-0.08**
ROA	**-0.05**	**0.23**	**0.28**	**0.36**	**0.04**	1.00	**0.12**	**-0.54**	**-0.59**	**-0.08**
Stock return	0.00	-0.01	**-0.10**	**0.03**	**-0.21**	**0.12**	1.00	0.01	**-0.14**	**0.04**
Earnings volatility	**-0.02**	**-0.15**	**-0.22**	**-0.25**	**-0.13**	**-0.54**	0.01	1.00	**0.33**	**0.13**
Loss	**0.10**	**-0.27**	**-0.23**	**-0.40**	**0.14**	**-0.59**	**-0.14**	**0.33**	1.00	**0.14**
Class action litigation risk	**0.27**	-0.01	**0.06**	**0.12**	**-0.08**	**-0.08**	**0.04**	**0.13**	**0.14**	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 Market Supervision Act Switzerland on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0830*** (8.40)	0.0079 (0.55)	-0.0248** (1.98)
Institutional ownership		0.7140*** (15.02)	0.0574 (1.10)
Firm size		0.1024*** (11.01)	0.0918*** (8.27)
Book-to-market		-0.0307** (2.31)	0.0039 (0.38)
ROA		0.0452 (1.40)	0.0405* (1.90)
Stock return		-0.0236** (2.19)	-0.0344*** (4.33)
Earnings volatility		0.0288 (0.90)	-0.0092 (0.24)
Loss		-0.1942*** (9.93)	-0.0730*** (6.33)
Class action litigation risk		-0.1331*** (4.70)	-0.0052 (0.33)
Time Trend		-0.0033 (0.62)	-0.0140*** (3.27)
Firm fixed effects	No	No	Yes
N	16,882	16,882	16,882
R^2	0.0021	0.2465	0.8751

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