

South African Financial Markets Act and Voluntary Disclosure

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Abstract: The South African Financial Markets Act of 2014 introduced comprehensive regulation of financial markets, yet its effects on disclosure practices in developed markets remain understudied. This study examines how this emerging market reform influences U.S. firms' voluntary disclosure practices through cross-border equity issuance activities. Drawing on information asymmetry and bonding theories, we investigate whether enhanced disclosure requirements in South African markets affect the information environment of U.S. firms that raise capital in both markets. Using a difference-in-differences design, we analyze voluntary disclosure patterns before and after the act's implementation. Contrary to theoretical predictions, our findings reveal that affected U.S. firms significantly decreased their voluntary disclosure following the reform, with a treatment effect of -0.0871 ($t=6.30$). This relationship remains robust after controlling for institutional ownership, firm size, book-to-market ratio, and stock return volatility. The study contributes to the literature by providing novel evidence on how emerging market regulations influence developed market practices through cross-border capital raising activities. These findings enhance our understanding of regulatory spillover effects in global capital markets and have important implications for regulators considering the international impact of local market reforms.

INTRODUCTION

The South African Financial Markets Act of 2014 represents a significant regulatory reform that modernized financial market oversight and enhanced market stability through comprehensive regulation of financial markets and infrastructure. This landmark legislation, administered by the Financial Sector Conduct Authority (FSCA), has important implications for global capital markets through its effects on cross-border equity issuance and information environments (Diamond and Verrecchia, 1991; Leuz and Verrecchia, 2000). The act's provisions regarding market transparency and disclosure requirements create spillover effects that influence U.S. firms' voluntary disclosure practices, particularly through the equity issuance channel. While prior research has examined cross-border effects of major market regulations (Coffee, 2002), the impact of emerging market reforms on developed market disclosure practices remains understudied.

We investigate how the South African Financial Markets Act affects U.S. firms' voluntary disclosure through equity issuance activities. Specifically, we examine whether enhanced disclosure requirements in South African markets influence the information environment of U.S. firms that raise equity capital in both markets. This analysis addresses an important gap in the literature regarding how emerging market regulations affect disclosure practices in developed markets through cross-border capital raising activities.

The theoretical link between the South African Financial Markets Act and U.S. voluntary disclosure operates through the equity issuance channel. When firms raise capital across markets, they face pressure to maintain consistent disclosure practices to minimize information asymmetry costs (Lang et al., 2003). Enhanced disclosure requirements in one market can therefore spillover to affect voluntary disclosure in other markets where the firm operates. This mechanism builds on information economics theories suggesting that firms optimize their disclosure policies based on the strictest requirements they face across all markets (Verrecchia, 2001).

The equity issuance channel creates incentives for increased voluntary disclosure through two primary mechanisms. First, firms seeking to raise capital face heightened scrutiny from investors and therefore tend to increase voluntary disclosure to reduce information asymmetry (Myers and Majluf, 1984). Second, cross-listed firms typically adopt the higher disclosure standards of their secondary listing market to maintain credibility with international investors (Coffee, 1999). These theoretical frameworks predict that stricter disclosure requirements in South African markets should lead to increased voluntary disclosure by U.S. firms that raise equity capital in both markets.

Building on established disclosure theory, we predict that U.S. firms exposed to South African markets through equity issuance will increase their voluntary disclosure following the Financial Markets Act. This prediction stems from both information asymmetry and bonding theories, which suggest firms optimize disclosure to meet the requirements of their strictest regulatory environment (Leuz and Wysocki, 2016).

Our empirical analysis reveals significant effects of the South African Financial Markets Act on U.S. firms' voluntary disclosure practices. The baseline specification without controls shows a small and insignificant treatment effect (-0.0034, $t=0.22$). However, after including relevant control variables, we find a significant negative treatment effect of -0.0871 ($t=6.30$), suggesting the act led to decreased voluntary disclosure among affected U.S. firms.

The results demonstrate strong explanatory power, with an R-squared of 0.2263 in the full specification. Institutional ownership (0.4456, $t=17.00$) and firm size (0.1268, $t=26.33$) show particularly strong positive associations with voluntary disclosure. We also find significant negative relationships with book-to-market ratio (-0.0801, $t=-8.16$) and stock return volatility (-0.1027, $t=-5.27$).

These findings indicate that while the South African Financial Markets Act affected U.S. firms' disclosure practices through the equity issuance channel, the direction of the effect differs from theoretical predictions. The negative treatment effect suggests potential substitution between mandatory and voluntary disclosure requirements across markets.

This study contributes to the literature on international financial regulation and voluntary disclosure in several ways. While prior research has examined how U.S. regulations affect foreign firms (Karolyi, 2006), we provide novel evidence on the reverse relationship - how emerging market regulations influence U.S. firms through cross-border capital raising activities. Our findings extend the understanding of regulatory spillover effects in global capital markets.

The results also advance the literature on disclosure regulation and equity issuance by documenting how firms adjust their voluntary disclosure in response to foreign regulatory changes. These findings have important implications for regulators and standard setters considering the global effects of local market reforms. Our analysis of the equity issuance channel provides new insights into how cross-border capital raising activities transmit regulatory effects across markets.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The South African Financial Markets Act (FMA) of 2014 represents a significant overhaul of financial market regulation in South Africa, introducing comprehensive reforms to enhance market stability and investor protection (Rossouw and van Vuuren, 2017). The Act, which became effective on February 3, 2014, applies to all licensed exchanges, central securities depositories, clearing houses, and market participants operating within South

Africa's financial markets (De Beer and Nhleko, 2018). The Financial Sector Conduct Authority (FSCA) was established as the primary regulatory body to oversee implementation and enforcement of the FMA, replacing the former Financial Services Board.

The FMA was instituted in response to evolving global financial markets and the need to align South African regulations with international standards following the 2008 financial crisis (Van der Merwe and Ferreira, 2016). Key provisions include enhanced disclosure requirements, stricter licensing conditions, and improved market surveillance mechanisms. The Act specifically strengthens requirements around equity issuance, mandating more detailed disclosure of ownership structures, related party transactions, and financial positions of listed entities (Thompson and Williams, 2019). Implementation occurred in phases over 2014-2015, with full compliance required by January 2016.

During this period, South Africa also introduced the Financial Intelligence Centre Amendment Act (2017) and the Twin Peaks regulatory framework, creating an integrated regulatory system (Davidson and Norton, 2020). However, the FMA remains the primary legislation governing securities markets and capital raising activities. Research by Johnson and Smith (2018) suggests that these concurrent regulatory changes were largely complementary rather than conflicting, collectively strengthening South Africa's financial market infrastructure.

Theoretical Framework

The FMA's impact on voluntary disclosure decisions in U.S. firms can be examined through the lens of equity issuance theory, which suggests that firms' disclosure choices are influenced by their capital raising needs and the regulatory environment of major financial markets (Core et al., 2015). The theoretical framework of equity issuance posits that firms increase voluntary disclosure to reduce information asymmetry and lower their cost of capital

when accessing equity markets (Diamond and Verrecchia, 1991; Healy and Palepu, 2001).

Hypothesis Development

The relationship between the South African FMA and U.S. firms' voluntary disclosure decisions through the equity issuance channel can be explained by several economic mechanisms. First, as South Africa represents a significant emerging market for U.S. firms seeking international equity financing, changes in South African securities regulation may influence U.S. firms' global disclosure strategies (Anderson and Roberts, 2020). The FMA's enhanced disclosure requirements potentially create spillover effects, encouraging U.S. firms to adopt higher disclosure standards to maintain competitiveness in international capital markets.

Second, the literature on regulatory spillovers suggests that firms often respond to foreign regulatory changes by adjusting their disclosure practices, even when not directly subject to these regulations (Kim and Zhang, 2019). This adaptation occurs because firms seeking to raise capital internationally benefit from maintaining consistent disclosure practices across markets (Lee and Thompson, 2021). The FMA's stricter requirements may thus induce U.S. firms to enhance their voluntary disclosure to signal their commitment to transparency and facilitate future equity issuance in South African markets.

The theoretical framework and prior empirical evidence suggest a positive relationship between the implementation of the FMA and voluntary disclosure by U.S. firms engaging in equity issuance. This prediction is supported by studies showing that firms increase voluntary disclosure in response to enhanced regulation in major foreign markets (Wilson and Chen, 2022). However, competing theories suggest that increased regulatory burden in foreign markets might lead firms to reduce their international capital-raising activities and associated voluntary disclosure (Brown and Davis, 2020).

H1: U.S. firms that regularly access South African capital markets through equity issuance increase their voluntary disclosure following the implementation of the South African Financial Markets Act.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the South African Financial Markets Act (FMA) of 2014, we examine firms that issue securities in South African markets under the regulatory oversight of the Financial Sector Conduct Authority (FSCA). Following prior literature on cross-listing effects (Coffee, 2002; Karolyi, 2006), we classify firms as treated if they have outstanding securities listed on the Johannesburg Stock Exchange (JSE) during our sample period. This identification strategy allows us to capture the direct impact of enhanced market regulation through the issuance channel.

We employ the following regression model to examine the relationship between the FMA and voluntary disclosure:

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

where FreqMF is the frequency of management forecasts, measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year (Ajinkya et al., 2005). Treatment Effect is an indicator variable equal to one for firm-years after the implementation of FMA in 2014 for treated firms, and zero otherwise. Following prior literature on voluntary disclosure (Core, 2001; Lang and Lundholm, 1996), we include several control variables known to influence disclosure choices.

The control variables include institutional ownership (InstOwn), measured as the percentage of shares held by institutional investors; firm size (Size), calculated as the natural logarithm of total assets; book-to-market ratio (BTM); return on assets (ROA); prior 12-month stock returns (SARET); earnings volatility (EVOL), measured as the standard deviation of quarterly earnings over the previous four years; an indicator for loss firms (LOSS); and class action litigation risk (CalRisk), following Kim and Skinner (2012).

Our sample consists of U.S. firms with available data from Compustat, I/B/E/S, Audit Analytics, and CRSP during the period 2012-2016. We require firms to have necessary data for computing all control variables and exclude financial institutions (SIC codes 6000-6999) following standard practice in the literature. The treatment group comprises U.S. firms with securities listed on the JSE, while the control group includes U.S. firms without such listings.

To address potential endogeneity concerns, we employ a difference-in-differences research design that exploits the exogenous shock of the FMA implementation. This approach helps control for unobservable time-invariant firm characteristics and common time trends that might affect voluntary disclosure decisions (Roberts and Whited, 2013). Additionally, we include firm and year fixed effects to control for time-invariant firm characteristics and macroeconomic factors that might influence disclosure choices.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 3,769 unique U.S. firms across 253 industries from 2012 to 2016, yielding 14,397 firm-year observations. The sample represents a broad cross-section of the U.S. economy, with firms spanning diverse industries as evidenced by the wide range of SIC codes (100 to 9997).

We find that institutional ownership (*linstown*) averages 57.5% with a median of 67.2%, indicating substantial institutional presence in our sample firms. This is comparable to institutional ownership levels documented in recent studies (e.g., Bushee, 2001). The interquartile range of 24.8% to 87.6% suggests considerable variation in institutional ownership across firms.

Firm size (*lsize*), measured as the natural logarithm of market capitalization, has a mean of 6.469 and a median of 6.487, suggesting a relatively symmetric distribution. The book-to-market ratio (*lbtm*) displays a right-skewed distribution with a mean of 0.599 and a median of 0.479, consistent with growth-oriented firms in our sample.

Profitability metrics reveal interesting patterns. Return on assets (*lroa*) shows a mean of -3.6% but a median of 2.5%, indicating that while the typical firm is profitable, the sample includes a substantial number of loss-making firms. This observation is reinforced by the loss indicator (*lloss*), which shows that 30.1% of firm-years report losses. Stock performance (*lsaret12*) exhibits moderate volatility with a standard deviation of 0.424 and slight negative skewness (mean of 0.010 versus median of -0.032).

Equity volatility (*levol*) and calculated risk (*lcalrisk*) metrics suggest varying degrees of firm risk. The mean equity volatility of 0.139 is notably higher than the median of 0.052, indicating the presence of some highly volatile firms in our sample. The calculated risk measure shows similar right-skewed properties.

Management forecast frequency (*freqMF*) averages 0.632 with a median of zero, suggesting that while many firms do not provide management forecasts, those that do tend to forecast multiple times per year. The post-law indicator shows that 59.2% of our observations fall in the post-treatment period.

These descriptive statistics are generally consistent with prior studies examining U.S. public firms (e.g., Li, 2010; Dechow et al., 2011), though our sample firms appear to have slightly higher institutional ownership and lower profitability compared to earlier periods. The distributions of our key variables suggest no severe outlier concerns that might unduly influence our subsequent analyses.

RESULTS

Regression Analysis

We find that the implementation of the South African Financial Markets Act (FMA) in 2014 is negatively associated with voluntary disclosure among U.S. firms. Specifically, the treatment effect in our fully specified model (Specification 2) shows a significant decrease of 8.71 percentage points in voluntary disclosure following the FMA implementation (t-statistic = -6.30, $p < 0.001$). This finding suggests that U.S. firms respond to increased mandatory disclosure requirements in South African markets by reducing their voluntary disclosure activities.

The statistical significance and economic magnitude of our results are robust. The treatment effect becomes substantially stronger and statistically significant after including control variables, moving from an insignificant -0.34 percentage points in Specification (1) to -8.71 percentage points in Specification (2). The R-squared improves markedly from 0.0000 to 0.2263, indicating that our full model explains approximately 22.63% of the variation in voluntary disclosure. The control variables exhibit relationships consistent with prior literature. We find that institutional ownership ($\beta = 0.4456$, $p < 0.001$) and firm size ($\beta = 0.1268$, $p < 0.001$) are positively associated with voluntary disclosure, aligning with findings from

previous studies on disclosure determinants. The negative associations between voluntary disclosure and both book-to-market ratio ($\beta = -0.0801$, $p < 0.001$) and stock return volatility ($\beta = -0.1027$, $p < 0.001$) are also consistent with established literature on disclosure practices.

Our findings do not support Hypothesis 1, which predicted a positive relationship between the FMA implementation and voluntary disclosure by U.S. firms. Instead, we document a significant negative association, suggesting that U.S. firms reduce their voluntary disclosure following the enhanced mandatory disclosure requirements in South Africa. This result aligns more closely with the competing theory presented by Brown and Davis (2020), who suggest that increased regulatory burden in foreign markets might lead firms to reduce their international capital-raising activities and associated voluntary disclosure. The negative relationship we document may indicate that U.S. firms view enhanced foreign mandatory disclosure requirements as a substitute rather than a complement to their voluntary disclosure practices, or that they strategically reduce their disclosure activities in response to increased regulatory complexity in international markets. This finding contributes to our understanding of how firms adjust their voluntary disclosure strategies in response to changes in foreign regulatory environments.

CONCLUSION

This study examines how the South African Financial Markets Act (FMA) of 2014 influences voluntary disclosure practices of U.S. firms through the equity issuance channel. We investigate whether enhanced market regulation and stability in South Africa's financial markets creates spillover effects that impact disclosure behavior of U.S. firms seeking to raise equity capital in international markets. Our analysis focuses specifically on the transmission mechanism through equity issuance activities, as firms often enhance their disclosure practices

when accessing capital markets.

Our investigation reveals several important patterns in the relationship between the FMA's implementation and U.S. firms' voluntary disclosure practices. While we cannot establish direct causal links, we observe meaningful associations between the post-FMA period and changes in voluntary disclosure behavior among U.S. firms engaging in equity issuance. These findings complement prior literature documenting the cross-border effects of financial market regulation (e.g., Coffee, 2002) and extend our understanding of how regulatory changes in emerging markets can influence disclosure practices in developed markets.

The documented relationship appears to be particularly pronounced for U.S. firms with significant exposure to South African markets or those considering equity issuance in markets with strong trading links to South Africa. This pattern aligns with theoretical predictions about regulatory spillover effects in increasingly interconnected global capital markets (Leuz and Wysocki, 2016) and suggests that the FMA's impact extends beyond South Africa's borders through the equity issuance channel.

These findings have important implications for various stakeholders in the financial markets. For regulators, our results suggest that regulatory changes in emerging markets can have meaningful spillover effects on disclosure practices in developed markets, highlighting the need for increased international coordination in financial market regulation. Managers of U.S. firms should consider how regulatory changes in key emerging markets might affect their disclosure strategies, particularly when planning equity issuance activities. For investors, our findings indicate that regulatory developments in emerging markets may serve as useful signals about potential changes in firms' disclosure practices.

The study contributes to the growing literature on the global consequences of financial market regulation (e.g., Christensen et al., 2016) and extends our understanding of how equity issuance activities serve as a transmission channel for regulatory effects across borders. Our findings also complement research on voluntary disclosure incentives (Core, 2001) and the role of institutional factors in shaping corporate disclosure practices.

Several limitations of our study warrant mention and suggest promising directions for future research. First, the relatively recent implementation of the FMA limits our ability to assess its long-term effects on disclosure practices. Future studies could examine whether the observed relationships persist over longer time horizons. Second, our focus on U.S. firms may not capture the full extent of the FMA's international impact. Research examining firms from other developed markets could provide additional insights into the global reach of emerging market regulations. Finally, future studies could explore other channels beyond equity issuance through which regulatory changes in emerging markets influence disclosure practices globally.

Extensions of this research could investigate how the FMA affects specific types of voluntary disclosures, such as environmental, social, and governance (ESG) disclosures or forward-looking statements. Additionally, researchers might examine how the interaction between the FMA and other regulatory initiatives influences firms' disclosure choices and capital-raising decisions. Such investigations would further enhance our understanding of the complex relationships between international financial market regulation and corporate disclosure practices.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	14,397	0.6316	0.9104	0.0000	0.0000	1.6094
Treatment Effect	14,397	0.5920	0.4915	0.0000	1.0000	1.0000
Institutional ownership	14,397	0.5755	0.3468	0.2485	0.6717	0.8763
Firm size	14,397	6.4692	2.1076	4.9415	6.4874	7.9507
Book-to-market	14,397	0.5990	0.6020	0.2505	0.4794	0.8080
ROA	14,397	-0.0355	0.2433	-0.0195	0.0253	0.0667
Stock return	14,397	0.0100	0.4244	-0.2205	-0.0317	0.1644
Earnings volatility	14,397	0.1389	0.2839	0.0226	0.0523	0.1337
Loss	14,397	0.3009	0.4587	0.0000	0.0000	1.0000
Class action litigation risk	14,397	0.2702	0.2449	0.0883	0.1860	0.3748

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

Table 2
Pearson Correlations
SouthAfricanFinancialMarketsAct Equity Issuance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	-0.00	0.07	0.09	-0.13	-0.05	0.03	0.04	0.05	-0.12
FreqMF	-0.00	1.00	0.39	0.44	-0.17	0.23	-0.01	-0.18	-0.24	-0.03
Institutional ownership	0.07	0.39	1.00	0.61	-0.22	0.33	-0.02	-0.25	-0.29	-0.01
Firm size	0.09	0.44	0.61	1.00	-0.35	0.37	0.06	-0.26	-0.40	0.09
Book-to-market	-0.13	-0.17	-0.22	-0.35	1.00	0.07	-0.17	-0.10	0.03	-0.03
ROA	-0.05	0.23	0.33	0.37	0.07	1.00	0.15	-0.56	-0.61	-0.17
Stock return	0.03	-0.01	-0.02	0.06	-0.17	0.15	1.00	-0.04	-0.15	-0.07
Earnings volatility	0.04	-0.18	-0.25	-0.26	-0.10	-0.56	-0.04	1.00	0.37	0.17
Loss	0.05	-0.24	-0.29	-0.40	0.03	-0.61	-0.15	0.37	1.00	0.20
Class action litigation risk	-0.12	-0.03	-0.01	0.09	-0.03	-0.17	-0.07	0.17	0.20	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 South African Financial Markets Act on Management Forecast Frequency**

	(1)	(2)
Treatment Effect	-0.0034 (0.22)	-0.0871*** (6.30)
Institutional ownership		0.4456*** (17.00)
Firm size		0.1268*** (26.33)
Book-to-market		-0.0801*** (8.16)
ROA		0.0982*** (3.80)
Stock return		-0.0875*** (6.32)
Earnings volatility		-0.1027*** (5.27)
Loss		-0.0761*** (4.30)
Class action litigation risk		-0.1826*** (6.85)
N	14,397	14,397
R ²	0.0000	0.2263

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