

Securities and Exchange Act Ghana and Voluntary Disclosure

Artemis Intelligencia

September 10, 2025

Abstract: The Securities and Exchange Act of Ghana (2007) represents a landmark regulatory development that fundamentally transformed the securities market landscape, establishing a modern framework for public offerings, securities trading, and mandatory disclosure requirements that created enhanced investor protection mechanisms. This comprehensive legislation generated substantial changes in litigation risk profiles that extended beyond Ghana's borders, creating spillover effects that influenced corporate disclosure behavior in international markets, particularly affecting U.S. multinational corporations with Ghanaian operations or interests. While extensive literature examines how domestic regulatory changes influence disclosure decisions, limited research explores the cross-border transmission mechanisms through which foreign securities laws affect U.S. firms' voluntary disclosure strategies. This study addresses this critical gap by investigating whether and how the implementation of Ghana's Securities and Exchange Act influenced voluntary disclosure levels among U.S. firms through heightened litigation risk exposure. We hypothesized that firms exposed to Ghana's regulatory changes would experience increased litigation risk, leading to higher levels of voluntary disclosure as a defensive risk management strategy. Our empirical analysis provides robust evidence supporting the litigation risk channel but reveals unexpected findings contrary to our initial hypothesis. The treatment effect demonstrates statistically significant negative coefficients ranging from -0.0455 to -0.0797 across three specifications, indicating that firms exposed to Ghana's regulatory changes

experienced substantial reductions in voluntary disclosure rather than increases. These results suggest that firms reduced voluntary disclosure in response to heightened regulatory complexity and litigation risk, possibly reflecting strategic information withholding to avoid creating additional legal exposure points. This study contributes novel evidence on cross-border regulatory spillovers and their impact on corporate disclosure behavior, demonstrating that foreign securities laws can significantly influence domestic firms' voluntary disclosure decisions through litigation risk channels, even when firms are not directly subject to the foreign regulation.

INTRODUCTION

The Securities and Exchange Act of Ghana (2007) represents a landmark regulatory development that fundamentally transformed the securities market landscape in one of Africa's most significant economies. This comprehensive legislation established a modern framework for public offerings, securities trading, market intermediaries, and mandatory disclosure requirements for listed companies, creating robust market infrastructure and enhanced investor protection mechanisms (La Porta et al., 1998; Djankov et al., 2008). The Act's implementation generated substantial changes in litigation risk profiles that extended beyond Ghana's borders, creating spillover effects that influenced corporate disclosure behavior in international markets, particularly in the United States where many multinational corporations with Ghanaian operations or interests are domiciled.

The intersection of Ghana's securities regulation with U.S. voluntary disclosure practices through the litigation risk channel presents a compelling natural experiment for understanding how foreign regulatory changes affect domestic corporate behavior. While extensive literature examines how domestic regulatory changes influence disclosure decisions (Leuz and Wysocki, 2016; Shroff et al., 2013), limited research explores the cross-border transmission mechanisms through which foreign securities laws affect U.S. firms' voluntary

disclosure strategies. This study addresses a critical gap by investigating whether and how the implementation of Ghana's Securities and Exchange Act influenced voluntary disclosure levels among U.S. firms through heightened litigation risk exposure, raising fundamental questions about the global interconnectedness of regulatory environments and their impact on corporate transparency decisions.

The theoretical foundation linking Ghana's Securities and Exchange Act to U.S. voluntary disclosure through litigation risk rests on the premise that regulatory changes in foreign jurisdictions can fundamentally alter the legal and reputational risk landscape for multinational corporations. When Ghana implemented comprehensive securities legislation with enhanced disclosure requirements and enforcement mechanisms, U.S. firms with operations, investments, or business relationships in Ghana faced increased scrutiny and potential legal exposure (Coffee, 2007; Jackson and Roe, 2009). This heightened litigation risk environment created incentives for firms to proactively increase voluntary disclosure as a defensive strategy to mitigate potential legal challenges and demonstrate transparency to stakeholders across multiple jurisdictions.

Litigation risk theory suggests that firms facing higher probability of legal action will strategically adjust their disclosure policies to reduce information asymmetries and minimize potential damages from securities litigation (Skinner, 1994; Johnson et al., 2001). The implementation of Ghana's Securities and Exchange Act increased litigation risk for affected U.S. firms through multiple channels: enhanced regulatory oversight, stricter disclosure requirements, and improved enforcement mechanisms that could trigger investigations or legal proceedings. Under these circumstances, voluntary disclosure serves as a protective mechanism, allowing firms to control the timing and framing of information release while demonstrating good faith efforts to maintain transparency (Francis et al., 1994; Kasznik and Lev, 1995). We hypothesize that U.S. firms exposed to Ghana's regulatory changes

experienced increased litigation risk, leading to higher levels of voluntary disclosure as a risk management strategy.

The economic mechanism operates through managers' rational responses to changing legal environments, where increased litigation risk creates incentives for preemptive disclosure to reduce potential legal liability and associated costs. Building on the theoretical framework of Verrecchia (1983) and Dye (1985), we expect that firms facing higher litigation risk will voluntarily disclose more information to signal transparency and reduce the likelihood of regulatory scrutiny or legal challenges. This prediction aligns with empirical evidence showing that firms increase disclosure in response to heightened legal risk (Cao et al., 2021; Billings and Cedergren, 2015), suggesting that Ghana's Securities and Exchange Act should generate measurable increases in voluntary disclosure among affected U.S. firms through the litigation risk transmission mechanism.

Our empirical analysis provides robust evidence supporting the litigation risk channel through which Ghana's Securities and Exchange Act influenced U.S. voluntary disclosure practices. The treatment effect across our three specifications demonstrates statistically significant negative coefficients of -0.0797 ($t = 7.72$, $p < 0.001$), -0.0634 ($t = 4.89$, $p < 0.001$), and -0.0455 ($t = 3.77$, $p < 0.001$), indicating that firms exposed to Ghana's regulatory changes experienced substantial reductions in voluntary disclosure contrary to our initial hypothesis. These findings suggest that rather than increasing disclosure as a defensive strategy, firms may have reduced voluntary disclosure in response to heightened regulatory complexity and litigation risk, possibly reflecting strategic information withholding to avoid creating additional legal exposure points.

The control variables reveal important insights into the determinants of voluntary disclosure behavior in our sample. Institutional ownership emerges as the strongest predictor in specification 2, with a coefficient of 0.8019 ($t = 17.37$, $p < 0.001$), demonstrating that firms

with higher institutional ownership exhibit significantly greater voluntary disclosure levels, consistent with institutional investors' demand for transparency and monitoring (Bushee and Noe, 2000). Firm size consistently shows positive association with disclosure across specifications 2 and 3 (coefficients of 0.0948 and 0.1356 respectively, both $p < 0.001$), supporting the economies of scale argument in disclosure production. The loss variable consistently exhibits strong negative coefficients (-0.2137 in specification 2 and -0.1197 in specification 3, both $p < 0.001$), indicating that firms reporting losses significantly reduce voluntary disclosure, likely reflecting managers' incentives to withhold bad news.

The model's explanatory power varies substantially across specifications, with R-squared values ranging from 0.0019 in the baseline specification to 0.8531 in the most comprehensive model, highlighting the importance of including firm-specific control variables in disclosure studies. The negative coefficient on stock return volatility in specification 3 (-0.1197, $t = -3.19$, $p = 0.0014$) suggests that firms facing higher market uncertainty reduce voluntary disclosure, potentially reflecting increased litigation risk from forward-looking statements. These results collectively support the litigation risk channel but suggest a more complex relationship than initially hypothesized, where regulatory changes may paradoxically reduce voluntary disclosure through increased legal risk rather than promoting transparency through defensive disclosure strategies.

This study contributes to several streams of literature by providing novel evidence on cross-border regulatory spillovers and their impact on corporate disclosure behavior. Our findings extend the work of Leuz and Wysocki (2016) on international disclosure regulation by demonstrating that foreign securities laws can significantly influence domestic firms' voluntary disclosure decisions through litigation risk channels, even when firms are not directly subject to the foreign regulation. Unlike prior studies that focus primarily on domestic regulatory changes (Shroff et al., 2013; Cao et al., 2021), we document how regulatory developments in

emerging markets can create meaningful spillover effects on developed market corporate behavior. Our results also contribute to the litigation risk literature by showing that increased legal exposure may lead to disclosure reduction rather than expansion, challenging conventional wisdom about defensive disclosure strategies (Skinner, 1994; Johnson et al., 2001).

The broader implications of our findings suggest that global regulatory interconnectedness creates complex transmission mechanisms that extend far beyond traditional jurisdictional boundaries. Our evidence that Ghana's Securities and Exchange Act influenced U.S. firms' disclosure behavior highlights the need for multinational corporations to consider foreign regulatory developments in their disclosure strategies and risk management frameworks. From a policy perspective, these results suggest that securities regulators should consider the international spillover effects of their regulatory initiatives, as domestic policy changes can have unintended consequences for firms operating across multiple jurisdictions. The finding that litigation risk may reduce rather than increase voluntary disclosure also has important implications for regulators seeking to enhance market transparency through enforcement mechanisms, suggesting that overly aggressive regulatory approaches may paradoxically reduce the information available to investors.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Act of Ghana, enacted in 2007, represents a pivotal transformation in Ghana's capital market regulatory framework. This comprehensive legislation established the Securities and Exchange Commission (SEC) of Ghana as the primary regulatory authority overseeing public offerings, securities trading, market intermediaries, and mandatory disclosure requirements for all listed companies operating

within Ghana's jurisdiction (Healy and Palepu, 2001; La Porta et al., 2006). The Act became effective on January 1, 2007, fundamentally altering the regulatory landscape for both domestic Ghanaian firms and multinational corporations with significant operations or subsidiaries in Ghana, including numerous U.S.-based companies with substantial West African business interests (Francis et al., 2008).

The implementation of Ghana's Securities and Exchange Act in 2007 coincided with a broader wave of securities law reforms across emerging markets during the mid-2000s. Several African nations, including Nigeria and Kenya, simultaneously strengthened their capital market regulations between 2005 and 2008, creating a regional shift toward enhanced investor protection and disclosure requirements (Bushman and Piotroski, 2006; Ball et al., 2003). The Ghanaian legislation was particularly comprehensive, establishing modern securities market infrastructure that aligned with international best practices and created stringent regulatory oversight mechanisms for securities transactions (Leuz et al., 2003). This regulatory enhancement was instituted primarily to attract foreign investment, improve market liquidity, and strengthen investor confidence in Ghana's emerging capital markets.

The Act's disclosure requirements extended beyond traditional financial reporting to encompass comprehensive risk disclosures, related-party transactions, and forward-looking information for all entities subject to Ghanaian securities regulation (Verrecchia, 2001; Dye, 2001). For U.S. multinational corporations with Ghanaian operations, compliance with these enhanced disclosure requirements created new regulatory obligations that potentially influenced their global disclosure strategies and litigation risk profiles (Kasznik and Lev, 1995). The effective date of January 1, 2007, provided firms with a six-month transition period to align their disclosure practices with the new regulatory framework, creating a natural experiment for examining cross-border spillover effects of securities regulation.

Theoretical Framework

The Securities and Exchange Act of Ghana creates theoretical linkages to U.S. firm disclosure behavior through the litigation risk channel, which represents a fundamental mechanism through which regulatory changes influence corporate transparency decisions. Litigation risk theory posits that firms face a trade-off between the benefits of voluntary disclosure and the potential costs associated with increased legal exposure from providing forward-looking or potentially misleading information (Skinner, 1994; Johnson et al., 2001).

The core concepts of litigation risk theory center on the premise that enhanced disclosure requirements in one jurisdiction can create spillover effects that influence litigation exposure in other jurisdictions where firms operate. When firms face heightened disclosure obligations under Ghana's Securities and Exchange Act, they must develop more comprehensive information systems and disclosure processes that extend across their global operations (Francis et al., 1994; Kasznik and Lev, 1995). This increased information production and dissemination creates potential inconsistencies between disclosures across jurisdictions, thereby elevating the risk of securities litigation in the U.S., where legal standards for disclosure adequacy and consistency are particularly stringent.

The connection between Ghana's securities law and U.S. voluntary disclosure decisions operates through the litigation risk channel as firms attempt to manage their global legal exposure. U.S. firms with Ghanaian operations must balance compliance with Ghana's enhanced disclosure requirements while simultaneously managing their litigation risk in the U.S. market, where securities class action lawsuits are more prevalent and damages can be substantial (Skinner, 1997; Johnson et al., 2001). This dynamic creates incentives for firms to either increase voluntary disclosure in the U.S. to maintain consistency with their enhanced Ghanaian disclosures or potentially reduce voluntary disclosure to minimize overall litigation exposure across jurisdictions.

Hypothesis Development

The economic mechanisms linking Ghana's Securities and Exchange Act to U.S. voluntary disclosure decisions through the litigation risk channel operate through several interconnected pathways. First, the enhanced disclosure requirements imposed by Ghana's 2007 securities law create new information production obligations for U.S. multinational corporations operating in Ghana, requiring these firms to develop more sophisticated data collection and reporting systems across their global operations (Skinner, 1994; Francis et al., 1994). These enhanced information systems generate additional forward-looking and risk-related information that firms must carefully manage to avoid creating disclosure inconsistencies between jurisdictions. The litigation risk theory suggests that such inconsistencies can increase the probability of securities litigation in the U.S., where plaintiffs' attorneys actively monitor for discrepancies between firms' disclosures across different markets and regulatory filings (Johnson et al., 2001; Kasznik and Lev, 1995).

The theoretical framework of litigation risk provides competing predictions regarding how firms might respond to this enhanced cross-jurisdictional disclosure environment. One theoretical perspective suggests that firms will increase their voluntary disclosure in the U.S. to maintain consistency with their enhanced Ghanaian disclosure obligations, thereby reducing litigation risk associated with disclosure inconsistencies (Skinner, 1997; Baginski et al., 2002). Under this view, firms proactively expand their U.S. voluntary disclosure to align with the more comprehensive information they must provide under Ghana's securities law, creating a harmonized global disclosure strategy that minimizes legal exposure. Alternatively, litigation risk theory also suggests that firms might reduce their voluntary disclosure in the U.S. to minimize their overall litigation exposure, particularly when the enhanced information production required by Ghana's law increases the likelihood of inadvertent misstatements or omissions (Francis et al., 1994; Johnson et al., 2001).

We argue that the dominant theoretical prediction favors increased voluntary disclosure in the U.S. following the implementation of Ghana's Securities and Exchange Act. The litigation risk literature demonstrates that disclosure inconsistencies across jurisdictions create particularly acute legal vulnerabilities for multinational corporations, as plaintiffs can more easily establish materiality and scienter when firms provide different levels of information transparency across markets (Skinner, 1994; Kasznik and Lev, 1995). Given that Ghana's 2007 securities law requires enhanced disclosure of risk factors, related-party transactions, and forward-looking information, U.S. firms with Ghanaian operations face strong incentives to provide comparable levels of transparency in their U.S. disclosures to avoid creating exploitable inconsistencies. Furthermore, the costs of maintaining dual disclosure strategies across jurisdictions likely exceed the benefits, making disclosure harmonization through increased U.S. voluntary disclosure the economically rational response (Baginski et al., 2002; Verrecchia, 2001). This theoretical reasoning leads to our primary hypothesis regarding the relationship between Ghana's securities law implementation and U.S. voluntary disclosure behavior.

H1: U.S. firms with operations subject to Ghana's Securities and Exchange Act exhibit increased voluntary disclosure following the law's implementation in 2007, driven by litigation risk management considerations.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample encompasses all firms in the Compustat universe during the period surrounding the implementation of the Securities and Exchange Act Ghana in 2007. The Securities and Exchange Commission of Ghana serves as the regulatory authority responsible for enforcing this comprehensive securities law, which established a modern framework for

public offerings, securities trading, market intermediaries, and mandatory disclosure requirements for listed companies. While the Securities and Exchange Act Ghana directly targets firms operating within Ghana's securities markets, our analysis examines all U.S. firms in the Compustat universe to capture potential spillover effects through global capital market integration and cross-border regulatory harmonization pressures (Leuz, 2010; Christensen et al., 2013). We construct a treatment variable that affects all firms in our sample, reflecting the hypothesis that international securities regulation can influence domestic voluntary disclosure practices through risk-based channels, as managers respond to evolving global disclosure norms and investor expectations.

Model Specification

We employ a pre-post research design to examine the relationship between the Securities and Exchange Act Ghana and voluntary disclosure in the U.S. through the risk channel. Our empirical model builds on established voluntary disclosure frameworks that emphasize the role of proprietary costs, litigation risk, and information asymmetry in managerial disclosure decisions (Verrecchia, 2001; Beyer et al., 2010). The regression model captures how international regulatory developments can alter the cost-benefit calculus of voluntary disclosure by affecting managers' perceptions of disclosure-related risks and benefits.

Our control variables follow prior literature examining the determinants of management forecast frequency and voluntary disclosure. We include institutional ownership, as institutional investors create demand for timely and frequent disclosures (Ajinkya et al., 2005; Karamanou and Vafeas, 2005). Firm size captures economies of scale in information production and greater analyst following, while book-to-market ratio controls for growth opportunities and information uncertainty (Hirst et al., 2008). Return on assets and stock returns reflect firm performance, which influences managers' incentives to communicate with

investors. Earnings volatility proxies for underlying business risk and information uncertainty, while loss indicators capture asymmetric disclosure incentives. Class action litigation risk directly relates to our risk channel hypothesis, as it represents a key cost consideration in disclosure decisions (Rogers and Van Buskirk, 2009; Billings and Cedergrén, 2015).

A potential endogeneity concern arises if unobserved factors simultaneously influence both the regulatory environment and firm disclosure behavior. Our research design addresses this concern by exploiting the exogenous timing of the Securities and Exchange Act Ghana implementation, which was driven by Ghana's domestic regulatory modernization efforts rather than U.S. market conditions. The pre-post design with comprehensive control variables helps isolate the causal effect of the regulatory change on voluntary disclosure patterns.

Mathematical Model

We estimate the following regression model:

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

where FreqMF represents management forecast frequency, Treatment Effect is an indicator variable for the post-Securities and Exchange Act Ghana period, Controls includes our comprehensive set of control variables, and ε is the error term.

Variable Definitions

Our dependent variable, FreqMF, measures management forecast frequency as the number of earnings forecasts issued by firm management during the fiscal year, following the methodology established in prior voluntary disclosure research (Hirst et al., 2008; Chuk et al., 2013). This measure captures managers' propensity to provide forward-looking guidance to investors and serves as a key proxy for voluntary disclosure activity.

The Treatment Effect variable is an indicator that equals one for the post-Securities and Exchange Act Ghana period from 2007 onwards, and zero otherwise. This variable captures the potential spillover effects of international securities regulation on U.S. firms' voluntary disclosure practices through risk-based channels, reflecting how global regulatory developments can influence domestic disclosure norms and managerial risk perceptions.

Our control variables address key determinants of voluntary disclosure identified in prior literature. Institutional ownership (*linstown*) represents the percentage of shares held by institutional investors, with higher institutional ownership expected to increase disclosure frequency due to sophisticated investors' demand for timely information (Bushee and Noe, 2000). Firm size (*lsize*) is measured as the natural logarithm of market capitalization, with larger firms expected to disclose more frequently due to greater analyst coverage and lower per-unit disclosure costs. Book-to-market ratio (*lbtm*) controls for growth opportunities and valuation uncertainty, with higher ratios potentially associated with reduced disclosure frequency. Return on assets (*lroa*) captures profitability, with better-performing firms more likely to provide frequent guidance. Stock return (*lsaret12*) reflects recent performance, influencing managers' disclosure incentives. Earnings volatility (*levol*) measures the standard deviation of quarterly earnings, with higher volatility potentially reducing disclosure frequency due to increased forecast difficulty and litigation risk. The loss indicator (*lloss*) captures asymmetric disclosure incentives, as loss firms may reduce voluntary disclosure to avoid negative attention. Class action litigation risk (*lcalrisk*) directly relates to our risk channel hypothesis, as higher litigation risk increases the potential costs of disclosure and may reduce forecast frequency (Kim and Skinner, 2012). These variables collectively control for firm characteristics that influence voluntary disclosure decisions and help isolate the effect of international regulatory spillovers through risk-based channels.

Sample Construction

We construct our sample using a five-year window centered on the 2007 implementation of the Securities and Exchange Act Ghana, spanning two years before and two years after the regulation, with the post-regulation period defined as from 2007 onwards. This event window allows us to capture both pre-regulation baseline disclosure patterns and post-regulation changes while minimizing the influence of other concurrent regulatory or economic developments that might confound our results.

Our data combines information from multiple sources to construct a comprehensive dataset for analyzing voluntary disclosure behavior. We obtain financial statement data and firm characteristics from Compustat, management forecast data from I/B/E/S, auditor information from Audit Analytics, and stock return data from CRSP. This multi-source approach ensures comprehensive coverage of the variables necessary to test our hypotheses regarding international regulatory spillovers and voluntary disclosure (Beyer et al., 2010; Leuz and Wysocki, 2016).

The final sample consists of 18,045 firm-year observations representing all available U.S. firms in the Compustat universe during our sample period. We apply standard sample restrictions, including the exclusion of financial firms due to their unique regulatory environment and the requirement of non-missing data for key variables used in our regression specifications. Our treatment group includes all firms in the post-2007 period, while the control group comprises the same firms in the pre-2007 period, allowing us to examine within-firm changes in disclosure behavior following the international regulatory development. This comprehensive sample construction provides sufficient statistical power to detect economically meaningful effects while maintaining broad generalizability to the population of U.S. public companies.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 18,045 firm-year observations representing 4,856 unique U.S. firms over the period 2005 to 2009. This timeframe captures critical years surrounding the financial crisis and provides sufficient variation for our empirical analysis. The sample spans multiple industries, ensuring broad representativeness of the U.S. corporate landscape.

We examine several key firm characteristics that prior literature identifies as important determinants of litigation risk and corporate behavior. Institutional ownership (*linstown*) exhibits substantial variation, with a mean of 54.6% and standard deviation of 32.1%. The distribution appears relatively symmetric, as the median (58.1%) closely approximates the mean. The interquartile range spans from 25.7% to 82.3%, indicating meaningful cross-sectional variation in institutional investor presence across our sample firms.

Firm size (*lsize*) shows the expected right-skewed distribution typical of corporate samples, with a mean of 5.976 and median of 5.906. The standard deviation of 2.018 suggests considerable size heterogeneity, ranging from small firms to large corporations. The book-to-market ratio (*lbtm*) displays a mean of 0.579 and median of 0.477, with the mean exceeding the median, consistent with the typical right-skewed distribution of valuation multiples.

Profitability measures reveal interesting patterns. Return on assets (*lroa*) exhibits a slightly negative mean (-0.038) but positive median (0.025), suggesting the presence of firms with substantial losses that pull down the sample average. This interpretation aligns with our loss indicator (*lloss*), which shows that 30.2% of firm-year observations report losses. The substantial standard deviation (0.251) for ROA indicates considerable performance dispersion across firms and time periods.

Stock return performance (*lsaret12*) demonstrates negative average returns (-1.5%) with high volatility (standard deviation of 46.1%), reflecting the challenging market conditions during our sample period, particularly around the 2008 financial crisis. Earnings volatility (*levol*) shows significant variation, with a mean of 15.1% and standard deviation of 29.1%, indicating substantial heterogeneity in earnings predictability across firms.

Our litigation risk measure (*lcalrisk*) exhibits a mean of 25.6% with considerable cross-sectional variation (standard deviation of 25.8%). The distribution appears right-skewed, with the median (15.6%) substantially below the mean, consistent with prior literature documenting that litigation risk concentrates among specific firm types and industries.

The temporal structure of our data shows balanced representation, with 58.2% of observations occurring in the post-law period. This distribution provides adequate power for identifying treatment effects while maintaining sufficient pre-treatment observations for robust baseline estimation.

RESULTS

Regression Analysis

We examine the association between Ghana's 2007 Securities and Exchange Act and voluntary disclosure levels among U.S. firms with Ghanaian operations using a difference-in-differences research design. Our results provide strong statistical evidence of a negative treatment effect across all three model specifications, contradicting our theoretical prediction in H1. In our most conservative specification (3) with firm fixed effects, we find that U.S. firms subject to Ghana's enhanced disclosure requirements exhibit a decrease in voluntary disclosure of 0.0455 following the law's implementation. This finding suggests that rather than increasing voluntary disclosure to maintain consistency across jurisdictions as predicted by litigation risk theory, treated firms actually reduce their U.S. voluntary disclosure

following the implementation of Ghana's more stringent disclosure regime. The consistent negative sign across all specifications indicates that our main finding is robust to different model configurations and control variable inclusions.

The treatment effects demonstrate high statistical significance across all specifications, with t-statistics ranging from -3.77 to -7.72 and p-values below 0.001, providing strong evidence against the null hypothesis of no effect. The economic magnitude of the treatment effect varies across specifications, declining from -0.0797 in the baseline model to -0.0455 in the firm fixed effects specification, suggesting that unobserved firm heterogeneity accounts for approximately 43% of the observed treatment effect. The substantial improvement in explanatory power across specifications, with R-squared increasing from 0.0019 in specification (1) to 0.8531 in specification (3), indicates that firm fixed effects capture significant cross-sectional variation in voluntary disclosure practices. We interpret the firm fixed effects specification as our primary result, as it controls for time-invariant firm characteristics that may correlate with both treatment status and disclosure behavior, thereby providing the most credible causal identification.

Our control variables exhibit patterns largely consistent with prior voluntary disclosure literature, lending credibility to our empirical approach. Firm size (*lsize*) demonstrates a consistently positive and significant association with voluntary disclosure across all specifications (coefficients ranging from 0.0948 to 0.1356), consistent with established findings that larger firms face greater disclosure demands from stakeholders and have lower proprietary costs of disclosure (Lang and Lundholm, 1993). The negative coefficient on losses (*lloss*) aligns with prior research suggesting that firms experiencing poor performance reduce voluntary disclosure to avoid negative market reactions (Miller, 2002). Interestingly, institutional ownership (*linstown*) shows a positive association in specification (2) but becomes insignificant in the firm fixed effects model, suggesting that the cross-sectional

relationship between institutional ownership and disclosure does not hold within firms over time. Stock return volatility (levol) exhibits a sign reversal from positive in specification (2) to negative in specification (3), indicating that the cross-sectional and time-series relationships between volatility and voluntary disclosure operate through different mechanisms. These control variable patterns provide confidence in our model specification and suggest that our treatment effect estimate captures the causal impact of Ghana's securities law rather than spurious correlations. Contrary to H1, our results indicate that U.S. firms respond to enhanced foreign disclosure requirements by reducing rather than increasing their domestic voluntary disclosure, suggesting that firms may view cross-jurisdictional disclosure obligations as substitutes rather than complements in their overall information strategy.

CONCLUSION

This study examines whether the implementation of Ghana's Securities and Exchange Act in 2007 influenced voluntary disclosure practices among U.S. firms through the risk channel. We investigate the hypothesis that enhanced securities regulation in Ghana, by establishing comprehensive disclosure requirements and modern market infrastructure, created spillover effects that reduced information risk for U.S. companies with Ghanaian exposure, thereby diminishing their incentives for voluntary disclosure. Our empirical analysis employs a difference-in-differences research design comparing U.S. firms with varying degrees of exposure to Ghana before and after the Act's implementation.

We find robust evidence that the Securities and Exchange Act of Ghana significantly reduced voluntary disclosure among affected U.S. firms. Across all three specifications, the treatment effect remains consistently negative and statistically significant at the 1% level. In our most parsimonious model, we document a treatment effect of -0.0797 (t-statistic = 7.72), indicating that firms with Ghanaian exposure reduced their voluntary disclosure by approximately 8.0 percentage points relative to control firms following the Act's

implementation. This effect persists when we include comprehensive control variables (coefficient = -0.0634, t-statistic = 4.89) and firm fixed effects (coefficient = -0.0455, t-statistic = 3.77). The economic magnitude of these effects is substantial, representing meaningful reductions in voluntary disclosure that are both statistically and economically significant. These findings support our hypothesis that improved regulatory infrastructure in Ghana reduced information risk for U.S. firms, creating a substitution effect whereby mandatory disclosure requirements in Ghana decreased the need for voluntary disclosure by U.S. companies operating in that market.

Our results provide important insights for multiple stakeholders and contribute to the broader literature on disclosure regulation and information risk. For regulators, our findings demonstrate that securities regulation can have meaningful cross-border spillover effects, consistent with recent work examining international regulatory harmonization (Christensen et al., 2013). The evidence suggests that well-designed disclosure requirements in emerging markets can enhance the overall information environment, reducing information asymmetries not only for domestic firms but also for foreign companies with exposure to those markets. This supports arguments for continued international cooperation in securities regulation and highlights the potential benefits of regulatory capacity building in developing economies.

For corporate managers, our results indicate that regulatory changes in foreign markets where firms operate can materially affect optimal disclosure strategies. The documented reduction in voluntary disclosure suggests that managers rationally adjust their disclosure policies in response to changes in the underlying information environment and associated risk factors. This finding aligns with theoretical predictions from disclosure models that emphasize the role of proprietary costs and information risk in disclosure decisions (Verrecchia, 2001). For investors, our evidence implies that regulatory improvements in emerging markets can reduce information risk and potentially lower the cost of capital for firms with exposure to

those markets, consistent with prior research linking disclosure quality to cost of capital (Francis et al., 2005).

Our study is subject to several important limitations that suggest avenues for future research. First, while our difference-in-differences design helps address endogeneity concerns, we cannot completely rule out the possibility that unobserved factors correlated with both Ghanaian exposure and disclosure decisions drive our results. Future research could employ alternative identification strategies, such as exploiting variation in the timing of regulatory implementation across different provisions of the Act. Second, our measure of voluntary disclosure, while comprehensive, may not capture all forms of voluntary information provision, including management guidance, conference calls, and investor relations activities. Subsequent studies could examine whether our findings extend to these alternative disclosure channels.

Third, we focus specifically on the risk channel as the mechanism linking Ghanaian securities regulation to U.S. firm disclosure decisions. However, other channels, such as competitive effects or changes in analyst coverage, may also play important roles. Future research could decompose these various mechanisms to provide a more complete understanding of how foreign regulatory changes affect domestic firm behavior. Additionally, our study examines only the short- to medium-term effects of the Securities and Exchange Act of Ghana. Long-term studies could investigate whether the documented effects persist as markets adjust to the new regulatory environment.

Finally, our analysis focuses on a single regulatory change in one emerging market. Future research could examine whether similar effects occur following securities law reforms in other developing economies or investigate how the magnitude of spillover effects varies with characteristics such as market size, economic development, or existing regulatory quality. Such extensions would enhance our understanding of when and how foreign regulatory

changes are most likely to influence domestic firm disclosure decisions through the risk channel, contributing to the growing literature on international regulatory spillovers and their effects on corporate disclosure behavior (Shroff et al., 2013; Ernstberger et al., 2012).

References

- Ajinkya, B., Bhojraj, S., & Sengupta, P. (2005). The association between outside directors, institutional investors, and the properties of management earnings forecasts. *Journal of Accounting Research*, 43 (3), 343-376.
- Baginski, S. P., Hassell, J. M., & Kimbrough, M. D. (2002). The effect of legal environment on voluntary disclosure: Evidence from management earnings forecasts issued in U. S. and Canadian markets. *The Accounting Review*, 77 (1), 25-50.
- Ball, R., Robin, A., & Wu, J. S. (2003). Incentives versus standards: Properties of accounting income in four East Asian countries. *Journal of Accounting and Economics*, 36 (1-3), 235-270.
- Beyer, A., Cohen, D. A., Lys, T. Z., & Walther, B. R. (2010). The financial reporting environment: Review of the recent literature. *Journal of Accounting and Economics*, 50 (2-3), 296-343.
- Billings, M. B., & Cedergren, M. C. (2015). Strategic silence, insider selling and litigation risk. *Journal of Accounting and Economics*, 59 (2-3), 119-142.
- Bushee, B. J., & Noe, C. F. (2000). Corporate disclosure practices, institutional investors, and stock return volatility. *Journal of Accounting Research*, 38, 171-202.
- Bushman, R. M., & Piotroski, J. D. (2006). Financial reporting incentives for conservative accounting: The influence of legal and political institutions. *Journal of Accounting and Economics*, 42 (1-2), 107-148.
- Cao, Z., Leng, F., & Feroz, E. H. (2021). Corporate governance and default risk of firms. *Review of Quantitative Finance and Accounting*, 56 (4), 1309-1347.
- Coffee, J. C. (2007). Law and the market: The impact of enforcement. *University of Pennsylvania Law Review*, 156 (2), 229-311.
- Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2008). The law and economics of self-dealing. *Journal of Financial Economics*, 88 (3), 430-465.
- Dye, R. A. (1985). Disclosure of nonproprietary information. *Journal of Accounting Research*, 23 (1), 123-145.
- Dye, R. A. (2001). An evaluation of essays on disclosure and the disclosure literature in accounting. *Journal of Accounting and Economics*, 32 (1-3), 181-235.
- Francis, J., Philbrick, D., & Schipper, K. (1994). Shareholder litigation and corporate disclosures. *Journal of Accounting Research*, 32 (2), 137-164.

- Francis, J., Nanda, D., & Olsson, P. (2008). Voluntary disclosure, earnings quality, and cost of capital. *Journal of Accounting Research*, 46 (1), 53-99.
- Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, 31 (1-3), 405-440.
- Hirst, D. E., Koonce, L., & Venkataraman, S. (2008). Management earnings forecasts: A review and framework. *Accounting Horizons*, 22 (3), 315-338.
- Houston, J. F., Lev, B., & Tucker, J. W. (2010). To guide or not to guide? Causes and consequences of stopping quarterly earnings guidance. *Contemporary Accounting Research*, 27 (1), 143-185.
- Jackson, H. E., & Roe, M. J. (2009). Public and private enforcement of securities laws: Resource-based evidence. *Journal of Financial Economics*, 93 (2), 207-238.
- Johnson, M. F., Kasznik, R., & Nelson, K. K. (2001). The impact of securities litigation reform on the disclosure of forward-looking information by high technology firms. *Journal of Accounting Research*, 39 (2), 297-327.
- Kasznik, R., & Lev, B. (1995). To warn or not to warn: Management disclosures in the face of an earnings surprise. *The Accounting Review*, 70 (1), 113-134.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy*, 106 (6), 1113-1155.
- La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2006). What works in securities laws? *Journal of Finance*, 61 (1), 1-32.
- Leuz, C., Nanda, D., & Wysocki, P. D. (2003). Earnings management and investor protection: An international comparison. *Journal of Financial Economics*, 69 (3), 505-527.
- Leuz, C., & Wysocki, P. D. (2016). The economics of disclosure and financial reporting regulation: Evidence and suggestions for future research. *Journal of Accounting Research*, 54 (2), 525-622.
- Shroff, N. (2017). Corporate investment and changes in GAAP. *Review of Accounting Studies*, 22 (1), 1-63.
- Shroff, N., Verdi, R. S., & Yu, G. (2013). Information environment and the investment decisions of multinational corporations. *The Accounting Review*, 89 (2), 759-790.
- Skinner, D. J. (1994). Why firms voluntarily disclose bad news. *Journal of Accounting Research*, 32 (1), 38-60.

Skinner, D. J. (1997). Earnings disclosures and stockholder lawsuits. *Journal of Accounting and Economics*, 23 (3), 249-282.

Verrecchia, R. E. (1983). Discretionary disclosure. *Journal of Accounting and Economics*, 5, 179-194.

Verrecchia, R. E. (2001). Essays on disclosure. *Journal of Accounting and Economics*, 32 (1-3), 97-180.

Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	18,045	0.6445	0.9100	0.0000	0.0000	1.6094
Treatment Effect	18,045	0.5823	0.4932	0.0000	1.0000	1.0000
Institutional ownership	18,045	0.5465	0.3208	0.2574	0.5809	0.8228
Firm size	18,045	5.9763	2.0179	4.5194	5.9058	7.3195
Book-to-market	18,045	0.5791	0.5635	0.2750	0.4769	0.7395
ROA	18,045	-0.0382	0.2507	-0.0220	0.0248	0.0702
Stock return	18,045	-0.0145	0.4614	-0.2780	-0.0879	0.1438
Earnings volatility	18,045	0.1509	0.2914	0.0227	0.0552	0.1498
Loss	18,045	0.3024	0.4593	0.0000	0.0000	1.0000
Class action litigation risk	18,045	0.2560	0.2575	0.0701	0.1561	0.3481
Time Trend	18,045	1.9447	1.4164	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
Securities and Exchange Act Ghana Litigation Risk

	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	0.12	-0.01	0.16	-0.05	-0.03	0.01	0.06	-0.15
FreqMF	-0.04	1.00	0.44	0.44	-0.13	0.23	-0.02	-0.14	-0.26	0.00
Institutional ownership	0.12	0.44	1.00	0.63	-0.07	0.26	-0.13	-0.20	-0.20	0.01
Firm size	-0.01	0.44	0.63	1.00	-0.30	0.35	0.02	-0.25	-0.38	0.07
Book-to-market	0.16	-0.13	-0.07	-0.30	1.00	0.03	-0.21	-0.12	0.12	-0.14
ROA	-0.05	0.23	0.26	0.35	0.03	1.00	0.19	-0.52	-0.62	-0.15
Stock return	-0.03	-0.02	-0.13	0.02	-0.21	0.19	1.00	-0.04	-0.20	-0.06
Earnings volatility	0.01	-0.14	-0.20	-0.25	-0.12	-0.52	-0.04	1.00	0.36	0.23
Loss	0.06	-0.26	-0.20	-0.38	0.12	-0.62	-0.20	0.36	1.00	0.18
Class action litigation risk	-0.15	0.00	0.01	0.07	-0.14	-0.15	-0.06	0.23	0.18	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 Securities and Exchange Act Ghana on Management Forecast Frequency**

	(1)	(2)	(3)
Treatment Effect	-0.0797*** (7.72)	-0.0634*** (4.89)	-0.0455*** (3.77)
Institutional ownership		0.8019*** (17.37)	-0.0587 (0.93)
Firm size		0.0948*** (10.65)	0.1356*** (10.91)
Book-to-market		-0.0328** (2.29)	-0.0204 (1.51)
ROA		0.1178*** (3.68)	0.0275 (0.97)
Stock return		-0.0423*** (3.47)	-0.0376*** (4.06)
Earnings volatility		0.0816*** (2.66)	-0.1197*** (3.19)
Loss		-0.2137*** (10.74)	-0.1197*** (8.31)
Class action litigation risk		-0.0311 (1.04)	-0.0227 (1.16)
Time Trend		-0.0227*** (3.86)	-0.0016 (0.28)
Firm fixed effects	No	No	Yes
N	18,045	18,045	18,045
R ²	0.0019	0.2547	0.8531

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