Financial Services Act 2012 United Kingdom and Voluntary Disclosure

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Abstract: The Financial Services Act 2012 represents one of the most comprehensive regulatory reforms in UK financial sector history, fundamentally restructuring regulatory architecture by establishing the Financial Conduct Authority and Prudential Regulation Authority. While extensive research examines domestic effects of financial regulation on disclosure practices, limited attention has been paid to cross-border implications of such regulatory reforms on voluntary disclosure in other jurisdictions. This study addresses this gap by investigating whether and how the Act's implementation influenced voluntary disclosure practices among U.S. firms through information asymmetry channels. The theoretical foundation rests on information asymmetry frameworks, where UK regulatory reform enhanced disclosure requirements and market conduct standards, fundamentally altering the information environment for firms with cross-border operations. This created incentives for U.S. firms with UK exposure to voluntarily increase disclosure to maintain competitive parity and signal commitment to enhanced transparency standards. Using empirical analysis, we find robust evidence supporting the hypothesized relationship, with treatment effect coefficients ranging from 0.0409 to 0.0579, all significant at the 1% level, representing approximately a 4-6% increase in voluntary disclosure measures among affected U.S. firms. The study contributes to literature by demonstrating that financial regulation can have significant cross-border effects on disclosure practices even without direct regulatory jurisdiction,

challenging traditional views that regulatory effects are primarily domestic and providing empirical support for information asymmetry models in international settings.

INTRODUCTION

The Financial Services Act 2012 represents one of the most comprehensive regulatory reforms in the United Kingdom's financial sector history, fundamentally restructuring the regulatory architecture that governs financial institutions and markets. This landmark legislation emerged from the lessons learned during the 2008 financial crisis, establishing the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) to replace the previous unified regulatory framework under the Financial Services Authority. The Act's bifurcation of prudential and conduct regulation created a new paradigm for financial oversight that emphasizes enhanced accountability, improved consumer protection, and more targeted regulatory intervention (Barth et al., 2013; Bushman and Williams, 2012). Beyond its immediate impact on UK financial markets, this regulatory transformation has generated significant spillover effects on global financial reporting practices, particularly through its influence on information asymmetry between market participants.

The Act's emphasis on enhanced disclosure requirements and improved market conduct has created a natural experiment for examining how regulatory changes in one jurisdiction can affect voluntary disclosure practices in other markets through information asymmetry channels. While extensive research has examined the domestic effects of financial regulation on disclosure practices (Leuz and Wysocki, 2016; Christensen et al., 2013), limited attention has been paid to the cross-border implications of such regulatory reforms on voluntary disclosure in the United States. This gap is particularly puzzling given the interconnected nature of global financial markets and the theoretical predictions that regulatory changes affecting information asymmetry should have international spillover effects. Our study addresses this void by investigating whether and how the Financial Services Act 2012's

implementation influenced voluntary disclosure practices among U.S. firms, specifically examining the information asymmetry channel as the primary transmission mechanism.

The theoretical foundation for linking the Financial Services Act 2012 to U.S. voluntary disclosure practices rests on the information asymmetry framework developed in seminal works by Diamond and Verrecchia (1991) and Kim and Verrecchia (1994). When the UK regulatory reform enhanced disclosure requirements and market conduct standards for financial institutions, it fundamentally altered the information environment for firms with cross-border operations or financing relationships. The Act's creation of the FCA with its explicit mandate for market conduct supervision increased the transparency requirements for UK-listed entities and their business partners, thereby reducing information asymmetry in transactions involving these firms (Healy and Palepu, 2001; Beyer et al., 2010). This regulatory change created incentives for U.S. firms with UK exposure to voluntarily increase their disclosure to maintain competitive parity and signal their commitment to transparency standards consistent with the enhanced UK regulatory environment.

The information asymmetry channel operates through several interconnected mechanisms that link UK regulatory reform to U.S. voluntary disclosure decisions. First, U.S. firms with significant UK operations or financing relationships faced increased scrutiny from UK regulators and market participants following the Act's implementation, creating pressure to align their disclosure practices with enhanced UK standards (Bushman et al., 2004; Francis et al., 2008). Second, the Act's emphasis on conduct regulation and consumer protection established new benchmarks for corporate transparency that influenced global best practices, particularly for multinational corporations seeking to maintain consistent disclosure policies across jurisdictions. Third, the bifurcated regulatory structure created information spillovers as investors and analysts began applying enhanced scrutiny standards developed for UK markets to their evaluation of U.S. firms with similar risk profiles or business models (Admati and

Pfleiderer, 2000; Dye, 2001).

Building on the theoretical framework of voluntary disclosure theory, we predict that the Financial Services Act 2012's implementation led to increased voluntary disclosure among U.S. firms through the information asymmetry reduction mechanism. The enhanced regulatory environment in the UK created competitive pressures for transparency that extended beyond UK borders, particularly affecting U.S. firms in financial services and related industries. We hypothesize that firms with greater exposure to UK markets or regulatory oversight experienced more pronounced increases in voluntary disclosure as they sought to reduce information asymmetry and maintain access to global capital markets (Verrecchia, 2001; Core, 2001). This prediction aligns with the signaling theory of disclosure, which suggests that firms voluntarily disclose information to distinguish themselves from lower-quality competitors and reduce the cost of capital associated with information uncertainty.

Our empirical analysis provides robust evidence supporting the hypothesized relationship between the Financial Services Act 2012 and increased voluntary disclosure among U.S. firms. The treatment effect coefficient of 0.0579 (t-statistic = 6.18, $p < 0.001$) in our baseline specification demonstrates a statistically significant and economically meaningful increase in voluntary disclosure following the Act's implementation. This finding remains robust across multiple specifications, with treatment effects ranging from 0.0409 to 0.0579, all significant at the 1% level. The consistency of these results across different model specifications, including those with comprehensive control variables and fixed effects, provides strong evidence that the relationship is not driven by omitted variable bias or alternative explanations. The economic magnitude of these effects suggests that the Financial Services Act 2012 led to approximately a 4-6% increase in voluntary disclosure measures among affected U.S. firms.

The control variables in our analysis reveal important insights about the determinants of voluntary disclosure and validate our empirical approach. Institutional ownership (linstown) emerges as the strongest predictor of voluntary disclosure, with coefficients ranging from 0.0768 to 0.5615 across specifications, consistent with prior research showing that institutional investors demand greater transparency (Bushee and Noe, 2000; Ajinkya et al., 2005). Firm size (lsize) also demonstrates a consistently positive and significant relationship with voluntary disclosure (coefficients from 0.0481 to 0.1185), supporting the established finding that larger firms face greater disclosure pressures and have more resources to provide voluntary information. Notably, firms reporting losses (lloss) consistently show lower levels of voluntary disclosure (coefficients from -0.0673 to -0.1329), aligning with theoretical predictions that managers withhold bad news when possible (Kothari et al., 2009).

The progression of R-squared values across our specifications (from 0.0010 to 0.9111) demonstrates the importance of controlling for firm characteristics and time-invariant factors in disclosure studies. While the treatment effect remains significant across all specifications, its magnitude decreases slightly as we add more comprehensive controls, suggesting that our baseline results may represent an upper bound of the true effect. The high R-squared in our most comprehensive specification (0.9111) indicates that our model captures the vast majority of variation in voluntary disclosure, providing confidence in the precision of our treatment effect estimates. The robustness of the treatment effect across specifications with varying explanatory power suggests that the relationship between the Financial Services Act 2012 and U.S. voluntary disclosure is genuine rather than spurious.

Our study makes several important contributions to the literature on regulatory spillovers and voluntary disclosure. First, we extend the work of Leuz and Wysocki (2016) and Christensen et al. (2013) by demonstrating that financial regulation can have significant cross-border effects on disclosure practices, even in the absence of direct regulatory

jurisdiction. This finding challenges the traditional view that regulatory effects are primarily domestic and highlights the importance of considering international spillovers in regulatory impact assessments. Second, our focus on the information asymmetry channel provides new insights into the mechanisms through which regulatory changes influence corporate disclosure decisions, complementing prior research that has primarily examined direct regulatory mandates rather than indirect market pressures (Bushman and Williams, 2012; Barth et al., 2013).

The broader implications of our findings extend beyond the specific context of the Financial Services Act 2012 to inform ongoing debates about global financial regulation and disclosure harmonization. Our evidence suggests that major regulatory reforms in systemically important financial centers can effectively promote transparency improvements worldwide through market-based mechanisms, potentially reducing the need for formal regulatory coordination. This finding has particular relevance for current discussions about post-crisis regulatory reforms and their global implementation, suggesting that well-designed domestic regulations can generate positive externalities for international financial stability and transparency. Furthermore, our results provide empirical support for the theoretical predictions of information asymmetry models in international settings, demonstrating that these frameworks can effectively explain cross-border regulatory spillovers in disclosure practices.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Financial Services Act 2012 represents one of the most comprehensive reforms to financial regulation in the United Kingdom's history, fundamentally restructuring the regulatory architecture that had governed UK financial markets since the Financial Services and Markets Act 2000. Effective April 1, 2013, the Act dismantled the tripartite regulatory

system and replaced the Financial Services Authority (FSA) with two new regulatory bodies: the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) (Armour et al., 2016; Avgouleas, 2012). The legislation affects all UK-authorized financial services firms, including banks, investment firms, insurance companies, and asset managers, requiring them to comply with enhanced disclosure requirements and conduct standards (Baldwin et al., 2013). The reform was instituted following the 2008 financial crisis, which exposed significant weaknesses in the UK's regulatory framework and highlighted the need for more robust oversight of financial institutions' conduct and prudential management.

The Act's implementation created a "twin peaks" regulatory model that separates prudential regulation from conduct regulation, with the PRA focusing on the safety and soundness of systemically important financial institutions and the FCA concentrating on market conduct, consumer protection, and market integrity (Moloney, 2014; Singh, 2015). This structural separation was designed to address the conflicts of interest and regulatory gaps that contributed to the financial crisis, particularly regarding information transparency and market conduct (Davies & Green, 2013). The FCA received enhanced powers to investigate misconduct, impose sanctions, and require detailed disclosures from regulated firms, fundamentally altering the information environment in UK financial markets.

The Financial Services Act 2012 was part of a broader wave of international regulatory reforms following the financial crisis, including the Dodd-Frank Act in the United States (2010) and Basel III international banking regulations (Barth et al., 2013; Acharya et al., 2017). However, the UK's approach was distinctive in its emphasis on conduct regulation and consumer protection, creating new disclosure obligations and accountability mechanisms that exceeded those implemented in other jurisdictions during the same period (Alexander, 2013). The timing and scope of these reforms provide a unique natural experiment for examining how changes in regulatory disclosure requirements in one major financial center can influence

corporate disclosure behavior globally through cross-border information spillovers.

Theoretical Framework

The Financial Services Act 2012's impact on voluntary disclosure decisions by U.S. firms can be understood through the lens of information asymmetry theory, which provides a foundational framework for analyzing how regulatory changes affect corporate disclosure incentives across international markets. Information asymmetry arises when one party in a transaction possesses superior information relative to another party, creating potential inefficiencies in capital allocation and market pricing (Akerlof, 1970; Spence, 1973). In capital markets, information asymmetries typically exist between corporate managers, who possess private information about firm performance and prospects, and external investors, who rely on public disclosures and market signals to make investment decisions (Myers & Majluf, 1984).

Voluntary disclosure serves as a mechanism for firms to reduce information asymmetries and signal their quality to capital market participants (Verrecchia, 1983; Dye, 1985). When regulatory changes in major financial centers alter the information environment and disclosure expectations, firms operating in interconnected global markets face incentives to adjust their own disclosure practices to maintain their competitive position and access to capital (Leuz & Wysocki, 2016). The implementation of enhanced disclosure requirements under the Financial Services Act 2012 created new benchmarks for transparency and accountability in financial services, potentially influencing disclosure norms and investor expectations across international markets, including those affecting U.S. firms with global operations or investor bases.

Hypothesis Development

The Financial Services Act 2012's implementation created significant changes in the UK regulatory environment that we expect to influence voluntary disclosure decisions by U.S.

firms through information asymmetry reduction mechanisms. The Act's emphasis on enhanced transparency, conduct oversight, and consumer protection established new global benchmarks for financial services disclosure and accountability (Moloney, 2014; Singh, 2015). As UK financial institutions faced increased disclosure requirements and regulatory scrutiny under the FCA's conduct regulation framework, these changes likely created spillover effects that influenced disclosure expectations and practices among internationally active firms, including those based in the United States. Prior research demonstrates that regulatory reforms in major financial centers can create cross-border information spillovers that affect corporate disclosure decisions globally, as firms seek to maintain their competitive position and access to international capital markets (Christensen et al., 2013; Leuz & Wysocki, 2016).

The theoretical mechanism linking the Financial Services Act 2012 to increased voluntary disclosure by U.S. firms operates through competitive information asymmetry dynamics in global financial markets. When UK firms subject to the new regulatory framework began providing more detailed disclosures about their operations, risk management practices, and governance structures, this created competitive pressure on U.S. firms operating in similar markets or competing for the same investor base (Dye, 1985; Verrecchia, 1990). Information asymmetry theory predicts that when some firms in a competitive market increase their disclosure levels, other firms face incentives to follow suit to avoid being perceived as having something to hide or being of lower quality (Jung & Kwon, 1988; Admati & Pfleiderer, 2000). Additionally, institutional investors and analysts who became accustomed to higher disclosure standards from UK firms following the Act's implementation likely increased their demands for similar transparency from U.S. firms in their portfolios, creating market-based incentives for enhanced voluntary disclosure.

The information asymmetry channel suggests that U.S. firms responded to the Financial Services Act 2012 by increasing their voluntary disclosure to maintain their

competitive position and reduce information disadvantages relative to their UK counterparts. Research in international accounting demonstrates that firms adjust their disclosure practices in response to regulatory changes in other jurisdictions when they compete in global markets or seek to attract international investment (Bushman et al., 2004; Daske et al., 2008). The Act's focus on conduct regulation and consumer protection created new categories of information that became relevant for investor decision-making, including detailed risk disclosures, governance practices, and stakeholder management approaches. U.S. firms, particularly those in financial services or with significant international operations, likely increased their voluntary disclosure of similar information to signal their commitment to transparency and good governance practices, thereby reducing information asymmetries with investors who had become accustomed to higher disclosure standards from UK firms.

H1: Following the implementation of the Financial Services Act 2012 in the United Kingdom, U.S. firms increased their voluntary disclosure to reduce information asymmetries with investors and maintain competitive positioning in global capital markets.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample encompasses all firms in the Compustat universe during the examination period, focusing on U.S. companies to analyze the cross-border effects of the UK's Financial Services Act 2012. The Financial Services Act 2012 fundamentally reformed the UK's financial regulatory architecture by establishing the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), replacing the previous unified Financial Services Authority structure (Kay and King, 2020). While this legislation directly targeted UK financial institutions by splitting prudential and conduct regulation, our analysis examines its spillover effects on voluntary disclosure practices across all U.S. firms in the Compustat universe. The

regulatory reform enhanced accountability mechanisms and improved consumer protection, creating information asymmetry effects that potentially influence disclosure incentives globally (Armour et al., 2016). We employ a pre-post research design where the treatment variable affects all firms in our sample, allowing us to capture the systematic impact of this significant regulatory change on U.S. corporate disclosure behavior through the information asymmetry channel.

Model Specification

We examine the relationship between the Financial Services Act 2012 and voluntary disclosure in the U.S. through the asymmetry channel using the following regression model: $FreqMF = \beta_0 + \beta_1 Treatment\ Effect + \gamma Controls + \varepsilon$. This specification allows us to isolate the causal effect of the regulatory change on management forecast frequency while controlling for firm-specific characteristics that prior literature identifies as determinants of voluntary disclosure (Hribar and Yang, 2016). Our control variables include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk, all of which have been established as significant predictors of disclosure decisions in seminal studies (Ajinkya et al., 2005; Rogers and Stocken, 2005).

The model addresses potential endogeneity concerns through its pre-post design, which exploits the exogenous timing of the UK regulatory reform to identify causal effects on U.S. firms' disclosure behavior. By including comprehensive control variables and examining all firms rather than a selected subset, we mitigate selection bias and omitted variable concerns that could confound our results (Leuz and Wysocki, 2016). The asymmetry channel operates through the mechanism whereby enhanced regulatory scrutiny and transparency requirements in major financial markets create competitive pressures for increased disclosure globally, as firms seek to maintain their relative information environment quality (Shroff et al., 2013).

Variable Definitions

Our dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms during each year, capturing the intensity of voluntary disclosure activity. This measure reflects managers' decisions to provide forward-looking information to capital markets, serving as a key proxy for voluntary disclosure that has been extensively validated in prior research (Chuk et al., 2013). The Treatment Effect variable is an indicator variable equal to one for the post-Financial Services Act 2012 period (from 2012 onwards) and zero otherwise, affecting all firms in our sample to capture the systematic impact of the regulatory change on disclosure incentives.

Our control variables address key determinants of voluntary disclosure identified in prior literature. Institutional ownership (linstown) captures the monitoring role of sophisticated investors who demand greater transparency, with higher institutional ownership typically associated with increased disclosure (Ajinkya et al., 2005). Firm size (lsize) reflects the cost-benefit trade-offs of disclosure, where larger firms face greater analyst following and public scrutiny, leading to more frequent voluntary disclosures. Book-to-market ratio (lbtm) proxies for growth opportunities and information asymmetry, with higher ratios indicating potential undervaluation that managers may address through increased disclosure. Return on assets (lroa) measures profitability, where better-performing firms may have stronger incentives to signal their superior performance through voluntary disclosure.

Stock return (lsaret12) captures recent market performance, as firms experiencing poor returns may increase disclosure to explain performance or restore investor confidence. Earnings volatility (levol) reflects the uncertainty in firms' operating environment, where higher volatility creates greater information asymmetry that managers may address through more frequent communication. The loss indicator (lloss) identifies firms reporting negative earnings, which typically face greater pressure to provide explanatory disclosure to investors.

Class action litigation risk (lcalrisk) captures legal exposure, where firms facing higher litigation risk may adjust their disclosure strategies to manage legal costs and reputational concerns (Rogers and Stocken, 2005). These variables collectively control for the primary economic determinants of voluntary disclosure while allowing us to isolate the effect of the regulatory change through the information asymmetry channel.

Sample Construction

We construct our sample using a five-year window centered on the Financial Services Act 2012 implementation, spanning two years before and two years after the regulation, with the post-regulation period beginning from 2012 onwards. This event window provides sufficient pre-regulation observations to establish baseline disclosure patterns while capturing the immediate and short-term effects of the regulatory change on voluntary disclosure behavior (Shroff et al., 2013). Our data sources include Compustat for financial statement information, I/B/E/S for management forecast data, Audit Analytics for audit-related variables, and CRSP for stock return and market data, ensuring comprehensive coverage of the variables necessary for our analysis.

The sample construction process yields 15,115 firm-year observations after applying standard data availability requirements and outlier restrictions. We require firms to have complete data for all regression variables and exclude observations with extreme values that could unduly influence our results. Our treatment group consists of all firms in the post-2012 period, while the control group comprises the same firms in the pre-2012 period, allowing us to exploit within-firm variation in disclosure behavior around the regulatory change (Leuz and Wysocki, 2016). This approach ensures that our identification strategy relies on the timing of the exogenous regulatory shock rather than cross-sectional differences between treated and control firms.

We impose minimal sample restrictions to maintain the generalizability of our findings across the broad universe of U.S. public companies. Specifically, we exclude financial institutions and utilities due to their unique regulatory environments, and we require firms to have at least one year of data in both the pre- and post-regulation periods to enable meaningful comparison. The resulting sample provides substantial statistical power to detect the effects of the Financial Services Act 2012 on voluntary disclosure while maintaining sufficient heterogeneity to examine how the asymmetry channel operates across different types of firms and market conditions (Hribar and Yang, 2016).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 15,115 firm-year observations representing 3,878 unique U.S. firms over the period 2010 to 2014. This sample period allows us to examine firm behavior around the implementation of the U.K. Financial Services Act 2012, providing a natural experimental setting to study information asymmetry effects.

We observe substantial variation in institutional ownership across our sample firms. The natural logarithm of institutional ownership (linstown) exhibits a mean of 0.556 with a standard deviation of 0.333, indicating considerable heterogeneity in institutional investor presence. The distribution ranges from effectively zero institutional ownership (minimum 0.001) to concentrated institutional holdings (maximum 1.110), with the median firm (0.627) showing higher institutional ownership than the mean, suggesting a left-skewed distribution.

Firm size, measured as the natural logarithm of market capitalization (lsize), displays a mean of 6.235 and median of 6.240, indicating a relatively symmetric distribution. The standard deviation of 2.092 reflects the broad size spectrum typical of comprehensive U.S. samples, ranging from small firms to large corporations. The book-to-market ratio (lbtm)

shows a mean of 0.654 and median of 0.530, consistent with prior literature documenting the prevalence of growth firms in U.S. markets.

Profitability measures reveal interesting patterns. The return on assets (lroa) exhibits a slightly negative mean (-0.029) but positive median (0.024), suggesting the presence of loss firms that pull down the average. This interpretation aligns with our loss indicator (lloss), which shows that 31.1% of firm-year observations report losses, consistent with samples spanning economic uncertainty periods including the post-financial crisis era.

Stock return performance (lsaret12) demonstrates high volatility with a standard deviation of 0.484, while the mean (0.012) and median (-0.064) suggest modest overall performance during our sample period. Earnings volatility (levol) shows substantial cross-sectional variation with a mean of 0.132 and standard deviation of 0.261, indicating significant heterogeneity in earnings quality across firms.

Our treatment variable structure confirms the research design, with the post_law indicator showing that 57.8% of observations occur in the post-implementation period. The management forecast frequency (freqMF) exhibits considerable variation (mean 0.617, standard deviation 0.904), providing sufficient cross-sectional and temporal variation to identify treatment effects. These descriptive patterns suggest our sample captures meaningful variation in information asymmetry proxies and firm characteristics necessary for robust empirical analysis.

RESULTS

Regression Analysis

We examine the association between the implementation of the UK Financial Services Act 2012 and voluntary disclosure levels among U.S. firms using three model specifications

that progressively control for firm characteristics and unobserved heterogeneity. Our main finding demonstrates a positive and statistically significant association between the regulatory change and U.S. firms' voluntary disclosure practices. The treatment effect remains consistently positive across all specifications, ranging from 0.0579 in the baseline model to 0.0409 in our most restrictive specification with firm fixed effects. This pattern suggests that U.S. firms increased their voluntary disclosure following the implementation of the UK Financial Services Act 2012, consistent with competitive information asymmetry dynamics in global capital markets. The persistence of the positive treatment effect across increasingly stringent model specifications provides confidence that our results capture a genuine association rather than spurious correlation driven by omitted variables or firm-specific characteristics.

The statistical significance of our treatment effect is robust across all specifications, with t-statistics ranging from 4.21 to 6.18 and p-values below 0.001, indicating strong statistical evidence for the hypothesized relationship. From an economic magnitude perspective, the treatment effect of 0.0409 in our preferred firm fixed effects specification represents a meaningful increase in voluntary disclosure levels. The substantial improvement in model fit from specification (1) to specification (3), with R-squared increasing from 0.0010 to 0.9111, demonstrates the importance of controlling for firm-specific factors and suggests that our firm fixed effects model effectively captures unobserved heterogeneity that could confound the treatment effect. The reduction in the treatment coefficient magnitude from 0.0579 to 0.0409 as we add controls and fixed effects indicates that part of the initial association reflects firm characteristics, but a significant portion remains attributable to the regulatory spillover effect we hypothesize.

Our control variables exhibit associations with voluntary disclosure that are largely consistent with prior literature, lending credibility to our empirical approach. We find that

institutional ownership (linstown) and firm size (lsize) are positively associated with voluntary disclosure across all specifications, consistent with research demonstrating that larger firms and those with greater institutional investor presence face stronger demands for transparency (Healy & Palepu, 2001; Bushee & Noe, 2000). The negative association between stock return volatility (levol) and voluntary disclosure in specifications (1) and (2) aligns with theoretical predictions that firms facing greater uncertainty may be more reluctant to provide voluntary information. Similarly, the negative coefficient on losses (lloss) supports findings that firms experiencing poor performance tend to reduce disclosure to avoid negative market reactions (Verrecchia, 1983). The negative association with book-to-market ratio (lbtm) in specification (2) and the negative time trend across specifications suggest that disclosure practices vary with growth opportunities and exhibit secular trends over our sample period. Notably, the statistical significance of several control variables diminishes in the firm fixed effects specification, indicating that much of their explanatory power operates through cross-sectional differences between firms rather than within-firm variation over time.

These results provide strong support for H1, which predicted that U.S. firms would increase voluntary disclosure following the UK Financial Services Act 2012 implementation to reduce information asymmetries and maintain competitive positioning. The consistent positive treatment effect across model specifications, combined with the economic significance of the estimated coefficients, suggests that regulatory changes in major financial centers create meaningful spillover effects that influence corporate disclosure decisions globally. Our findings contribute to the literature on international regulatory spillovers and demonstrate that firms respond to competitive information asymmetry pressures created by regulatory changes in other jurisdictions, even when not directly subject to those regulations.

CONCLUSION

This study examines whether the UK Financial Services Act 2012 influenced voluntary disclosure practices among U.S. firms through information asymmetry channels. The Act fundamentally restructured UK financial regulation by creating the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), splitting prudential and conduct regulation while enhancing accountability and consumer protection. We hypothesized that this regulatory reform would reduce information asymmetries in global financial markets, potentially incentivizing U.S. firms to increase voluntary disclosure to maintain their competitive position and access to capital. Our empirical analysis provides compelling evidence supporting this conjecture.

Our findings demonstrate a statistically significant and economically meaningful increase in voluntary disclosure among U.S. firms following the implementation of the UK Financial Services Act 2012. Across all three specifications, we observe positive treatment effects ranging from 4.09 to 5.79 percentage points, with t-statistics exceeding 4.2 and p-values below 0.001, indicating strong statistical significance. The treatment effect remains robust even after controlling for firm-specific characteristics and including firm fixed effects in our most stringent specification. The economic magnitude of these effects is substantial, representing meaningful increases in disclosure levels that likely reflect strategic responses to changing global regulatory environments. These results suggest that international regulatory reforms can create spillover effects that influence corporate disclosure decisions beyond their immediate jurisdictional boundaries through information asymmetry mechanisms.

The robustness of our findings across specifications strengthens confidence in our conclusions. While the treatment effect magnitude decreases from 5.79 percentage points in the baseline specification to 4.09 percentage points with firm fixed effects, this pattern is consistent with the fixed effects specification controlling for time-invariant firm characteristics that may correlate with disclosure propensity. The substantial increase in R-squared from

0.10% to 91.11% across specifications demonstrates that firm-level heterogeneity explains considerable variation in disclosure behavior, yet the treatment effect remains economically and statistically significant. Control variables generally behave as expected, with larger firms and those with higher institutional ownership exhibiting greater disclosure levels, consistent with prior literature on voluntary disclosure determinants (Healy and Palepu, 2001; Beyer et al., 2010).

Our findings carry important implications for multiple stakeholders. Regulators should recognize that domestic financial reforms can have far-reaching international consequences through information asymmetry channels, potentially creating unintended competitive dynamics across jurisdictions. The positive spillover effects we document suggest that well-designed regulatory reforms may enhance global market transparency and efficiency, supporting arguments for international regulatory coordination. However, regulators must also consider whether such spillovers create unfair advantages for firms in reformed jurisdictions or impose unnecessary compliance costs on foreign firms seeking to maintain competitive parity.

For corporate managers, our results highlight the strategic importance of monitoring international regulatory developments and their potential impact on competitive positioning through disclosure channels. Managers may need to proactively adjust disclosure strategies in response to foreign regulatory changes that affect information asymmetries in their operating environments. The significant treatment effects we document suggest that firms failing to respond appropriately to such regulatory spillovers may face disadvantages in capital markets. For investors, our findings indicate that international regulatory reforms can influence the information environment of their portfolio companies, potentially affecting investment decision-making and portfolio allocation strategies. The enhanced disclosure levels following the UK reform likely reduced information asymmetries and improved market efficiency, benefiting investors through better price discovery and reduced adverse selection costs

(Diamond and Verrecchia, 1991; Easley and O'Hara, 2004).

Our study contributes to the growing literature on regulatory spillovers and their effects on corporate disclosure behavior through asymmetric information channels. The findings complement recent work examining how international regulatory changes influence domestic firm behavior (Christensen et al., 2013; Shroff et al., 2013) and extend understanding of how information asymmetries mediate these relationships. Our results support theoretical predictions that regulatory reforms reducing information asymmetries in one market can create competitive pressures for enhanced disclosure in related markets.

Several limitations warrant acknowledgment. First, while our identification strategy exploits the exogenous timing of the UK regulatory reform, we cannot completely rule out contemporaneous factors that might influence U.S. disclosure behavior. Second, our analysis focuses on aggregate disclosure measures and does not examine specific types of voluntary disclosure that might be most responsive to asymmetric information concerns. Third, the study period may not capture long-term equilibrium effects of the regulatory change. Future research could address these limitations by examining specific disclosure categories, extending the analysis period, and investigating the mechanisms through which information asymmetries mediate regulatory spillover effects. Additionally, researchers might explore whether similar spillover effects occur following other major international regulatory reforms, such as MiFID II or Basel III implementation. Cross-country studies examining how firm characteristics moderate responses to international regulatory spillovers would also provide valuable insights into the heterogeneous effects of asymmetric information on disclosure decisions.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	15,115	0.6167	0.9038	0.0000	0.0000	1.6094
Treatment Effect	15,115	0.5782	0.4939	0.0000	1.0000	1.0000
Institutional ownership	15,115	0.5557	0.3328	0.2470	0.6272	0.8479
Firm size	15,115	6.2355	2.0920	4.7004	6.2399	7.7034
Book-to-market	15,115	0.6535	0.6211	0.2864	0.5297	0.8725
ROA	15,115	-0.0290	0.2325	-0.0201	0.0244	0.0667
Stock return	15,115	0.0124	0.4842	-0.2589	-0.0644	0.1631
Earnings volatility	15,115	0.1318	0.2613	0.0230	0.0533	0.1344
Loss	15,115	0.3111	0.4630	0.0000	0.0000	1.0000
Class action litigation risk	15,115	0.3664	0.2946	0.1209	0.2731	0.5647
Time Trend	15,115	1.9319	1.4211	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 Services Act 2012 United Kingdom Information Asymmetry

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**0.03**	0.00	**0.08**	**-0.03**	**0.03**	**0.03**	**-0.02**	**-0.08**	**-0.31**
FreqMF	**0.03**	1.00	**0.41**	**0.44**	**-0.17**	**0.22**	**-0.02**	**-0.17**	**-0.26**	**-0.03**
Institutional ownership	0.00	**0.41**	1.00	**0.63**	**-0.24**	**0.32**	**-0.03**	**-0.23**	**-0.29**	**0.06**
Firm size	**0.08**	**0.44**	**0.63**	1.00	**-0.37**	**0.35**	**0.03**	**-0.24**	**-0.40**	**0.10**
Book-to-market	**-0.03**	**-0.17**	**-0.24**	**-0.37**	1.00	**0.07**	**-0.18**	**-0.13**	**0.06**	**-0.03**
ROA	**0.03**	**0.22**	**0.32**	**0.35**	**0.07**	1.00	**0.08**	**-0.51**	**-0.59**	**-0.11**
Stock return	**0.03**	**-0.02**	**-0.03**	**0.03**	**-0.18**	**0.08**	1.00	**0.04**	**-0.08**	**0.04**
Earnings volatility	**-0.02**	**-0.17**	**-0.23**	**-0.24**	**-0.13**	**-0.51**	**0.04**	1.00	**0.33**	**0.12**
Loss	**-0.08**	**-0.26**	**-0.29**	**-0.40**	**0.06**	**-0.59**	**-0.08**	**0.33**	1.00	**0.17**
Class action litigation risk	**-0.31**	**-0.03**	**0.06**	**0.10**	**-0.03**	**-0.11**	**0.04**	**0.12**	**0.17**	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 Services Act 2012 United Kingdom on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0579*** (6.18)	0.0517*** (4.24)	0.0409*** (4.21)
Institutional ownership		0.5615*** (11.47)	0.0768*** (2.58)
Firm size		0.1185*** (12.32)	0.0481*** (4.83)
Book-to-market		-0.0446*** (2.89)	0.0017 (0.18)
ROA		0.0344 (0.91)	0.0012 (0.07)
Stock return		-0.0480*** (4.04)	-0.0119 (1.63)
Earnings volatility		-0.0698** (1.99)	-0.0440 (0.96)
Loss		-0.1329*** (6.12)	-0.0673*** (5.52)
Class action litigation risk		-0.1746*** (5.40)	-0.0146 (1.04)
Time Trend		-0.0313*** (6.72)	-0.0069* (1.75)
Firm fixed effects	No	No	Yes
N	15,115	15,115	15,115
R^2	0.0010	0.2352	0.9111

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