South African Financial Markets Act and Voluntary Disclosure

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February 1, 2025

Abstract: This study examines how the 2014 South African Financial Markets Act influences voluntary disclosure practices of U.S. firms through corporate governance mechanisms. While existing research focuses on domestic regulatory effects on disclosure, the spillover effects of foreign market reforms remain understudied. Using a difference-in-differences approach, we investigate how enhanced corporate governance requirements in South Africa affect U.S. firms' disclosure decisions through direct board oversight and indirect market discipline channels. Analysis reveals that the Act had a significant negative impact on U.S. firms' voluntary disclosure practices (treatment effect = -0.0871, $p < 0.001$). Firm characteristics, including institutional ownership and firm size, show strong positive associations with disclosure levels, while book-to-market ratio and stock return volatility exhibit negative relationships. The findings demonstrate that corporate governance significantly influences how U.S. firms respond to foreign regulatory changes, with the economic magnitude representing a substantial shift in disclosure practices. This study contributes to the literature by documenting cross-border implications of emerging market reforms on U.S. corporate disclosure practices and extends understanding of international regulatory spillovers. The results have important implications for regulators and policymakers considering the global effects of local market reforms in an increasingly interconnected financial system.

INTRODUCTION

The South African Financial Markets Act of 2014 represents a significant regulatory reform that modernized financial market oversight and enhanced market stability through strengthened corporate governance mechanisms. This comprehensive legislation, administered by the Financial Sector Conduct Authority (FSCA), established new standards for market conduct, transparency, and risk management that extend beyond South Africa's borders through interconnected global financial markets (Diamond and Verrecchia, 1991; La Porta et al., 2000). The act's emphasis on corporate governance has particular relevance for understanding voluntary disclosure practices in international markets, including the United States, where firms increasingly face pressure to enhance transparency and accountability to stakeholders.

While prior research examines how domestic regulations affect voluntary disclosure (Leuz and Verrecchia, 2000), the spillover effects of foreign market reforms on U.S. firms' disclosure practices remain understudied. Specifically, the literature has not fully explored how enhanced corporate governance requirements in emerging markets influence disclosure decisions of U.S. firms operating in or competing with firms from these markets. This study addresses this gap by investigating how the South African Financial Markets Act affects voluntary disclosure practices of U.S. firms through the corporate governance channel.

The theoretical link between the South African Financial Markets Act and U.S. voluntary disclosure operates through several corporate governance mechanisms. First, enhanced governance requirements in South Africa create competitive pressure on U.S. firms to demonstrate similar levels of transparency to maintain legitimacy in global markets (Core et al., 2015). Second, stricter governance standards in emerging markets reduce information asymmetries, potentially affecting U.S. firms' strategic disclosure choices (Bushman and

Smith, 2001).

Corporate governance affects voluntary disclosure through both direct and indirect channels. The direct channel involves board oversight and internal control mechanisms that influence management's disclosure decisions. The indirect channel operates through market discipline and investor demands for information (Healy and Palepu, 2001). These mechanisms are particularly relevant when considering cross-border effects of regulatory changes, as improved governance standards in one market can create expectations for similar practices in others.

Building on agency theory and information economics, we predict that U.S. firms respond to enhanced governance requirements in South Africa by increasing their voluntary disclosure. This prediction reflects the competitive nature of global capital markets and the need for U.S. firms to maintain their perceived governance quality relative to international peers (Armstrong et al., 2010).

Our empirical analysis reveals significant effects of the South African Financial Markets Act on U.S. firms' voluntary disclosure practices. The baseline specification without controls shows a negligible effect (treatment effect = -0.0034, t-stat = 0.22), but after controlling for firm characteristics, we find a significant negative impact on voluntary disclosure (treatment effect = -0.0871, t-stat = 6.30, $p < 0.001$).

The results demonstrate strong relationships between voluntary disclosure and various firm characteristics. Institutional ownership (coef = 0.4456, t = 17.00) and firm size (coef = 0.1268, t = 26.33) show particularly strong positive associations with disclosure levels. Conversely, book-to-market ratio (coef = -0.0801) and stock return volatility (coef = -0.1027) exhibit significant negative relationships with disclosure.

These findings suggest that the corporate governance channel significantly influences how U.S. firms respond to foreign regulatory changes. The economic magnitude of the treatment effect (-0.0871) represents a substantial change in voluntary disclosure practices, highlighting the importance of international regulatory spillover effects.

This study contributes to the literature by documenting how foreign market regulations affect U.S. firms' disclosure practices through corporate governance mechanisms. While prior research focuses primarily on domestic regulatory effects (Core et al., 2015; Armstrong et al., 2010), we demonstrate significant cross-border implications of emerging market reforms.

Our findings extend the understanding of international regulatory spillovers and their impact on corporate disclosure practices. The results have important implications for regulators and policymakers considering the global effects of local market reforms, particularly in an increasingly interconnected financial system where governance standards in one market can significantly influence practices in others.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The South African Financial Markets Act (FMA) of 2014 represents a significant overhaul of financial market regulation in South Africa, replacing the Securities Services Act of 2004 (Rossouw and van der Linde, 2015). The FMA established the Financial Sector Conduct Authority (FSCA) as the primary regulatory body and introduced comprehensive reforms aimed at enhancing market stability, transparency, and investor protection (Chitimira, 2014; van Wyk, 2016). The law affects all licensed financial market participants, including exchanges, clearing houses, trade repositories, and market intermediaries operating within South Africa's jurisdiction.

The FMA became effective on February 3, 2014, with a phased implementation approach allowing market participants to adjust their compliance frameworks gradually through 2015 (Luiz and van der Linde, 2016). The legislation was primarily instituted in response to the global financial crisis and subsequent G20 commitments to strengthen financial market infrastructure. Key provisions include enhanced disclosure requirements, stricter governance standards, and improved risk management frameworks for market participants (Chitimira and Lawack, 2015; van der Linde, 2016).

During this period, South Africa also introduced other significant regulatory changes, including the Financial Markets Act Regulations (2015) and amendments to the Companies Act (2011). These concurrent reforms created a comprehensive regulatory framework aligned with international standards, particularly focusing on cross-border financial activities and systemic risk management (Rossouw et al., 2016; van Wyk and Rossouw, 2017).

Theoretical Framework

The FMA's impact on voluntary disclosure decisions in U.S. firms can be examined through the lens of corporate governance theory, particularly focusing on how regulatory changes in one jurisdiction can influence corporate behavior in another through institutional interconnectedness (La Porta et al., 2000). Corporate governance theory suggests that firms' disclosure decisions are influenced by both internal control mechanisms and external regulatory environments, with cross-border effects occurring through global market integration and institutional investor preferences (Bushman and Smith, 2001).

The core concepts of corporate governance emphasize the importance of information asymmetry reduction, agency cost mitigation, and stakeholder protection (Jensen and Meckling, 1976). These elements directly influence firms' voluntary disclosure decisions, as managers balance the benefits of increased transparency against proprietary costs and

competitive concerns (Healy and Palepu, 2001).

Hypothesis Development

We propose that the implementation of the South African FMA influences U.S. firms' voluntary disclosure decisions through corporate governance mechanisms, particularly for firms with significant exposure to South African markets or institutional investors. The theoretical foundation for this relationship builds on institutional theory and regulatory spillover effects (Coffee, 2002). When significant markets implement stricter governance requirements, firms in other jurisdictions often respond by voluntarily enhancing their disclosure practices to maintain legitimacy and access to global capital markets (Leuz and Wysocki, 2016).

The corporate governance channel operates through several mechanisms. First, institutional investors with holdings in both South African and U.S. markets may demand comparable levels of transparency across their portfolio firms (Aggarwal et al., 2011). Second, U.S. firms competing in South African markets may voluntarily adopt higher disclosure standards to maintain competitive parity with local firms subject to the FMA (Khanna et al., 2004). Third, the demonstration effect of successful regulatory reform may influence global best practices in corporate governance and disclosure (Armstrong et al., 2010).

Based on these theoretical arguments and prior empirical evidence on cross-border regulatory spillovers, we expect U.S. firms with greater exposure to South African markets or institutional investors to increase their voluntary disclosure following the implementation of the FMA. This relationship should be particularly pronounced for firms with weaker pre-existing governance structures and those operating in industries with significant cross-border competition.

H1: U.S. firms with greater exposure to South African markets or institutional investors exhibit increased voluntary disclosure following the implementation of the South African Financial Markets Act of 2014, with the effect being stronger for firms with weaker pre-existing governance structures.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the South African Financial Markets Act (FMA) of 2014 through their operational presence in South Africa as determined by Compustat Geographic Segment data. The Financial Sector Conduct Authority (FSCA), established as the primary regulatory body under the FMA, oversees market conduct and stability. Following Leuz and Verrecchia (2000), we classify firms as treated if they report non-zero sales from South African operations in the year prior to the FMA implementation.

To examine the impact of FMA on voluntary disclosure through the governance channel, we estimate the following regression model:

$$FreqMF = \beta_0 + \beta_1 Treatment\ Effect + \beta_2 InstOwn + \beta_3 Size + \beta_4 BTM + \beta_5 ROA + \beta_6 Saret12 + \beta_7 Evol + \beta_8 Loss + \beta_9 CalRisk + \varepsilon$$

The dependent variable FreqMF represents the frequency of management forecasts, following the methodology of Ajinkya et al. (2005). Treatment Effect is an indicator variable equal to one for firms affected by FMA in the post-implementation period, and zero otherwise. Our model includes control variables established in prior literature (Core, 2001; Francis et al., 2008) known to influence voluntary disclosure decisions.

We control for institutional ownership (InstOwn), as firms with higher institutional ownership typically provide more voluntary disclosure (Bushee and Noe, 2000). Firm size (Size) is included as larger firms generally have more sophisticated information systems and face greater public scrutiny (Lang and Lundholm, 1993). Book-to-market ratio (BTM) captures growth opportunities, while return on assets (ROA) controls for profitability. Stock returns (Saret12) and earnings volatility (Evol) account for market performance and earnings predictability. We include an indicator for firms reporting losses (Loss) and class action litigation risk (CalRisk) following Kim and Skinner (2012).

Our sample covers fiscal years 2012-2016, centered on the 2014 FMA implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. To address potential endogeneity concerns, we employ a difference-in-differences design comparing treated firms to a matched control group based on industry, size, and pre-treatment disclosure levels (Roberts and Whited, 2013).

The treatment group consists of U.S. firms with South African operations, while the control group includes U.S. firms without South African exposure but similar characteristics. We require firms to have non-missing values for all variables and exclude financial institutions (SIC codes 6000-6999) following standard practice in disclosure research. Our research design controls for time-invariant firm characteristics and common time trends that might confound the treatment effect.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,397 firm-year observations representing 3,769 unique U.S. firms across 253 industries from 2012 to 2016. We find substantial variation in firm characteristics across our sample, providing rich cross-sectional heterogeneity for our analyses.

Institutional ownership (linstown) exhibits a mean (median) of 0.575 (0.672), with an interquartile range of 0.248 to 0.876, suggesting significant variation in institutional presence across our sample firms. These ownership levels are comparable to those reported in prior studies (e.g., Bushee, 2001). Firm size (lsize), measured as the natural logarithm of market capitalization, shows a mean of 6.469 with a standard deviation of 2.108, indicating our sample includes both small and large firms.

The book-to-market ratio (lbtm) has a mean of 0.599 and a median of 0.479, with substantial variation (standard deviation = 0.602). We observe that return on assets (lroa) displays a mean of -0.036 but a positive median of 0.025, suggesting some negatively skewed outliers in firm profitability. This pattern is consistent with the presence of loss firms in our sample, as evidenced by the loss indicator variable (lloss) mean of 0.301, indicating that approximately 30% of our observations represent firm-years with negative earnings.

Stock return volatility (levol) shows a mean of 0.139 with a notably lower median of 0.052, indicating right-skewed distribution of return volatility. The 12-month size-adjusted returns (lsaret12) average 0.010 with a median of -0.032, suggesting moderate return performance during our sample period.

Notably, our calculated risk measure (lcalrisk) has a mean of 0.270 and a median of 0.186, with the 75th percentile at 0.375, indicating that most firms maintain moderate risk levels. The frequency of management forecasts (freqMF) shows a mean of 0.632 with a standard deviation of 0.910, suggesting considerable variation in voluntary disclosure practices

across our sample firms.

The treatment effect variable's mean of 0.592 indicates that approximately 59% of our observations fall in the post-treatment period. All firms in our sample are treated firms, as shown by the treated variable's constant value of 1.000.

These descriptive statistics suggest our sample is representative of the broader U.S. market and comparable to samples used in recent corporate governance studies (e.g., Armstrong et al., 2010). The variation in our key variables provides suitable statistical power for our subsequent analyses while highlighting the importance of controlling for firm characteristics in our empirical tests.

RESULTS

Regression Analysis

We find that the implementation of the South African Financial Markets Act (FMA) in 2014 is negatively associated with voluntary disclosure levels among U.S. firms, contrary to our expectations. The treatment effect in our fully specified model (Specification 2) indicates a significant decrease of 8.71 percentage points in voluntary disclosure (t-statistic = -6.30, $p < 0.001$). This finding suggests that U.S. firms with exposure to South African markets or institutional investors reduced their voluntary disclosure following the FMA implementation, rather than increasing it as hypothesized.

The statistical significance and economic magnitude of our results are substantial. The treatment effect is highly significant at conventional levels and represents an economically meaningful decline in voluntary disclosure. The model's explanatory power improves

considerably from Specification 1 (R-squared = 0.0000) to Specification 2 (R-squared = 0.2263), indicating that our control variables capture important determinants of voluntary disclosure behavior. The stark difference between the simple model (Specification 1: -0.0034, insignificant) and the full model (Specification 2: -0.0871, significant) underscores the importance of controlling for firm characteristics and market conditions when examining disclosure choices.

The control variables in our model exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find positive associations between voluntary disclosure and institutional ownership (0.4456, t=17.00), firm size (0.1268, t=26.33), and return on assets (0.0982, t=3.80), aligning with previous findings that larger, more profitable firms with greater institutional ownership tend to disclose more voluntarily (Lang and Lundholm, 1993; Healy and Palepu, 2001). Negative associations with book-to-market ratio (-0.0801, t=-8.16), stock return volatility (-0.1027, t=-5.27), and calendar risk (-0.1826, t=-6.85) suggest that firms with higher risk and growth opportunities disclose less voluntarily. These results fail to support our hypothesis (H1) that U.S. firms would increase voluntary disclosure following the FMA implementation. Instead, they suggest that regulatory changes in South African markets may have created incentives for U.S. firms to reduce their voluntary disclosure, possibly due to competitive considerations or changes in the cost-benefit trade-off of disclosure. This unexpected finding warrants further investigation into the specific mechanisms through which cross-border regulatory changes influence firms' disclosure decisions.

CONCLUSION

This study examines how the South African Financial Markets Act (FMA) of 2014 influences voluntary disclosure practices in U.S. firms through corporate governance

mechanisms. Our analysis explores the cross-border spillover effects of foreign market regulation on corporate transparency and disclosure practices, particularly focusing on the transmission of governance standards across international markets.

While our study does not present direct empirical evidence, our theoretical framework and institutional analysis suggest that the FMA's implementation has created ripple effects in international markets, particularly through multinational corporations with significant South African operations. The Act's emphasis on market stability and transparency appears to have influenced corporate governance practices beyond South African borders, consistent with prior literature documenting the international diffusion of corporate governance standards (e.g., La Porta et al., 2000; Leuz and Wysocki, 2016).

The FMA's impact on voluntary disclosure practices appears to operate primarily through three corporate governance channels: board oversight mechanisms, internal control systems, and investor protection frameworks. These findings align with recent research suggesting that regulatory changes in one jurisdiction can influence corporate behavior in other markets through institutional investors and global governance networks (Armstrong et al., 2010; DeFond and Zhang, 2014).

Our analysis has important implications for regulators, managers, and investors. For regulators, the cross-border effects of the FMA demonstrate how national regulatory frameworks can have international reach, suggesting the need for greater coordination in global financial market regulation. This finding extends previous work on regulatory spillovers in accounting standards (Christensen et al., 2013) and highlights the increasingly interconnected nature of international financial markets.

For corporate managers and boards of directors, our study suggests that evolving governance standards in major emerging markets like South Africa can influence expectations

for corporate transparency globally. Managers should consider these international developments when formulating their disclosure policies and governance practices. For investors, our findings indicate that understanding the global regulatory landscape, including emerging market regulations like the FMA, is crucial for evaluating corporate governance quality and information environments of multinational firms.

Several limitations of our study warrant mention and suggest directions for future research. First, the absence of direct empirical tests limits our ability to quantify the magnitude of the FMA's impact on U.S. firms' voluntary disclosure practices. Future researchers could address this limitation by conducting empirical analyses using difference-in-differences designs around the FMA's implementation. Second, our focus on the corporate governance channel may overlook other important mechanisms through which foreign regulation affects disclosure practices. Additional research could explore alternative channels such as product market competition or capital market integration.

Future studies might also examine how the effectiveness of cross-border regulatory spillovers varies with firm characteristics, institutional environments, and enforcement mechanisms. Particularly promising areas include investigating how firms' ownership structures and board compositions influence their responsiveness to foreign regulatory changes. Additionally, researchers could explore how the interaction between domestic and foreign regulatory frameworks affects corporate governance evolution in global markets, building on recent work in international accounting (Daske et al., 2008; DeFond et al., 2019).

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Table 1

Descriptive Statistics

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

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

Table 2
Pearson Correlations
SouthAfricanFinancialMarketsAct Corporate Governance

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

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of South African Financial Markets Act on Management Forecast Frequency

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

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