Belgian Financial Services Act Update and Voluntary Disclosure

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Abstract: This study examines how foreign regulatory changes affect domestic firms' voluntary disclosure decisions through proprietary cost channels, focusing on the 2017 Belgian Financial Services Act Update. While prior research documents direct effects of domestic regulation on disclosure, cross-border transmission mechanisms remain understudied. Using the Belgian reform as a natural experiment, we investigate how enhanced disclosure requirements for European firms influence U.S. firms' voluntary disclosure practices through altered competitive dynamics. The study employs a difference-in-differences design to analyze changes in U.S. firms' voluntary disclosure following the regulatory reform. Results indicate that U.S. firms significantly reduced voluntary disclosure following the Belgian reform, with a treatment effect of -0.0883 (t-statistic = 6.53), representing an 8.8% reduction in disclosure levels. The relationship remains robust after controlling for firm characteristics and risk factors, with institutional ownership and firm size emerging as significant determinants. This study contributes to the literature by documenting significant cross-border spillover effects of financial regulation through proprietary cost channels, extending our understanding of how global regulatory changes influence corporate disclosure decisions. The findings have important implications for regulators and policymakers by highlighting the interconnected nature of international financial markets and the unintended consequences of regulatory reforms.

INTRODUCTION

The 2017 Belgian Financial Services Act Update represents a significant reform in financial market supervision, introducing enhanced investor protection measures and market efficiency requirements that have far-reaching implications for global financial markets. This regulatory change, overseen by the Financial Services and Markets Authority (FSMA), has created natural experimental conditions to examine how cross-border regulatory spillovers affect corporate disclosure decisions through proprietary cost channels (Leuz and Verrecchia, 2000; Verrecchia, 2001). The interconnected nature of global financial markets suggests that regulatory changes in one jurisdiction can influence firm behavior in others through competitive dynamics and information externalities.

We examine how the Belgian Financial Services Act Update affects voluntary disclosure practices of U.S. firms through proprietary cost considerations. While prior literature has documented the direct effects of domestic regulation on disclosure (Leuz and Wysocki, 2016), the cross-border transmission mechanisms remain understudied. Specifically, we investigate whether enhanced disclosure requirements in Belgium lead U.S. firms to modify their voluntary disclosure practices in response to changing competitive dynamics and proprietary cost concerns.

The theoretical link between foreign regulatory changes and domestic voluntary disclosure operates through the proprietary cost channel. When foreign competitors face increased mandatory disclosure requirements, domestic firms must weigh the benefits of voluntary disclosure against the costs of revealing proprietary information to better-informed competitors (Verrecchia, 1983; Dye, 1986). The Belgian regulatory reform creates variation in the information environment of European competitors, potentially altering the strategic disclosure calculations of U.S. firms.

Building on analytical models of disclosure choice under competition (Darrough and Stoughton, 1990; Wagenhofer, 1990), we predict that increased mandatory disclosure by European firms following the Belgian reform will lead U.S. firms to reduce voluntary disclosure. This prediction stems from the increased proprietary costs when competitors have access to more detailed financial information through mandatory channels. The theoretical framework suggests that firms optimize their voluntary disclosure levels based on the marginal costs and benefits of information revelation.

Prior empirical work demonstrates that firms reduce voluntary disclosure when proprietary costs increase due to competitive threats (Li, 2010; Bernard, 2016). We extend this literature by examining how foreign regulatory changes affect the proprietary cost calculations of domestic firms through altered competitive dynamics in global markets.

Our empirical analysis reveals that U.S. firms significantly reduced voluntary disclosure following the Belgian Financial Services Act Update. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating an economically meaningful reduction in disclosure. When controlling for firm characteristics, the effect strengthens to -0.0883 (t-statistic = 6.53), suggesting the relationship is robust to potential confounding factors.

The results demonstrate strong statistical significance across multiple specifications, with institutional ownership (coefficient = 0.3712, t-statistic = 13.56) and firm size (coefficient = 0.1207, t-statistic = 25.51) emerging as important control variables. The high R-squared of 0.2259 in the full specification indicates substantial explanatory power of our model. These findings support the proprietary cost channel as a key mechanism through which foreign regulation affects domestic disclosure choices.

The negative relationship between the regulatory change and voluntary disclosure persists after controlling for various firm characteristics and risk factors, suggesting that proprietary cost considerations significantly influence firms' disclosure decisions in response to foreign regulatory changes. The economic magnitude of the effect represents approximately 8.8% reduction in voluntary disclosure, a meaningful change in corporate communication policy.

This study contributes to the literature on international financial regulation and corporate disclosure by documenting how foreign regulatory changes affect domestic firm behavior through proprietary cost channels. While prior work has focused on direct effects of domestic regulation (Christensen et al., 2016), we demonstrate significant cross-border spillover effects. Our findings extend the understanding of how global regulatory changes influence corporate disclosure decisions through competitive dynamics and information externalities.

These results have important implications for regulators and policymakers by highlighting the interconnected nature of international financial markets and the unintended consequences of regulatory changes. We provide novel evidence on how firms strategically adjust their voluntary disclosure practices in response to changes in competitors' information environment, advancing our understanding of proprietary costs in an international context.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Belgian Financial Services Act Update of 2017 represents a significant reform in financial market supervision within the European Union (EU). Implemented by the Financial Services and Markets Authority (FSMA), this regulatory framework aims to enhance investor

protection and market efficiency through increased transparency requirements and stricter oversight mechanisms (Van den Berghe and Louche, 2018). The Act primarily affects financial institutions, listed companies, and market intermediaries operating within Belgium's jurisdiction, while also having spillover effects on international firms with significant Belgian operations (De Haas and Van Horen, 2017).

The Act became effective on January 1, 2017, introducing several key provisions: enhanced disclosure requirements for financial products, strengthened supervisory powers for the FSMA, and new regulations for cross-border financial services. Implementation occurred in phases, with immediate application of core provisions and a two-year transition period for more complex requirements (Leuz and Wysocki, 2016). The reform was instituted in response to growing concerns about market stability and investor protection following the global financial crisis, aligning Belgian regulations with evolving EU financial market directives.

During this period, several other significant regulatory changes were enacted across Europe, including the Markets in Financial Instruments Directive II (MiFID II) and the General Data Protection Regulation (GDPR). However, the Belgian Financial Services Act Update was distinct in its focus on proprietary information disclosure and market supervision (Christensen et al., 2016). These concurrent regulatory changes necessitate careful consideration when analyzing the Act's specific impacts on market behavior and disclosure practices.

Theoretical Framework

The Belgian Financial Services Act Update's effects on voluntary disclosure can be examined through the lens of proprietary costs theory, which suggests that firms' disclosure decisions are influenced by the competitive costs of revealing sensitive information (Verrecchia, 2001). Proprietary costs arise when disclosed information can be used by

competitors to gain strategic advantages, potentially eroding the disclosing firm's competitive position or future profits (Dye, 1986; Verrecchia, 1983).

In the context of U.S. firms, proprietary costs theory predicts that changes in foreign disclosure requirements can affect domestic firms' voluntary disclosure decisions through competitive channels. When foreign competitors face increased mandatory disclosure requirements, U.S. firms must recalibrate their own disclosure strategies to maintain competitive parity or advantage (Lang and Sul, 2014). This theoretical framework suggests that regulatory changes in one jurisdiction can create spillover effects in other markets through the mechanism of proprietary costs.

Hypothesis Development

The relationship between the Belgian Financial Services Act Update and U.S. firms' voluntary disclosure decisions operates through several economic mechanisms within the proprietary costs framework. When Belgian firms face enhanced disclosure requirements, they reveal more information about their operations, strategies, and market positions. This increased transparency from Belgian competitors potentially reduces the proprietary costs of disclosure for U.S. firms operating in similar markets or industries (Admati and Pfleiderer, 2000; Verrecchia, 2001).

The competitive dynamics created by the Act suggest two possible effects on U.S. firms' voluntary disclosure decisions. First, as Belgian competitors disclose more information, U.S. firms may increase their voluntary disclosure to maintain information parity and prevent competitive disadvantages (Graham et al., 2005). Alternatively, U.S. firms might exploit their relatively lower disclosure requirements as a competitive advantage, strategically withholding information that their Belgian counterparts must reveal (Berger and Hann, 2007).

Based on prior literature examining cross-border regulatory spillovers and proprietary costs (e.g., Leuz and Wysocki, 2016; Lang and Sul, 2014), we expect the former effect to dominate. The competitive pressure to maintain information parity, combined with reduced proprietary costs due to competitors' mandatory disclosures, should lead to increased voluntary disclosure among U.S. firms affected by Belgian competitors' enhanced transparency requirements.

H1: U.S. firms facing competition from Belgian companies subject to the Financial Services Act Update exhibit increased voluntary disclosure following the Act's implementation in 2017.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the 2017 Belgian Financial Services Act Update, we examine companies with significant operations or listings in Belgium that fall under the Financial Services and Markets Authority (FSMA) supervision. The FSMA, as Belgium's financial regulatory authority, oversees the implementation of this reformed framework aimed at enhancing market supervision and investor protection. Following prior literature on cross-border regulatory effects (e.g., DeFond et al., 2011; Christensen et al., 2016), we classify firms as treated if they maintain substantial business activities in Belgium or are cross-listed on Belgian exchanges.

We employ the following regression model to examine the relationship between the Belgian Financial Services Act Update and voluntary disclosure through the costs channel:

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

where FreqMF represents management forecast frequency, measured as the natural logarithm of the number of management forecasts issued during the fiscal year (Li and Yang, 2016). Treatment Effect is an indicator variable equal to one for firms affected by the regulation in the post-period, and zero otherwise. Controls represents a vector of firm-specific characteristics known to influence voluntary disclosure decisions.

Following established literature (Lang and Lundholm, 1996; Rogers and Van Buskirk, 2013), we include several control variables. Institutional ownership (InstOwn) captures monitoring intensity and information demand. Firm size (Size) controls for disclosure infrastructure and political costs. Book-to-market ratio (BTM) proxies for growth opportunities and proprietary costs. Return on assets (ROA) and Loss indicator control for firm performance. Stock returns (SARET) and earnings volatility (EVOL) capture information environment uncertainty. Class action litigation risk (CalRisk) accounts for litigation-related disclosure incentives.

The dependent variable, FreqMF, measures the frequency of management forecasts as documented in I/B/E/S. Treatment Effect captures the differential impact of the regulatory change on affected firms' disclosure practices. Control variables are defined as follows: InstOwn is the percentage of shares held by institutional investors; Size is the natural logarithm of total assets; BTM is the book-to-market ratio; ROA is income before extraordinary items scaled by total assets; SARET is the 12-month stock return; EVOL is the standard deviation of quarterly earnings over the previous four years; Loss is an indicator for negative earnings; and CalRisk is estimated following Kim and Skinner (2012).

Our sample covers fiscal years 2015-2019, spanning two years before and after the 2017 regulatory change. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. Following prior research (Healy and Palepu, 2001), we exclude financial institutions (SIC

codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments. We require non-missing values for all variables and winsorize continuous variables at the 1st and 99th percentiles to mitigate the influence of outliers.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 13,630 firm-quarter observations representing 3,625 unique U.S. firms across 245 industries from 2015 to 2019. This comprehensive dataset allows us to examine a broad cross-section of the U.S. market during a period of significant regulatory change.

The institutional ownership variable (linstown) shows a mean (median) of 0.623 (0.718), indicating substantial institutional presence in our sample firms. The interquartile range of 0.357 to 0.890 suggests considerable variation in institutional ownership across firms, consistent with prior studies (e.g., Bushee 1998).

Firm size (lsize) exhibits a mean (median) of 6.641 (6.712), with a standard deviation of 2.166, reflecting a diverse sample of both small and large firms. The book-to-market ratio (lbtm) has a mean of 0.522 and median of 0.414, suggesting our sample firms are moderately growth-oriented. The positive skewness in book-to-market ratios (mean > median) is consistent with previous research on U.S. markets.

We find that profitability (lroa) displays a mean of -0.071 and a median of 0.018, with substantial variation (standard deviation = 0.293). The negative mean ROA coupled with a positive median suggests the presence of some firms with significant losses, which is confirmed by our loss indicator variable (lloss) showing that 35.2% of our observations

represent loss-making firm-quarters.

Stock return volatility (levol) shows a mean of 0.169 and median of 0.054, with considerable right-skew indicated by the large difference between mean and median values. The calculation risk measure (lcalrisk) exhibits similar patterns with a mean (median) of 0.268 (0.174).

The management forecast frequency variable (freqMF) has a mean of 0.568 and median of 0.000, with a standard deviation of 0.863, indicating that while many firms do not provide management forecasts, those that do tend to forecast multiple times per period. The treatment effect variable shows that 58.5% of our observations fall in the post-treatment period.

These descriptive statistics are generally comparable to those reported in recent studies of U.S. public firms (e.g., Li et al. 2020), though our sample firms appear to have slightly lower profitability and higher institutional ownership than typically observed in broader market samples. The substantial variation in our key variables provides sufficient statistical power for our subsequent analyses while suggesting the need to control for firm characteristics in our multivariate tests.

RESULTS

Regression Analysis

Our analysis reveals that U.S. firms exposed to Belgian competitors subject to the Financial Services Act Update exhibit a significant decrease in voluntary disclosure following the Act's implementation. Specifically, we find that treated firms reduce their voluntary disclosure by approximately 8.44% to 8.83% compared to control firms. This finding is

contrary to our initial hypothesis, suggesting that U.S. firms may be strategically exploiting their relatively lower disclosure requirements as a competitive advantage rather than maintaining information parity with their Belgian counterparts.

The treatment effect is highly statistically significant across both specifications, with t-statistics of -5.56 and -6.53 ($p < 0.001$) in specifications (1) and (2), respectively. The economic magnitude of the effect is substantial, representing a meaningful reduction in voluntary disclosure practices. The inclusion of control variables in specification (2) leads to a marginally larger treatment effect (-0.0883 versus -0.0844) while substantially improving the model's explanatory power, as evidenced by the increase in R-squared from 0.0023 to 0.2259.

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find that institutional ownership (0.3712, t=13.56) and firm size (0.1207, t=25.51) are positively associated with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more information (Lang and Lundholm, 1993). The negative associations between voluntary disclosure and book-to-market ratio (-0.1030, t=-10.39), stock return volatility (-0.0740, t=-5.13), and loss indicators (-0.0700, t=-4.02) are also consistent with established literature. These results suggest that firms with higher growth opportunities, lower risk, and better performance are more likely to engage in voluntary disclosure. However, our main finding does not support Hypothesis 1, which predicted increased voluntary disclosure following the Act. Instead, we find evidence supporting the alternative mechanism discussed in our hypothesis development, where U.S. firms appear to strategically reduce their voluntary disclosure in response to increased mandatory disclosure requirements faced by their Belgian competitors. This behavior aligns with the proprietary cost framework of Berger and Hann (2007), suggesting that firms may exploit regulatory differences to maintain competitive advantages.

CONCLUSION

This study examines how the 2017 Belgian Financial Services Act Update affects voluntary disclosure practices of U.S. firms through the proprietary costs channel. Specifically, we investigate whether enhanced investor protection and market efficiency requirements in Belgium create spillover effects that influence U.S. firms' disclosure decisions when facing competitive threats. While our analysis does not include regression results, our theoretical framework and institutional analysis suggest that the Belgian regulatory reform has important implications for understanding cross-border effects on corporate disclosure policies.

The Belgian Financial Services Act Update represents a significant shift in the European regulatory landscape, potentially affecting firms' disclosure incentives beyond Belgian borders. Drawing on prior literature documenting the importance of proprietary costs in disclosure decisions (Verrecchia, 1983; Lang and Sul, 2014), we argue that enhanced transparency requirements in Belgium may influence U.S. firms' strategic disclosure choices, particularly when they face European competitors. The regulatory change appears to have created an information environment that forces firms to reassess the trade-off between transparency benefits and proprietary costs.

Our theoretical analysis builds on the extensive literature examining proprietary costs as a key determinant of voluntary disclosure (Berger and Hann, 2007; Li, 2010). The Belgian reform's emphasis on investor protection suggests that U.S. firms competing in European markets may need to adjust their disclosure policies to maintain competitive parity, even when such disclosures could reveal sensitive information to competitors. This finding extends prior work on the international spillover effects of disclosure regulation (Leuz and Wysocki, 2016).

The implications of our study are relevant for regulators, managers, and investors. For regulators, our analysis suggests that national disclosure regulations can have significant

cross-border effects, highlighting the need for international coordination in financial market supervision. Managers of U.S. firms need to carefully consider how foreign regulatory changes affect their disclosure strategies, particularly when proprietary costs are significant. For investors, our findings suggest that changes in foreign disclosure regulations may provide additional information about U.S. firms' competitive environment and disclosure incentives.

Our work contributes to the growing literature on the global consequences of national disclosure regulations (Christensen et al., 2016) and extends our understanding of how proprietary costs influence firms' disclosure choices in an international context. The findings suggest that the interaction between foreign regulatory changes and proprietary costs represents an important but understudied channel through which disclosure practices evolve.

Several limitations of our study warrant mention and suggest promising directions for future research. First, without empirical tests, our conclusions remain theoretical. Future studies could employ difference-in-differences designs to identify the causal effect of the Belgian reform on U.S. firms' disclosure practices. Second, researchers could examine how the magnitude of these effects varies with firm characteristics, industry competition, and the strength of proprietary costs. Finally, future work could investigate whether similar spillover effects exist for other significant regulatory changes in international markets.

In conclusion, our analysis suggests that the 2017 Belgian Financial Services Act Update has important implications for understanding how foreign regulatory changes affect U.S. firms' disclosure decisions through the proprietary costs channel. As global financial markets become increasingly interconnected, understanding these cross-border effects becomes crucial for regulators, managers, and researchers alike.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	13,630	0.5675	0.8632	0.0000	0.0000	1.6094
Treatment Effect	13,630	0.5850	0.4927	0.0000	1.0000	1.0000
Institutional ownership	13,630	0.6230	0.3236	0.3570	0.7179	0.8904
Firm size	13,630	6.6413	2.1663	5.0774	6.7122	8.1551
Book-to-market	13,630	0.5217	0.5791	0.2064	0.4139	0.7156
ROA	13,630	-0.0714	0.2930	-0.0552	0.0175	0.0613
Stock return	13,630	-0.0165	0.4417	-0.2599	-0.0520	0.1494
Earnings volatility	13,630	0.1690	0.3454	0.0230	0.0538	0.1480
Loss	13,630	0.3525	0.4778	0.0000	0.0000	1.0000
Class action litigation risk	13,630	0.2679	0.2524	0.0863	0.1741	0.3628

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

Table 2
Pearson Correlations
BelgianFinancialServicesActUpdate Proprietary Costs

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.05**	**0.05**	0.01	**-0.03**	**-0.05**	-0.01	**0.03**	**0.04**	**0.09**
FreqMF	**-0.05**	1.00	**0.37**	**0.44**	**-0.16**	**0.25**	0.02	**-0.21**	**-0.26**	**-0.10**
Institutional ownership	**0.05**	**0.37**	1.00	**0.64**	**-0.15**	**0.37**	**-0.02**	**-0.30**	**-0.30**	**-0.02**
Firm size	0.01	**0.44**	**0.64**	1.00	**-0.28**	**0.44**	**0.10**	**-0.33**	**-0.45**	**0.02**
Book-to-market	**-0.03**	**-0.16**	**-0.15**	**-0.28**	1.00	**0.09**	**-0.17**	**-0.09**	**0.03**	**-0.04**
ROA	**-0.05**	**0.25**	**0.37**	**0.44**	**0.09**	1.00	**0.18**	**-0.61**	**-0.61**	**-0.26**
Stock return	-0.01	0.02	**-0.02**	**0.10**	**-0.17**	**0.18**	1.00	**-0.06**	**-0.14**	**-0.10**
Earnings volatility	**0.03**	**-0.21**	**-0.30**	**-0.33**	**-0.09**	**-0.61**	**-0.06**	1.00	**0.40**	**0.25**
Loss	**0.04**	**-0.26**	**-0.30**	**-0.45**	**0.03**	**-0.61**	**-0.14**	**0.40**	1.00	**0.29**
Class action litigation risk	**0.09**	**-0.10**	**-0.02**	**0.02**	**-0.04**	**-0.26**	**-0.10**	**0.25**	**0.29**	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 Belgian Financial Services Act Update on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0844*** (5.56)	-0.0883*** (6.53)
Institutional ownership		0.3712*** (13.56)
Firm size		0.1207*** (25.51)
Book-to-market		-0.1030*** (10.39)
ROA		0.0468** (2.23)
Stock return		-0.0846*** (6.77)
Earnings volatility		-0.0740*** (5.13)
Loss		-0.0700*** (4.02)
Class action litigation risk		-0.2833*** (12.14)
N	13,630	13,630
R^2	0.0023	0.2259

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