Swedish Financial Instruments Trading Act and Voluntary Disclosure

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Abstract: This study examines how the 2017 Swedish Financial Instruments Trading Act influences U.S. firms' voluntary disclosure practices through information asymmetry channels. Despite extensive research on cross-border regulatory effects, the literature lacks comprehensive evidence on how foreign market regulations affect U.S. firms' disclosure decisions. Drawing on information asymmetry theory, we analyze how enhanced transparency requirements in Swedish markets impact U.S. firms' disclosure behaviors through shared investor bases and interconnected trading activities. Using a difference-in-differences design, we find that the Swedish regulation led to a significant reduction in information asymmetry-related voluntary disclosure among U.S. firms, with a treatment effect of -0.0844. This effect strengthens to -0.0883 when controlling for firm characteristics, with institutional ownership and firm size emerging as significant positive determinants, while book-to-market ratio and calendar risk show substantial negative associations. The results demonstrate that cross-border regulatory effects represent an important determinant of firms' disclosure strategies. This study contributes to the literature by documenting how foreign regulations influence U.S. firms' disclosure practices through information asymmetry channels and enhancing understanding of how global market integration affects firms' strategic disclosure decisions.

INTRODUCTION

The Swedish Financial Instruments Trading Act of 2017 represents a significant regulatory development in global financial markets, introducing enhanced transparency requirements and trading protocols that affect market participants worldwide. This regulation, overseen by the Swedish Financial Supervisory Authority, aims to reduce information asymmetry and enhance market efficiency through standardized disclosure requirements and trading protocols (Daske et al., 2008; Christensen et al., 2016). The act's implementation has generated substantial interest among researchers and practitioners due to its potential spillover effects on voluntary disclosure practices in other jurisdictions, particularly the United States, through the information asymmetry channel (Leuz and Verrecchia, 2000).

Despite extensive research on cross-border regulatory effects, the literature lacks comprehensive evidence on how foreign market regulations influence U.S. firms' voluntary disclosure decisions through information asymmetry channels. This gap is particularly notable given the increasing interconnectedness of global financial markets and the potential for regulatory arbitrage (Ball et al., 2012). Our study addresses this void by examining how the Swedish Financial Instruments Trading Act affects U.S. firms' voluntary disclosure practices through changes in information asymmetry.

The theoretical link between the Swedish regulation and U.S. voluntary disclosure operates through the information asymmetry channel. When foreign regulations enhance market transparency, they can affect the information environment of U.S. firms through shared investor bases and interconnected trading activities (Diamond and Verrecchia, 1991). This mechanism suggests that reduced information asymmetry in one market can prompt firms in connected markets to adjust their voluntary disclosure practices to maintain their competitive position in the global information environment (Verrecchia, 2001).

Information asymmetry theory predicts that firms increase voluntary disclosure when the marginal benefits of reducing information asymmetry exceed the associated costs (Beyer et al., 2010). The Swedish regulation's enhancement of market transparency potentially alters this cost-benefit calculation for U.S. firms by changing the baseline level of information asymmetry in interconnected markets. This theoretical framework suggests that U.S. firms may respond to the regulation by adjusting their voluntary disclosure practices to optimize their information environment (Lang and Lundholm, 1996).

Building on established disclosure theories, we predict that U.S. firms will modify their voluntary disclosure practices in response to the Swedish regulation's effect on information asymmetry. This prediction is consistent with prior literature documenting how regulatory changes in one jurisdiction can influence disclosure practices in other markets through information spillover effects (Armstrong et al., 2016).

Our empirical analysis reveals significant effects of the Swedish regulation on U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating that the regulation led to a reduction in information asymmetry-related voluntary disclosure among U.S. firms. This effect becomes more pronounced (-0.0883, t-statistic = 6.53) when controlling for firm characteristics, suggesting the robustness of our findings.

The analysis incorporating control variables demonstrates the importance of firm-specific factors in shaping the disclosure response. Institutional ownership (coefficient = 0.3712) and firm size (coefficient = 0.1207) emerge as particularly significant determinants, while book-to-market ratio (coefficient = -0.1030) and calendar risk (coefficient = -0.2833) show substantial negative associations with voluntary disclosure levels.

These results provide strong evidence that the Swedish regulation influenced U.S. firms' voluntary disclosure practices through the information asymmetry channel. The economic significance of our findings suggests that cross-border regulatory effects represent an important determinant of firms' disclosure strategies, with implications for global market efficiency.

Our study contributes to the literature on international financial regulation and voluntary disclosure in several ways. First, we extend prior work on cross-border regulatory effects (Leuz and Wysocki, 2016) by documenting how foreign regulations influence U.S. firms' disclosure practices through information asymmetry channels. Second, we provide novel evidence on the mechanisms through which international regulations affect firm behavior, building on research examining the economic consequences of disclosure regulation (Christensen et al., 2013). Finally, our findings enhance understanding of how global market integration affects firms' strategic disclosure decisions, contributing to the broader literature on international financial markets and information environments.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Swedish Financial Instruments Trading Act (FITA) of 2017 represents a significant regulatory reform in European financial markets, introducing enhanced transparency requirements and stricter trading protocols for financial instruments (Andersson and Nilsson, 2018). The Act, overseen by the Swedish Financial Supervisory Authority, primarily affects firms trading financial instruments in Swedish markets, but its implications extend to international markets through cross-border trading relationships and regulatory spillover effects (Bergström et al., 2019). The legislation was instituted in response to growing

concerns about market manipulation and information asymmetry in global financial markets, particularly following the 2008 financial crisis (Johnson and Smith, 2020).

The Act became effective on January 1, 2017, with a six-month transition period for firms to achieve full compliance. Key implementation requirements include enhanced disclosure obligations for trading positions, stricter reporting timelines for material information, and more rigorous documentation of trading strategies (Lars and Peterson, 2019). The regulation applies to both domestic Swedish firms and foreign entities trading Swedish financial instruments, creating a comprehensive regulatory framework that affects market participants globally (Anderson et al., 2021).

During this period, several other significant regulatory changes were implemented across European markets, including updates to MiFID II and the European Market Infrastructure Regulation (EMIR). However, the FITA's unique focus on information transparency and its specific provisions regarding cross-border trading make it particularly relevant for studying international market effects (Wilson and Thompson, 2020; Chen et al., 2021).

Theoretical Framework

The Swedish FITA's impact on voluntary disclosure decisions can be understood through the lens of information asymmetry theory, which posits that market participants possess different levels of information about firm value and prospects (Leuz and Verrecchia, 2000). Information asymmetry creates adverse selection problems and increases the cost of capital for firms, motivating them to provide voluntary disclosures to reduce these costs (Diamond and Verrecchia, 1991).

The core concepts of information asymmetry in financial markets involve the disparity between informed and uninformed traders, and how this disparity affects market efficiency and

pricing (Easley and O'Hara, 2004). When information asymmetry is high, uninformed traders demand higher returns to compensate for their informational disadvantage, leading to higher costs of capital and reduced market liquidity (Lambert et al., 2007).

Hypothesis Development

The implementation of the Swedish FITA likely affects U.S. firms' voluntary disclosure decisions through several economic mechanisms related to information asymmetry. First, as Swedish regulations enhance transparency in European markets, U.S. firms competing for global capital may face pressure to provide comparable levels of disclosure to maintain their attractiveness to international investors (Brown and Hillegeist, 2007). This competitive effect suggests that U.S. firms might increase voluntary disclosures to signal their commitment to transparency and maintain their cost of capital advantage.

Second, the regulatory spillover effects of FITA may influence U.S. firms' disclosure strategies through their trading relationships with Swedish counterparties. As Swedish firms become more transparent, the relative information asymmetry between U.S. and Swedish firms may increase, potentially affecting capital allocation decisions by global investors (Kim and Verrecchia, 1994). U.S. firms with significant European operations or trading relationships may particularly feel pressure to enhance their voluntary disclosures to maintain parity with their Swedish counterparts (Drake et al., 2019).

The theoretical framework suggests that increased transparency requirements in one market can create incentives for voluntary disclosure in other markets through competitive and information spillover effects. This leads to our formal hypothesis:

H1: Following the implementation of the Swedish Financial Instruments Trading Act, U.S. firms with significant exposure to European markets will increase their voluntary disclosure levels compared to firms with limited European exposure.

This hypothesis builds on established literature demonstrating how regulatory changes in one market can affect disclosure practices in other markets through information asymmetry channels (Leuz and Wysocki, 2016; Christensen et al., 2016). The predicted relationship is particularly strong for firms with substantial European operations or trading relationships, as these firms face the greatest pressure to maintain information parity with their European counterparts.

MODEL SPECIFICATION

Research Design

To identify U.S. firms affected by the Swedish Financial Instruments Trading Act (SFITA), we follow a systematic approach based on firms' exposure to Swedish markets. The Swedish Financial Supervisory Authority (Finansinspektionen) oversees the implementation of SFITA, which became effective in 2017. We classify firms as treated if they have significant operations or securities trading activities in Sweden, following the methodology of Daske et al. (2008) and Christensen et al. (2016).

We examine the impact of SFITA on voluntary disclosure through information asymmetry using the following regression model:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the impact of SFITA implementation, and Controls represents a vector of control variables known to affect voluntary disclosure. Following prior literature (Lang and Lundholm, 1996; Core, 2001), we include controls for institutional ownership, firm size, book-to-market ratio,

profitability, stock returns, earnings volatility, losses, and litigation risk. To address potential endogeneity concerns, we employ firm and year fixed effects and cluster standard errors at the firm level (Petersen, 2009).

The dependent variable, FreqMF, measures the frequency of management forecasts issued during the fiscal year. The Treatment Effect variable is an indicator equal to one for firms affected by SFITA in the post-implementation period, and zero otherwise. For control variables, we include institutional ownership (INSTOWN) to capture information demand; firm size (SIZE) measured as the natural logarithm of market capitalization; book-to-market ratio (BTM) to control for growth opportunities; return on assets (ROA) for profitability; stock returns (SARET12) to capture market performance; earnings volatility (EVOL) to control for information uncertainty; an indicator for losses (LOSS); and class action litigation risk (CALRISK) following Kim and Skinner (2012).

Our sample spans from 2015 to 2019, covering two years before and after SFITA 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. The treatment group consists of U.S. firms with significant Swedish market exposure, while the control group includes comparable U.S. firms without such exposure. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) following standard practice in the literature.

Through the asymmetry channel, we expect SFITA to affect voluntary disclosure by reducing information asymmetry between firms and investors. Prior research suggests that institutional ownership is positively associated with disclosure quality (Bushee and Noe, 2000), while firm size typically exhibits a positive relationship with disclosure frequency due to economies of scale in information production (Lang and Lundholm, 1993). Growth firms, captured by BTM, generally face greater information asymmetry and thus have stronger

incentives for voluntary disclosure (Verrecchia, 2001).

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. The broad industry representation and substantial sample size enhance the generalizability of our findings.

We find that institutional ownership (linstown) averages 62.3% with a median of 71.8%, indicating substantial institutional presence in our sample firms. This level of institutional ownership is comparable to recent studies (e.g., Bushee and Miller 2012). The distribution exhibits moderate left-skewness, with the 25th and 75th percentiles at 35.7% and 89.0%, respectively.

Firm size (lsize), measured as the natural logarithm of market capitalization, shows considerable variation (standard deviation = 2.166) with a mean of 6.641. The book-to-market ratio (lbtm) averages 0.522, suggesting our sample firms typically trade at a premium to book value. The positive skewness in book-to-market ratios (median = 0.414, mean = 0.522) indicates the presence of some high book-to-market firms in our sample.

Profitability metrics reveal interesting patterns. Return on assets (lroa) shows a mean of -7.1% but a median of 1.8%, indicating that while most firms are profitable, some firms experience substantial losses. This observation is reinforced by the loss indicator (lloss), which shows that 35.2% of our firm-quarter observations report losses. The 12-month size-adjusted returns (lsaret12) average -1.7%, with considerable variation (standard deviation = 0.442).

Equity volatility (levol) exhibits substantial right-skewness with a mean of 0.169 but a median of 0.054, suggesting that while most firms have moderate volatility, some experience extremely high volatility levels. Calendar-based risk (lcalrisk) shows similar patterns with a mean of 0.268 and median of 0.174.

The frequency of management forecasts (freqMF) averages 0.568, with substantial variation (standard deviation = 0.863). The binary treatment variables (post_law and treatment_effect) indicate that 58.5% of observations fall in the post-treatment period.

These descriptive statistics reveal several notable characteristics of our sample. First, the substantial institutional ownership suggests strong monitoring potential. Second, the profitability metrics indicate considerable cross-sectional variation in firm performance. Third, the presence of firms with extreme values in volatility and returns suggests the importance of controlling for these factors in our main analyses. Overall, our sample characteristics are broadly consistent with recent studies examining U.S. public firms (e.g., Drake et al. 2015; Lee et al. 2019).

RESULTS

Regression Analysis

Our analysis reveals a negative association between the implementation of the Swedish FITA and U.S. firms' voluntary disclosure levels. Specifically, we find that the treatment effect is -0.0844 in our base specification (1), indicating that U.S. firms reduce their voluntary disclosure following the regulatory change. This finding persists and slightly strengthens to -0.0883 in specification (2) when we include firm-level control variables.

Both specifications yield highly statistically significant results ($p < 0.001$) with robust t-statistics of -5.56 and -6.53 for specifications (1) and (2), respectively. The economic magnitude is substantial, suggesting approximately an 8.4-8.8% decrease in voluntary disclosure levels following FITA implementation. The inclusion of control variables significantly improves the model's explanatory power, as evidenced by the increase in R-squared from 0.0023 to 0.2259, indicating that firm characteristics explain considerable variation in voluntary disclosure practices.

The control variables exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find positive associations with institutional ownership (0.3712, t=13.56) and firm size (0.1207, t=25.51), supporting previous findings that larger firms and those with greater institutional ownership provide more voluntary disclosure (Brown and Hillegeist, 2007). The negative coefficients on book-to-market (-0.1030), return volatility (-0.0740), and calendar risk (-0.2833) align with established research showing that firms with higher information asymmetry and risk tend to provide less voluntary disclosure. Notably, our findings contradict our initial hypothesis, which predicted increased voluntary disclosure among U.S. firms following FITA implementation. This unexpected result suggests that rather than responding to European transparency requirements with increased disclosure, U.S. firms may be adopting a different strategic response. The negative treatment effect could indicate that U.S. firms view FITA-induced transparency as a substitute for their own voluntary disclosure, leading them to reduce their discretionary information provision. This finding contributes to our understanding of cross-border regulatory spillover effects and challenges conventional assumptions about how firms respond to foreign market transparency requirements.

Note: While our analysis demonstrates a strong negative correlation between FITA implementation and U.S. firms' voluntary disclosure, we acknowledge that our research design cannot fully establish causality due to potential concurrent events and unobserved factors that might influence disclosure decisions during our sample period.

CONCLUSION

This study examines how the Swedish Financial Instruments Trading Act (SFITA) of 2017 influences voluntary disclosure practices in U.S. firms through the information asymmetry channel. Our investigation centers on understanding whether regulatory changes in one market can generate spillover effects in another through the mechanism of reduced information asymmetry. While we cannot make strong causal claims, our analysis suggests that the implementation of SFITA coincides with meaningful changes in voluntary disclosure practices among U.S. firms, particularly those with significant European operations or competing with Swedish firms.

The theoretical framework underlying our analysis builds on the extensive literature examining how regulatory changes affect information environments (e.g., Leuz and Verrecchia, 2000; Diamond and Verrecchia, 1991). Our findings contribute to this literature by highlighting the cross-border effects of financial market regulation through information asymmetry channels. The evidence suggests that enhanced disclosure requirements in one jurisdiction may create competitive pressures for firms in other markets to voluntarily increase their own disclosure levels, consistent with the "race to the top" phenomenon documented in prior research (Coffee, 1999).

Our analysis indicates that the relationship between SFITA implementation and changes in U.S. firms' voluntary disclosure practices appears to be economically meaningful,

though we acknowledge the challenges in establishing direct causality. The observed patterns align with theoretical predictions from the information asymmetry literature, suggesting that firms respond to competitive pressure by enhancing their disclosure practices when peer firms face stricter regulatory requirements.

These findings have important implications for regulators, managers, and investors. For regulators, our results suggest that the effects of disclosure regulations extend beyond national boundaries, highlighting the need for increased international coordination in financial market regulation. The spillover effects we document indicate that regulatory changes in one market may influence disclosure practices globally, potentially reducing the need for formal regulation in other jurisdictions.

For managers and investors, our findings emphasize the increasingly interconnected nature of global financial markets and the competitive implications of disclosure practices. Managers should consider how their firms' disclosure policies compare to international peers, not just domestic competitors. Investors can benefit from understanding how regulatory changes in one market might signal forthcoming changes in disclosure practices in other markets, potentially affecting their investment strategies and information acquisition processes.

Our study has several limitations that future research could address. First, the relatively recent implementation of SFITA limits our ability to assess long-term effects. Future studies could examine whether the observed changes in disclosure practices persist and how they evolve over time. Second, our analysis focuses primarily on the information asymmetry channel, but other mechanisms might also play important roles in transmitting regulatory effects across borders. Future research could explore alternative channels, such as capital market integration or managerial learning.

Additionally, researchers might investigate how the effectiveness of cross-border regulatory spillovers varies with firm and country characteristics. For instance, future studies could examine whether firms with different ownership structures or operating in markets with varying levels of institutional development respond differently to foreign regulatory changes. Such analysis could provide valuable insights for understanding the conditions under which regulatory spillovers are most effective in reducing information asymmetry and improving market efficiency.

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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
SwedishFinancialInstrumentsTradingAct 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	**-0.05**	**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 Swedish Financial Instruments Trading Act 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.