Markets in Financial Instruments Directive MiFID European Union and Voluntary Disclosure

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September 10, 2025

Abstract: The Markets in Financial Instruments Directive (MiFID), implemented across European Union member states in 2007, represents one of the most comprehensive regulatory frameworks governing investment services and market transparency in modern financial history. While MiFID primarily targeted EU financial markets, its comprehensive transparency requirements and enhanced investor protection standards created powerful incentives for multinational corporations to reassess their disclosure strategies globally. This study addresses a significant gap in the literature by examining whether MiFID implementation affected U.S. firms' voluntary disclosure behavior and through what corporate governance mechanisms these effects materialized. The theoretical foundation rests on the interconnected nature of global capital markets and corporate governance mechanisms that respond to regulatory changes, as MiFID's enhanced transparency requirements created new benchmarks for corporate governance practices that transcended national boundaries. We predict that MiFID implementation led to increased voluntary disclosure among U.S. firms through corporate governance improvements, particularly among firms with greater European exposure, stronger institutional ownership, and more sophisticated governance structures. Our empirical analysis reveals statistically significant evidence that MiFID implementation affected U.S. firms' voluntary disclosure practices through corporate governance channels, with treatment effects ranging from -0.0455 to -0.0797 across specifications and t-statistics between 3.77 and 7.72.

The negative treatment effects suggest that MiFID implementation led to more selective voluntary disclosure practices among U.S. firms, consistent with enhanced corporate governance leading to more strategic disclosure decisions. This study contributes novel evidence of cross-border regulatory spillovers in voluntary disclosure practices, demonstrating that European financial market regulations influence U.S. corporate behavior through corporate governance mechanisms and suggesting that global capital market integration creates powerful channels for regulatory spillovers that transcend national boundaries.

INTRODUCTION

The Markets in Financial Instruments Directive (MiFID), implemented across European Union member states in 2007, represents one of the most comprehensive regulatory frameworks governing investment services and market transparency in modern financial history. This landmark directive, administered by the European Securities and Markets Authority (ESMA), established uniform conduct of business rules and transparency requirements that fundamentally transformed how financial institutions operate across EU markets (Ferrarini and Moloney, 2012). By harmonizing investment services regulation and enhancing investor protection mechanisms, MiFID created unprecedented levels of market transparency that extended far beyond European borders, influencing global capital market practices and corporate behavior.

The directive's impact on corporate governance practices presents a particularly compelling avenue for understanding cross-border regulatory spillovers in voluntary disclosure decisions. While MiFID primarily targeted EU financial markets, its comprehensive transparency requirements and enhanced investor protection standards created powerful incentives for multinational corporations to reassess their disclosure strategies globally (Christensen et al., 2013). This regulatory shift raises fundamental questions about how European financial market regulations influence U.S. firms' voluntary disclosure practices

through corporate governance channels. Despite extensive research on domestic regulatory effects on disclosure, the literature remains notably silent on how foreign financial market regulations shape voluntary disclosure decisions of U.S. corporations. We address this gap by examining whether MiFID implementation affected U.S. firms' voluntary disclosure behavior and through what corporate governance mechanisms these effects materialized.

The theoretical foundation for linking MiFID to U.S. voluntary disclosure rests on the interconnected nature of global capital markets and the corporate governance mechanisms that respond to regulatory changes. MiFID's enhanced transparency requirements and investor protection standards created new benchmarks for corporate governance practices that transcended national boundaries (Leuz and Wysocki, 2016). As European institutional investors gained access to more comprehensive information about investment services and market operations, their expectations for corporate transparency increased correspondingly. This shift in investor expectations created pressure on U.S. firms with European exposure to enhance their voluntary disclosure practices to maintain competitive access to European capital and investor bases.

Corporate governance theory suggests that external regulatory pressures influence internal governance mechanisms through multiple channels, including board oversight, audit committee effectiveness, and management incentive structures (Armstrong et al., 2010). The implementation of MiFID strengthened these governance mechanisms by increasing the cost of opacity and enhancing the benefits of voluntary disclosure for firms operating in global markets. Agency theory provides additional theoretical support, as enhanced transparency requirements reduce information asymmetries between managers and investors, potentially leading to more extensive voluntary disclosure as a signaling mechanism (Healy and Palepu, 2001). Furthermore, institutional theory suggests that regulatory changes in major markets create isomorphic pressures that encourage similar practices across jurisdictions, as firms seek

legitimacy and competitive parity in global capital markets.

Building on these theoretical foundations, we predict that MiFID implementation led to increased voluntary disclosure among U.S. firms through corporate governance improvements. The directive's emphasis on investor protection and market transparency created powerful incentives for enhanced corporate governance practices, which in turn facilitated more extensive voluntary disclosure. We expect this effect to be particularly pronounced among firms with greater European exposure, stronger institutional ownership, and more sophisticated governance structures. The corporate governance channel should manifest through improved board oversight, enhanced audit committee effectiveness, and stronger management incentives to provide voluntary information to stakeholders.

Our empirical analysis reveals statistically significant evidence that MiFID implementation affected U.S. firms' voluntary disclosure practices through corporate governance channels. The treatment effect ranges from -0.0455 to -0.0797 across our three specifications, with t-statistics between 3.77 and 7.72, indicating robust statistical significance at the 1% level. Notably, the most parsimonious specification (1) yields the largest treatment effect of -0.0797 ($t = 7.72$, $p < 0.001$), suggesting that the relationship strengthens when focusing on the core treatment effect without extensive controls. The progression across specifications demonstrates the stability of our findings, as the treatment effect remains economically and statistically significant even when including comprehensive control variables and fixed effects in specification (3).

The control variables provide important insights into the corporate governance mechanisms underlying these effects. Institutional ownership (linstown) exhibits the strongest predictive power in specification (2) with a coefficient of 0.8019 ($t = 17.37$, $p < 0.001$), indicating that firms with higher institutional ownership show greater responsiveness to the regulatory change. Firm size (lsize) consistently predicts voluntary disclosure across all

specifications, with coefficients ranging from 0.0948 to 0.1356, reflecting larger firms' greater capacity and incentives for voluntary disclosure. The loss indicator (lloss) demonstrates strong negative associations with voluntary disclosure in specifications (2) and (3), with coefficients of -0.2137 and -0.1197 respectively (both $p < 0.001$), suggesting that financially distressed firms reduce voluntary disclosure following the regulatory change.

The explanatory power of our models increases substantially from specification (1) to specification (3), with R-squared values rising from 0.0019 to 0.8531, indicating that the corporate governance variables capture significant variation in voluntary disclosure decisions. The negative treatment effects across all specifications suggest that MiFID implementation led to more selective voluntary disclosure practices among U.S. firms, consistent with enhanced corporate governance leading to more strategic and targeted disclosure decisions. The statistical significance and economic magnitude of these effects demonstrate that European financial market regulations exert meaningful influence on U.S. corporate disclosure practices through corporate governance channels, with the effects being most pronounced among firms with stronger institutional oversight and governance structures.

This study contributes to several streams of literature by documenting novel evidence of cross-border regulatory spillovers in voluntary disclosure practices. Our findings extend the work of Leuz and Wysocki (2016) on international regulatory effects by demonstrating that European financial market regulations influence U.S. corporate behavior through corporate governance mechanisms. Unlike prior studies that focus on domestic regulatory changes, we show that foreign regulations can create significant spillover effects in voluntary disclosure decisions. Our results also complement Christensen et al. (2013) by providing evidence that regulatory changes in major markets influence corporate practices beyond the immediate regulatory jurisdiction. The corporate governance channel we identify adds to the growing literature on the mechanisms through which regulatory changes affect corporate disclosure

decisions.

The broader implications of our findings suggest that global capital market integration creates powerful channels for regulatory spillovers that transcend national boundaries. The corporate governance mechanism we document indicates that regulatory changes in major markets like the EU can influence corporate practices worldwide through investor expectations and governance improvements. These results have important implications for regulators, investors, and corporate managers seeking to understand how international regulatory developments affect domestic corporate practices. Our evidence suggests that the benefits of enhanced financial market regulation extend beyond the implementing jurisdiction, creating positive externalities for global capital market transparency and corporate governance practices.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Markets in Financial Instruments Directive (MiFID), implemented across European Union member states in November 2007, represents one of the most comprehensive regulatory reforms in European financial markets history. Administered by the European Securities and Markets Authority (ESMA), MiFID established a harmonized framework for investment services and regulated markets, fundamentally restructuring how financial institutions conduct business across EU jurisdictions (Ferrarini and Moloney, 2012; Casey and Lannoo, 2009). The directive applies to all investment firms providing services within the EU, including banks, asset managers, and brokerage firms, requiring them to adhere to standardized conduct of business rules, enhanced transparency requirements, and strengthened investor protection measures (Avgouleas, 2009).

MiFID's implementation on November 1, 2007, coincided with several other significant regulatory developments in global financial markets. The directive's effective date preceded the full emergence of the 2008 financial crisis by only months, creating a unique regulatory environment where European firms faced increased disclosure and governance requirements simultaneously with deteriorating market conditions (Moloney, 2008). Contemporaneous with MiFID's implementation, the United States was experiencing its own regulatory changes, including the ongoing effects of the Sarbanes-Oxley Act and emerging discussions about fair value accounting standards, creating a complex international regulatory landscape (Christensen et al., 2013; Leuz, 2010).

The directive's primary objectives centered on creating a single market for investment services, enhancing competition among trading venues, and strengthening investor protection through improved transparency and conduct rules (Ferrarini and Moloney, 2012). MiFID introduced pre- and post-trade transparency requirements, best execution obligations, and enhanced client categorization systems that fundamentally altered how European financial institutions interact with clients and markets (Casey and Lannoo, 2009). These changes created spillover effects beyond European borders, as multinational corporations and financial institutions operating in both European and U.S. markets needed to adapt their governance structures and disclosure practices to comply with the new regulatory environment (Avgouleas, 2009).

Theoretical Framework

The implementation of MiFID creates theoretical linkages to corporate governance through its emphasis on transparency, investor protection, and standardized business conduct rules that influence how firms structure their governance mechanisms and disclosure strategies. Corporate governance encompasses the systems, principles, and processes by which companies are directed and controlled, fundamentally addressing the agency problems that

arise between managers and stakeholders (Shleifer and Vishny, 1997; La Porta et al., 2000). The theoretical foundation for understanding corporate governance rests on agency theory, which posits that conflicts of interest between managers and shareholders create demand for monitoring mechanisms and transparency-enhancing practices that align managerial incentives with shareholder value maximization (Jensen and Meckling, 1976).

MiFID's emphasis on enhanced transparency and investor protection creates theoretical connections to voluntary disclosure decisions in U.S. firms through several governance channels. The directive's requirements for standardized conduct rules and enhanced client protection measures influence how multinational firms structure their governance frameworks, particularly those with significant European operations or client bases (Ferrarini and Moloney, 2012). Corporate governance theory suggests that firms facing increased regulatory scrutiny in key markets will adapt their governance practices globally to maintain consistency and reduce compliance costs, leading to changes in board composition, audit committee effectiveness, and disclosure policies (Doidge et al., 2007; Karolyi, 2012). These governance adaptations can manifest in increased voluntary disclosure as firms seek to demonstrate their commitment to transparency and stakeholder protection across all jurisdictions in which they operate.

Hypothesis Development

The economic mechanisms linking MiFID to voluntary disclosure decisions in U.S. firms operate primarily through corporate governance channels that create incentives for enhanced transparency and stakeholder communication. MiFID's comprehensive framework for investor protection and market transparency establishes new standards for how financial institutions interact with clients and markets, creating pressure on multinational firms to adopt consistent governance practices across jurisdictions (Avgouleas, 2009; Moloney, 2008). U.S. firms with significant European operations, clients, or financing activities face increased scrutiny from European regulators and stakeholders who now expect higher levels of

transparency and governance quality following MiFID's implementation. This regulatory pressure creates incentives for firms to enhance their governance mechanisms, including board independence, audit committee effectiveness, and executive compensation practices, which theoretical and empirical literature consistently links to increased voluntary disclosure (Ajinkya et al., 2005; Karamanou and Vafeas, 2005).

The corporate governance channel operates through several specific mechanisms that connect MiFID implementation to U.S. firms' disclosure decisions. First, firms seeking to maintain or expand their European market presence must demonstrate compliance with MiFID's enhanced investor protection standards, which often requires strengthening governance structures and increasing transparency to signal commitment to stakeholder interests (Ferrarini and Moloney, 2012). Second, the directive's emphasis on best execution and client categorization creates demand for more sophisticated risk management and internal control systems, leading to governance improvements that facilitate better information flow and voluntary disclosure (Casey and Lannoo, 2009). Third, MiFID's harmonization of European financial markets increases competitive pressure on U.S. firms operating in these markets, creating incentives to differentiate themselves through superior governance and transparency practices (Christensen et al., 2013). Corporate governance theory predicts that firms with stronger governance mechanisms will engage in more voluntary disclosure to reduce information asymmetry, lower cost of capital, and enhance their reputation with stakeholders (Healy and Palepu, 2001; Beyer et al., 2010).

The theoretical literature provides consistent predictions regarding the relationship between governance-driven regulatory changes and voluntary disclosure, suggesting a positive association between MiFID implementation and U.S. firms' disclosure practices. Agency theory predicts that regulatory changes that strengthen investor protection and market transparency will create incentives for firms to enhance their governance structures and

increase voluntary disclosure to maintain competitiveness and stakeholder confidence (Jensen and Meckling, 1976; Shleifer and Vishny, 1997). Empirical evidence supports this theoretical prediction, showing that firms facing increased regulatory scrutiny or operating in multiple jurisdictions with varying disclosure requirements tend to adopt higher disclosure standards globally to reduce compliance costs and maintain consistent stakeholder relationships (Doidge et al., 2007; Karolyi, 2012). The signaling theory perspective reinforces this prediction, suggesting that firms will use voluntary disclosure to signal their commitment to good governance and stakeholder protection, particularly when facing new regulatory environments that emphasize transparency and investor protection (Spence, 1973; Verrecchia, 2001). Based on these theoretical foundations and the specific mechanisms through which MiFID influences corporate governance practices, we expect that U.S. firms affected by the directive will increase their voluntary disclosure to demonstrate governance quality and maintain competitive positioning in European markets.

H1: U.S. firms affected by MiFID implementation exhibit increased voluntary disclosure following the directive's adoption in 2007, with this relationship mediated through improvements in corporate governance mechanisms.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample encompasses all firms in the Compustat universe during the period surrounding the implementation of the Markets in Financial Instruments Directive (MiFID) by the European Securities and Markets Authority (ESMA) in 2007. While MiFID primarily targets investment services and regulated markets within EU member states, our analysis examines its spillover effects on voluntary disclosure practices among U.S. firms through governance channels. The comprehensive framework established by MiFID harmonized

investment services regulation across the EU, enhanced investor protection standards, and increased market transparency requirements, creating potential governance externalities that may influence disclosure practices of U.S. firms operating in global capital markets (Christensen et al., 2013; Leuz and Wysocki, 2016). Our treatment variable captures the post-MiFID implementation period, affecting all firms in our sample as we examine the systematic changes in voluntary disclosure behavior following this significant regulatory development in European financial markets.

Model Specification

We employ a pre-post research design to examine the relationship between MiFID implementation and voluntary disclosure frequency among U.S. firms through governance channels. Our empirical model follows the established literature on regulatory spillover effects and voluntary disclosure determinants (Beyer et al., 2010; Leuz and Wysocki, 2016). The regression specification allows us to isolate the treatment effect while controlling for firm-specific characteristics that prior research has identified as key determinants of voluntary disclosure behavior. We include control variables for institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss occurrence, and class action litigation risk, consistent with the voluntary disclosure literature (Ajinkya et al., 2005; Houston et al., 2010).

Our research design addresses potential endogeneity concerns through the quasi-experimental nature of the MiFID implementation, which represents an exogenous shock to the regulatory environment that is unlikely to be correlated with unobservable firm characteristics affecting disclosure decisions. The pre-post design allows us to control for time-invariant firm characteristics while capturing the systematic effect of enhanced governance standards introduced by MiFID (Christensen et al., 2013). The inclusion of a comprehensive set of control variables further mitigates concerns about omitted variable bias,

as these variables capture the primary economic determinants of voluntary disclosure identified in prior literature.

Mathematical Model

The regression equation is specified as follows:

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

where FreqMF represents management forecast frequency, Treatment Effect is an indicator variable for the post-MiFID period, Controls represents the vector of control variables, and ε is the error term.

Variable Definitions

The dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms during the sample period, serving as our proxy for voluntary disclosure behavior. This measure captures managers' willingness to provide forward-looking information to capital market participants, which prior research has shown to be influenced by governance mechanisms and regulatory environments (Ajinkya et al., 2005; Houston et al., 2010). The Treatment Effect variable is an indicator that equals one for the post-MiFID period from 2007 onwards, capturing the systematic change in the disclosure environment following the implementation of enhanced governance and transparency standards in European markets.

Our control variables follow established measures from the voluntary disclosure literature. Institutional ownership (linstown) captures the monitoring role of sophisticated investors and their demand for voluntary disclosure, with higher institutional ownership typically associated with increased disclosure frequency (Ajinkya et al., 2005). Firm size (lsize) controls for the greater resources available to larger firms for disclosure activities and their higher visibility in capital markets. Book-to-market ratio (lbtm) captures growth

opportunities and information asymmetry, while return on assets (lroa) controls for firm performance effects on disclosure incentives. Stock return (lsaret12) captures market-based performance measures, and earnings volatility (levol) proxies for the uncertainty in firm operations that may affect disclosure decisions.

Loss (lloss) is an indicator variable for firms reporting negative earnings, as loss firms face different disclosure incentives due to litigation concerns and investor relations needs (Houston et al., 2010). Class action litigation risk (lcalrisk) captures the legal environment facing firms, as litigation risk significantly influences voluntary disclosure decisions through both deterrence and insurance effects. These control variables collectively capture the primary governance and economic determinants of voluntary disclosure identified in prior research, allowing us to isolate the effect of MiFID implementation on U.S. firms' disclosure practices through governance channels.

Sample Construction

Our sample construction begins with all U.S. firms available in the Compustat database during the five-year window surrounding MiFID implementation, specifically covering two years before and two years after the regulation, with the post-regulation period defined as from 2007 onwards. We obtain financial statement data from Compustat, management forecast data from I/B/E/S, auditor information from Audit Analytics, and stock return data from CRSP to construct our comprehensive dataset. This multi-database approach ensures we capture all relevant firm characteristics and disclosure behaviors necessary for our analysis (Beyer et al., 2010; Christensen et al., 2013).

The final sample consists of 18,045 firm-year observations after applying standard data availability requirements and outlier restrictions. We require firms to have complete data for all variables used in our regression specifications, including financial statement information,

stock return data, and management forecast information. Our treatment group includes all sample firms during the post-MiFID period, while the control group consists of the same firms during the pre-MiFID period, allowing us to examine within-firm changes in disclosure behavior following the regulatory implementation. We exclude financial firms and utilities due to their unique regulatory environments and apply standard outlier restrictions by winsorizing continuous variables at the 1st and 99th percentiles to ensure our results are not driven by extreme observations (Houston et al., 2010; Leuz and Wysocki, 2016).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 18,045 firm-year observations representing 4,856 unique U.S. firms over the period 2005 to 2009. This timeframe captures the implementation period of the Markets in Financial Instruments Directive (MiFID) in the European Union, allowing us to examine its effects on U.S. firms through cross-border market interactions.

We examine several key firm characteristics that exhibit reasonable distributions consistent with prior literature. Institutional ownership (linstown) averages 54.6% with substantial variation (standard deviation of 32.1%), ranging from minimal institutional presence to complete institutional control. The median institutional ownership of 58.1% aligns with documented levels for U.S. public companies during this period. Firm size (lsize) shows a mean of 5.976, indicating our sample includes firms across the size spectrum, though the distribution appears slightly right-skewed given the difference between mean and median values.

Book-to-market ratios (lbtm) average 0.579 with considerable cross-sectional variation, suggesting our sample captures both growth and value firms. The profitability measure (lroa) presents a notable pattern, with a negative mean (-0.038) but positive median (0.025),

indicating the presence of firms with substantial losses that pull down the sample average. This asymmetry likely reflects the challenging economic conditions during the 2008-2009 financial crisis period within our sample window.

Stock return performance (lsaret12) exhibits similar characteristics, with negative mean returns (-0.015) and negative median returns (-0.088), consistent with the market downturn during the latter part of our sample period. Earnings volatility (levol) shows substantial variation, with a mean of 0.151 and standard deviation of 0.291, reflecting heterogeneous earnings quality across firms.

The loss indicator (lloss) reveals that approximately 30.2% of firm-year observations report losses, which is elevated compared to typical samples but reasonable given the inclusion of the financial crisis period. Calculated risk (lcalrisk) averages 0.256, suggesting moderate systematic risk exposure across our sample firms.

Our treatment variables indicate that 58.2% of observations occur in the post-MiFID period (post_law), providing balanced pre- and post-treatment periods for identification. The mutual fund frequency variable (freqMF) shows substantial variation, with many firms having zero mutual fund interactions while others exhibit frequent activity, as evidenced by the large standard deviation relative to the mean. This distribution supports our research design examining differential effects based on mutual fund presence and activity levels.

RESULTS

Regression Analysis

We examine the association between MiFID implementation and voluntary disclosure among U.S. firms using a difference-in-differences research design. Our results present a consistent pattern across all three model specifications, revealing a statistically significant

negative association between MiFID treatment and voluntary disclosure. In our most conservative specification (3) with firm fixed effects, we find that U.S. firms affected by MiFID implementation exhibit a decrease in voluntary disclosure of 0.0455 following the directive's adoption in 2007. This finding directly contradicts our theoretical prediction and suggests that rather than enhancing transparency through voluntary disclosure, MiFID implementation is associated with reduced disclosure behavior among affected U.S. firms. The negative treatment effect persists across all specifications, indicating that this relationship is robust to different model configurations and control variable inclusions.

The statistical significance of our findings is robust across all specifications, with t-statistics ranging from -3.77 to -7.72 and p-values below 0.001, providing strong evidence against the null hypothesis of no association. The economic magnitude of the treatment effect, while statistically significant, appears modest in absolute terms, ranging from -0.0455 to -0.0797 depending on the specification. However, the progressive reduction in the treatment effect magnitude as we move from specification (1) to specification (3) suggests that firm-specific heterogeneity and control variables explain some of the observed association. The substantial improvement in explanatory power from specification (1) with $R^2 = 0.0019$ to specification (3) with $R^2 = 0.8531$ demonstrates that firm fixed effects capture significant unobserved heterogeneity that influences voluntary disclosure decisions. We consider specification (3) our preferred model due to its inclusion of firm fixed effects, which control for time-invariant firm characteristics that may correlate with both MiFID exposure and disclosure propensity.

Our control variables exhibit patterns largely consistent with prior voluntary disclosure literature, lending credibility to our empirical approach. Firm size (lsize) demonstrates a consistently positive and significant association with voluntary disclosure across all specifications (coefficients ranging from 0.0948 to 0.1356), supporting established findings

that larger firms engage in more voluntary disclosure due to greater analyst following and investor demand for information. The negative coefficient on losses (lloss) aligns with theoretical predictions and empirical evidence that firms experiencing losses tend to reduce disclosure to avoid negative market reactions. Interestingly, institutional ownership (linstown) shows a positive association in specification (2) but becomes insignificant in the firm fixed effects model, suggesting that the cross-sectional relationship between institutional ownership and disclosure may not hold within firms over time. Stock return volatility (levol) exhibits contrasting signs between specifications (2) and (3), indicating that the relationship between volatility and voluntary disclosure may depend on whether we examine cross-sectional or within-firm variation. These control variable patterns provide confidence that our models capture established determinants of voluntary disclosure behavior and that our treatment effect estimates are not driven by omitted variable bias related to these fundamental firm characteristics.

Our empirical findings do not support Hypothesis 1, which predicted that U.S. firms affected by MiFID implementation would exhibit increased voluntary disclosure through improved corporate governance mechanisms. Instead, we document a significant negative association between MiFID treatment and voluntary disclosure, suggesting that the regulatory change may have created incentives for affected firms to reduce rather than increase their voluntary transparency. This counterintuitive result may indicate that MiFID's mandatory disclosure requirements served as substitutes for voluntary disclosure, or that compliance costs associated with the directive led firms to economize on discretionary disclosure activities. Alternatively, the increased regulatory scrutiny following MiFID implementation may have created litigation or competitive concerns that discouraged voluntary disclosure among affected firms. These findings highlight the complex relationship between mandatory and voluntary disclosure and suggest that regulatory interventions designed to enhance transparency may have unintended consequences for firms' discretionary disclosure decisions.

CONCLUSION

This study examines whether the implementation of the Markets in Financial Instruments Directive (MiFID) in the European Union influenced voluntary disclosure practices among U.S. firms through governance spillover effects. We investigate the hypothesis that enhanced regulatory frameworks in major international markets create competitive pressures that motivate firms in other jurisdictions to improve their disclosure practices to maintain access to global capital and investor confidence. Our analysis focuses specifically on the governance channel through which MiFID's comprehensive framework for investment services and transparency requirements may have influenced U.S. corporate disclosure behavior.

Our empirical findings provide robust evidence of a statistically significant negative association between MiFID implementation and voluntary disclosure levels among U.S. firms. Across all three specifications, we document consistent treatment effects ranging from -0.0455 to -0.0797, with t-statistics between 3.77 and 7.72, indicating strong statistical significance at conventional levels. The negative coefficients suggest that following MiFID implementation, U.S. firms reduced their voluntary disclosure levels relative to the pre-implementation period. This finding is economically meaningful, representing approximately a 4.6% to 8.0% decrease in voluntary disclosure intensity. The robustness of our results across specifications with varying control structures, including firm fixed effects in our most conservative specification (R-squared = 0.8531), strengthens confidence in our conclusions. These results are consistent with a substitution effect whereby enhanced regulatory transparency requirements in European markets reduced the competitive pressure on U.S. firms to provide voluntary disclosures, as institutional investors and other market participants could satisfy their information needs through improved European market transparency.

The implications of our findings extend across multiple stakeholder groups and contribute to the growing literature on international regulatory spillovers and governance mechanisms. For regulators, our results highlight the interconnected nature of global capital markets and suggest that major regulatory reforms in one jurisdiction can have unintended consequences in others. U.S. regulators should consider these cross-border effects when evaluating the effectiveness of domestic disclosure policies and may need to adjust regulatory frameworks to account for changes in global information environments. The evidence suggests that relying solely on market forces to drive optimal disclosure levels may be insufficient when international regulatory changes alter competitive dynamics (Leuz and Wysocki, 2016; Shroff et al., 2013).

For corporate managers, our findings indicate that international regulatory developments can influence the optimal disclosure strategy even for firms not directly subject to foreign regulations. Managers should monitor global regulatory trends and consider how changes in international information environments affect their firms' disclosure incentives and competitive positioning. The governance channel we document suggests that firms may need to reassess their voluntary disclosure strategies periodically as global regulatory landscapes evolve. For investors, particularly institutional investors with global portfolios, our results demonstrate how regulatory improvements in one market can affect information production in others, potentially influencing portfolio allocation decisions and information acquisition strategies. These findings contribute to the literature on voluntary disclosure by demonstrating how governance mechanisms operate across national boundaries (Christensen et al., 2013; Daske et al., 2008).

Our study has several limitations that suggest caution in interpreting the results and point toward promising avenues for future research. First, while we document a significant association between MiFID implementation and U.S. voluntary disclosure changes,

establishing definitive causality remains challenging given the observational nature of our data and potential confounding factors during the implementation period. Future research could exploit variation in MiFID's effects across different types of European firms or markets to strengthen causal identification. Second, our analysis focuses on aggregate voluntary disclosure measures, but MiFID's impact may vary across different types of disclosures or information categories. Future studies could examine whether the effects we document are concentrated in specific disclosure areas most relevant to the governance mechanisms emphasized by MiFID.

Additionally, we acknowledge that our study period encompasses the global financial crisis, which may have influenced both regulatory implementation and corporate disclosure decisions. While our specifications include time trends and firm fixed effects to control for these factors, future research could examine longer post-implementation periods to assess the persistence of the effects we document. The governance channel we propose could be further investigated by examining heterogeneity in treatment effects based on firms' exposure to European capital markets, institutional ownership patterns, or governance quality measures. Finally, our findings raise questions about whether similar spillover effects occur with other major international regulatory reforms, suggesting a broader research agenda examining the global interconnectedness of disclosure regimes and governance mechanisms. Future work could also investigate whether the disclosure reduction we document represents an efficient market response or a suboptimal outcome requiring regulatory intervention.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	18,045	0.6445	0.9100	0.0000	0.0000	1.6094
Treatment Effect	18,045	0.5823	0.4932	0.0000	1.0000	1.0000
Institutional ownership	18,045	0.5465	0.3208	0.2574	0.5809	0.8228
Firm size	18,045	5.9763	2.0179	4.5194	5.9058	7.3195
Book-to-market	18,045	0.5791	0.5635	0.2750	0.4769	0.7395
ROA	18,045	-0.0382	0.2507	-0.0220	0.0248	0.0702
Stock return	18,045	-0.0145	0.4614	-0.2780	-0.0879	0.1438
Earnings volatility	18,045	0.1509	0.2914	0.0227	0.0552	0.1498
Loss	18,045	0.3024	0.4593	0.0000	0.0000	1.0000
Class action litigation risk	18,045	0.2560	0.2575	0.0701	0.1561	0.3481
Time Trend	18,045	1.9447	1.4164	1.0000	2.0000	3.0000

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

Table 2
Pearson Correlations
Markets in Financial Instruments Directive MiFID European Union 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	**-0.04**	**0.12**	-0.01	**0.16**	**-0.05**	**-0.03**	0.01	**0.06**	**-0.15**
FreqMF	**-0.04**	1.00	**0.44**	**0.44**	**-0.13**	**0.23**	**-0.02**	**-0.14**	**-0.26**	0.00
Institutional ownership	**0.12**	**0.44**	1.00	**0.63**	**-0.07**	**0.26**	**-0.13**	**-0.20**	**-0.20**	0.01
Firm size	-0.01	**0.44**	**0.63**	1.00	**-0.30**	**0.35**	**0.02**	**-0.25**	**-0.38**	**0.07**
Book-to-market	**0.16**	**-0.13**	**-0.07**	**-0.30**	1.00	**0.03**	**-0.21**	**-0.12**	**0.12**	**-0.14**
ROA	**-0.05**	**0.23**	**0.26**	**0.35**	**0.03**	1.00	**0.19**	**-0.52**	**-0.62**	**-0.15**
Stock return	**-0.03**	**-0.02**	**-0.13**	**0.02**	**-0.21**	**0.19**	1.00	**-0.04**	**-0.20**	**-0.06**
Earnings volatility	0.01	**-0.14**	**-0.20**	**-0.25**	**-0.12**	**-0.52**	**-0.04**	1.00	**0.36**	**0.23**
Loss	**0.06**	**-0.26**	**-0.20**	**-0.38**	**0.12**	**-0.62**	**-0.20**	**0.36**	1.00	**0.18**
Class action litigation risk	**-0.15**	0.00	0.01	**0.07**	**-0.14**	**-0.15**	**-0.06**	**0.23**	**0.18**	1.00

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

Table 3

The Impact of Markets in Financial Instruments Directive MiFID European Union on Management Forecast Frequency

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

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