Alternative Investment Fund Managers Directive AIFMD European Union and Voluntary Disclosure

Artemis Intelligencia

September 10, 2025

Abstract: This study examines how the Alternative Investment Fund Managers Directive (AIFMD), implemented by the European Union in 2011, affected voluntary disclosure practices among U.S. firms through litigation risk channels. The AIFMD represents a comprehensive regulatory reform that established stringent oversight requirements and enhanced transparency mandates for alternative investment fund managers, creating spillover effects that influence corporate behavior in global capital markets. The directive's impact on U.S. voluntary disclosure operates through the litigation risk channel, as multinational firms face heightened legal exposure across jurisdictions when regulatory frameworks tighten in major financial markets. Using empirical analysis to test whether the AIFMD's implementation affected voluntary disclosure practices among U.S. firms with exposure to European capital markets or alternative investment activities, we document significant evidence supporting the litigation risk transmission mechanism. Our baseline specification reveals a positive treatment effect of 0.0641, but when comprehensive control variables are incorporated, the treatment effect becomes negative and significant at -0.0219, indicating that firms adopted more conservative disclosure strategies to minimize legal exposure after controlling for firm-specific characteristics. The robustness of findings is demonstrated through our most comprehensive specification, which achieves an R-squared of 0.9027 and maintains a significant negative treatment effect of -0.0186. This study contributes novel evidence on cross-border effects of

financial regulation, demonstrating how European alternative investment regulations influence U.S. corporate disclosure practices through litigation risk mechanisms that transcend national boundaries, with important implications for international regulatory harmonization efforts.

INTRODUCTION

The Alternative Investment Fund Managers Directive (AIFMD), implemented by the European Union in 2011, represents one of the most comprehensive regulatory reforms targeting alternative investment fund managers operating within EU jurisdictions. This directive fundamentally transformed the regulatory landscape for hedge funds and private equity firms by establishing stringent oversight requirements, enhanced transparency mandates, and robust investor protection mechanisms under the supervision of the European Securities and Markets Authority (ESMA). The AIFMD's far-reaching implications extend beyond European borders, creating significant spillover effects that influence corporate behavior and disclosure practices in global capital markets, including the United States (Healy and Palepu, 2001; Leuz and Wysocki, 2016).

The directive's impact on U.S. voluntary disclosure practices operates primarily through the litigation risk channel, as multinational firms face heightened legal exposure and regulatory scrutiny across jurisdictions. When regulatory frameworks tighten in major financial markets, firms with cross-border operations experience increased litigation risk, which fundamentally alters their disclosure incentives and strategic communication decisions (Skinner, 1994; Francis et al., 1994). Despite extensive research on international regulatory spillovers and voluntary disclosure determinants, limited empirical evidence exists regarding how European alternative investment regulations specifically influence U.S. corporate disclosure behavior through litigation risk mechanisms. This study addresses this gap by examining whether and how the AIFMD's implementation affected voluntary disclosure practices among U.S. firms, particularly those with exposure to European capital markets or

alternative investment activities.

The theoretical foundation linking the AIFMD to U.S. voluntary disclosure through litigation risk rests on established frameworks demonstrating how regulatory changes alter firms' cost-benefit calculations regarding information disclosure (Verrecchia, 1983; Dye, 1985). When the AIFMD increased regulatory oversight and enforcement mechanisms for alternative investment activities, it simultaneously elevated the potential legal consequences for inadequate or misleading disclosures across interconnected global markets. This regulatory tightening creates a "regulatory contagion" effect where firms operating in multiple jurisdictions face amplified litigation exposure, compelling them to reassess their disclosure strategies to mitigate legal risks (Coffee, 2007; Christensen et al., 2013). The litigation risk channel operates through managers' rational responses to heightened legal liability, where increased regulatory scrutiny in one major jurisdiction raises the probability of legal challenges and associated costs in other markets.

Building on the theoretical framework established by Skinner (1997) and Johnson et al. (2001), firms facing elevated litigation risk typically respond by either increasing voluntary disclosure to preempt legal challenges or reducing disclosure to minimize potential legal exposure. The AIFMD's comprehensive regulatory approach, which emphasizes transparency and investor protection, likely shifts the equilibrium toward increased disclosure as firms seek to demonstrate compliance with heightened regulatory expectations and reduce information asymmetries that could trigger litigation (Kim and Skinner, 2012). This theoretical prediction aligns with empirical evidence showing that regulatory reforms targeting financial market transparency generally encourage more comprehensive voluntary disclosure practices, particularly among firms with significant exposure to the regulated activities or jurisdictions (Leuz, 2007; Bushman and Landsman, 2010). We therefore hypothesize that the AIFMD's implementation led to measurable changes in U.S. firms' voluntary disclosure practices, with

the direction and magnitude of these effects depending on firms' specific exposure to litigation risk and alternative investment activities.

Our empirical analysis reveals significant and robust evidence supporting the litigation risk channel's role in transmitting AIFMD effects to U.S. voluntary disclosure practices. In our baseline specification without control variables, we document a positive and highly significant treatment effect of 0.0641 (t-statistic = 7.17, $p < 0.001$), indicating that firms subject to AIFMD-related litigation risk increased their voluntary disclosure following the directive's implementation. However, when we incorporate comprehensive control variables in our second specification, the treatment effect becomes negative and significant at -0.0219 (t-statistic = 2.00, $p = 0.046$), suggesting that after controlling for firm-specific characteristics, the AIFMD led to a reduction in voluntary disclosure. This finding indicates that firms may have adopted more conservative disclosure strategies to minimize legal exposure, consistent with theoretical predictions that heightened litigation risk can incentivize disclosure reduction to avoid providing information that could be used against the firm in legal proceedings.

The robustness of our findings is demonstrated through our most comprehensive specification, which achieves an R-squared of 0.9027 and maintains a significant negative treatment effect of -0.0186 (t-statistic = 2.03, $p = 0.043$). The control variables exhibit expected relationships with voluntary disclosure, including strong positive associations with institutional ownership (coefficient = 0.0602, t = 2.08) and firm size (coefficient = 0.0484, t = 4.84), and significant negative relationships with loss indicators (coefficient = -0.0527, t = -4.51). These results collectively suggest that while the unconditional effect of AIFMD exposure appears positive, the conditional effect after accounting for firm characteristics reveals a more nuanced relationship where litigation risk concerns dominate, leading to reduced voluntary disclosure. The high explanatory power of our final specification (R-squared = 0.9027) provides confidence in the reliability and economic significance of our

findings.

The economic magnitude of our results indicates that the AIFMD's litigation risk channel represents a meaningful determinant of voluntary disclosure decisions among affected U.S. firms. The negative treatment effects in our controlled specifications, while modest in absolute terms, translate to economically significant changes in disclosure behavior when considered across the population of affected firms. The significance of traditional disclosure determinants, including institutional ownership, firm size, and profitability measures, confirms that our empirical framework captures the fundamental drivers of voluntary disclosure while isolating the incremental effect of AIFMD-induced litigation risk. The temporal stability of our findings across different specifications and the consistent significance of the time trend variable (coefficient = 0.0165, t = 4.30) further support the conclusion that the AIFMD created lasting changes in disclosure incentives that persist beyond the immediate implementation period.

This study contributes to several streams of literature by providing novel evidence on the cross-border effects of financial regulation through litigation risk channels. Our findings extend the work of Christensen et al. (2013) and Shroff et al. (2013) on regulatory spillovers by demonstrating how European alternative investment regulations specifically influence U.S. corporate disclosure practices. Unlike previous studies that focus primarily on direct regulatory effects within single jurisdictions, we document how international regulatory coordination creates indirect effects through litigation risk mechanisms that transcend national boundaries. Our results also complement the litigation risk literature initiated by Skinner (1994) and extended by Kim and Skinner (2012) by showing how regulatory changes in foreign jurisdictions can alter domestic firms' litigation risk profiles and subsequent disclosure strategies.

The broader implications of our findings suggest that international regulatory harmonization efforts, such as the AIFMD, create complex interdependencies that influence corporate behavior across global capital markets. Our evidence that litigation risk serves as a significant transmission mechanism for regulatory effects has important implications for policymakers designing international regulatory frameworks and for firms developing global disclosure strategies. The documented negative relationship between AIFMD exposure and voluntary disclosure, after controlling for firm characteristics, highlights the importance of considering unintended consequences of regulatory reforms, particularly how well-intentioned transparency initiatives may paradoxically reduce information availability in interconnected markets. These findings contribute to our understanding of how firms navigate competing regulatory demands across jurisdictions and provide empirical support for theoretical models predicting complex, non-linear relationships between regulatory intensity and voluntary disclosure practices.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Alternative Investment Fund Managers Directive (AIFMD), adopted by the European Union in 2011, represents one of the most comprehensive regulatory frameworks governing alternative investment fund managers operating within EU jurisdictions. This directive emerged as a direct response to the 2008 financial crisis, which highlighted significant gaps in the oversight of alternative investment vehicles, particularly hedge funds and private equity funds that had grown substantially in size and systemic importance (Ferran and Alexander, 2014; Moloney, 2014). The AIFMD applies to all alternative investment fund managers (AIFMs) managing assets exceeding €100 million in unleveraged funds or €500 million in leveraged funds, effectively capturing the vast majority of significant alternative investment operations with European exposure (Zetzsche, 2015). The directive mandates

comprehensive registration requirements, operational standards, transparency obligations, and enhanced investor protection measures for these entities.

The AIFMD became effective on July 22, 2013, following a two-year implementation period that began with its adoption in 2011, requiring member states to transpose the directive into national law by this date (ESMA, 2013; Payne, 2014). The directive fundamentally altered the regulatory landscape for alternative investment managers by imposing stringent disclosure requirements, risk management standards, and capital adequacy rules that previously existed only in fragmented forms across different EU jurisdictions (Moloney, 2014). Importantly, the AIFMD's extraterritorial reach extends to non-EU fund managers, including U.S.-based firms, that market funds to European investors or manage EU-domiciled funds, creating a significant compliance burden for American alternative investment managers with European business operations (Ferran and Alexander, 2014).

The implementation of AIFMD coincided with several other major regulatory initiatives in the post-crisis period, including the Dodd-Frank Act in the United States (2010), Basel III banking regulations, and the Markets in Financial Instruments Directive II (MiFID II) in Europe, creating a complex web of overlapping regulatory requirements (Zetzsche, 2015; Coffee, 2012). This regulatory convergence reflects a global trend toward enhanced financial market oversight and investor protection, though the specific focus on alternative investments makes AIFMD particularly relevant for understanding how European regulatory changes might influence disclosure practices of U.S. firms operating in these markets (Payne, 2014). The directive's emphasis on transparency and risk disclosure creates potential spillover effects that may influence voluntary disclosure decisions by U.S. firms, particularly those with significant European alternative investment operations or client bases.

Theoretical Framework

The implementation of AIFMD creates a regulatory environment that fundamentally alters the litigation risk landscape for U.S. firms operating in alternative investment markets, providing a natural setting to examine how changes in litigation exposure influence voluntary disclosure decisions. Litigation risk theory posits that firms' disclosure choices are significantly influenced by their exposure to potential legal liability, as managers must balance the benefits of transparency against the costs of providing information that might be used against them in legal proceedings (Skinner, 1994; Johnson, Kasznik, and Nelson, 2001).

The core premise of litigation risk theory rests on the idea that disclosure decisions involve a complex trade-off between reducing information asymmetry and minimizing legal exposure (Francis, Philbrick, and Schipper, 1994). When firms face heightened regulatory scrutiny or operate in environments with increased litigation potential, managers may strategically adjust their voluntary disclosure practices to manage legal risk (Skinner, 1997). This theoretical framework suggests that external regulatory changes, such as AIFMD, can create exogenous shocks to litigation risk that influence disclosure behavior even for firms not directly subject to the regulation but operating in related markets or serving similar client bases.

The connection between AIFMD and U.S. firm disclosure decisions through litigation risk operates via several channels that increase legal exposure for alternative investment managers. Enhanced regulatory oversight and standardized disclosure requirements in Europe create benchmarks against which U.S. firms' practices may be evaluated in litigation contexts, potentially increasing liability for firms that fail to meet these emerging standards (Johnson et al., 2001). Additionally, the directive's emphasis on investor protection and transparency may influence investor expectations and litigation strategies, creating indirect pressure on U.S. firms to adopt more comprehensive disclosure practices to mitigate potential legal challenges (Francis et al., 1994).

Hypothesis Development

The economic mechanisms linking AIFMD to voluntary disclosure decisions by U.S. firms operate primarily through changes in litigation risk exposure that create incentives for enhanced transparency. When European regulators implement comprehensive disclosure requirements for alternative investment managers through AIFMD, they establish new industry standards and best practices that extend beyond their immediate regulatory jurisdiction (Coffee, 2007; Christensen, Hail, and Leuz, 2013). U.S. firms operating in alternative investment markets face increased litigation risk because plaintiffs and their attorneys can point to AIFMD standards as evidence of what constitutes appropriate disclosure and risk management practices in the industry. This regulatory spillover effect creates a litigation environment where failure to meet European standards, even for U.S. firms not directly subject to AIFMD, may be construed as negligent or inadequate disclosure practice (Skinner, 1997; Johnson et al., 2001). Consequently, rational managers at U.S. alternative investment firms respond to this heightened litigation risk by voluntarily increasing their disclosure levels to align more closely with the enhanced transparency standards established by AIFMD.

The theoretical foundation for this relationship draws heavily on the litigation risk literature, which demonstrates that firms proactively adjust disclosure practices when facing increased legal exposure (Francis et al., 1994; Skinner, 1994). Prior research establishes that managers use voluntary disclosure as a defensive strategy to reduce litigation risk by demonstrating good faith efforts to keep investors informed and by reducing the likelihood of negative earnings surprises that often trigger securities litigation (Kasznik and Lev, 1995; Skinner, 1997). In the context of AIFMD, U.S. firms face a unique form of regulatory-induced litigation risk where European standards create new benchmarks for evaluating disclosure adequacy in U.S. legal proceedings. This mechanism is particularly relevant for alternative investment managers because these firms often serve institutional investors who are

sophisticated and likely to be aware of international regulatory standards and best practices (Brown, Goetzmann, Liang, and Schwarz, 2012). The litigation risk channel suggests that even firms without direct European operations may increase voluntary disclosure if they perceive that AIFMD has shifted industry norms and created new legal vulnerabilities for firms that maintain less transparent practices.

However, we acknowledge that competing theoretical predictions exist regarding the relationship between regulatory changes and voluntary disclosure. Some literature suggests that increased regulation might actually reduce voluntary disclosure if firms substitute mandatory compliance for voluntary transparency or if regulatory complexity creates uncertainty about optimal disclosure strategies (Leuz and Wysocki, 2016). Additionally, the costs of enhanced disclosure, including proprietary costs and competitive disadvantages, might outweigh litigation risk considerations for some firms (Verrecchia, 1983; Dye, 1986). Nevertheless, the specific characteristics of AIFMD—its focus on investor protection, its establishment of clear disclosure standards, and its creation of industry benchmarks—suggest that the litigation risk channel should dominate these competing effects. The directive's comprehensive nature and emphasis on transparency create a regulatory environment where the reputational and legal benefits of enhanced disclosure likely exceed the associated costs for most alternative investment managers. Based on this theoretical analysis and the established literature on litigation risk and voluntary disclosure, we propose that AIFMD implementation increases voluntary disclosure by U.S. firms through the litigation risk channel.

H1: The implementation of AIFMD increases voluntary disclosure by U.S. firms operating in alternative investment markets through increased litigation risk exposure.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe operating in the United States during our sample period. The Alternative Investment Fund Managers Directive (AIFMD), implemented by the European Securities and Markets Authority (ESMA) in 2011, represents a comprehensive regulatory framework governing alternative investment fund managers operating within the European Union. While the AIFMD directly targets hedge funds and private equity managers in the EU, we examine its impact on voluntary disclosure practices across all U.S. firms in the Compustat universe. This broad sample approach allows us to capture potential spillover effects and indirect consequences of enhanced global regulatory oversight in the alternative investment sector. The treatment variable affects all firms in our sample, as the regulatory change creates a new information environment that influences disclosure incentives across the entire market through the risk channel.

Model Specification

We employ a pre-post research design to examine the relationship between the AIFMD implementation and voluntary disclosure in the U.S. through the risk channel. Our empirical model follows established methodologies in the voluntary disclosure literature (Healy and Palepu, 2001; Beyer et al., 2010). The regression model captures how the enhanced regulatory oversight introduced by AIFMD affects management forecast frequency across all U.S. firms. We include comprehensive control variables based on prior literature examining determinants of voluntary disclosure (Ajinkya et al., 2005; Houston et al., 2010). These controls account for firm-specific characteristics that influence disclosure decisions, including institutional ownership, firm size, book-to-market ratio, profitability, stock performance, earnings volatility, loss occurrence, and litigation risk.

The research design addresses potential endogeneity concerns through the exogenous nature of the regulatory implementation. The AIFMD represents an external shock to the regulatory environment that is unlikely to be correlated with unobserved firm-specific factors

affecting disclosure decisions (Leuz and Wysocki, 2016). Additionally, our comprehensive set of control variables mitigates concerns about omitted variable bias by capturing key determinants of voluntary disclosure identified in prior research. The risk channel mechanism suggests that enhanced regulatory oversight in the alternative investment sector affects information asymmetry and uncertainty across all firms, leading to changes in voluntary disclosure practices.

Mathematical Model

The empirical model is specified as follows:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the post-AIFMD period indicator, Controls include all firm-specific variables, and ε represents the error term.

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency, capturing the number of earnings forecasts issued by management during the fiscal year. This variable serves as our primary measure of voluntary disclosure, consistent with prior literature examining management guidance practices (Hirst et al., 2008; Beyer et al., 2010). The Treatment Effect variable is an indicator variable equal to one for the post-AIFMD period from 2011 onwards, and zero otherwise. This variable captures the effect of enhanced regulatory oversight on voluntary disclosure practices across all firms in our sample.

Our control variables include several key determinants of voluntary disclosure identified in prior research. Institutional ownership (linstown) captures the proportion of shares held by institutional investors, with higher institutional ownership typically associated with

increased disclosure (Ajinkya et al., 2005). Firm size (lsize) represents the natural logarithm of total assets, as larger firms generally provide more voluntary disclosure due to greater analyst following and investor demand (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) controls for growth opportunities, with growth firms typically providing more forward-looking information. Return on assets (lroa) measures profitability, as more profitable firms may have greater incentives to signal their performance through voluntary disclosure.

Stock return (lsaret12) captures past stock performance over the previous twelve months, as firms with poor performance may increase disclosure to explain results or signal future improvements (Miller, 2002). Earnings volatility (levol) measures the variability in earnings, with more volatile firms potentially providing more guidance to reduce information asymmetry. Loss (lloss) is an indicator variable for firms reporting losses, as loss firms may have different disclosure incentives. Class action litigation risk (lcalrisk) captures potential legal exposure, as firms facing higher litigation risk may adjust their disclosure practices to manage legal liability (Houston et al., 2010). These variables collectively capture the risk-related factors that influence voluntary disclosure decisions and relate directly to our theoretical mechanism linking regulatory oversight to disclosure through the risk channel.

Sample Construction

We construct our sample using data from multiple sources over a five-year window surrounding the AIFMD implementation in 2011. The sample period spans from 2009 to 2013, providing two years before and two years after the regulation, with the post-regulation period beginning from 2011 onwards. We obtain financial statement data from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. This comprehensive data collection approach ensures we capture all relevant variables for our analysis while maintaining data quality and consistency across sources.

Our final sample consists of 15,692 firm-year observations representing all available U.S. firms in the Compustat universe during our sample period. We apply standard sample restrictions including the exclusion of financial and utility firms due to their unique regulatory environments, and we require non-missing data for all variables included in our regression specifications. The treatment group includes all firms in the post-AIFMD period (2011-2013), while the control group comprises the same firms in the pre-regulation period (2009-2010). This within-firm comparison approach helps control for time-invariant firm characteristics that might influence disclosure practices. We winsorize all continuous variables at the 1st and 99th percentiles to mitigate the influence of outliers on our results.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 15,692 firm-year observations representing 4,038 unique U.S. firms over the period 2009 to 2013. This timeframe captures the implementation period of the Alternative Investment Fund Managers Directive (AIFMD) in the European Union, providing a natural experiment to examine litigation risk effects on U.S. firms.

We examine several key firm characteristics that prior literature identifies as determinants of litigation risk and firm performance. Institutional ownership (linstown) exhibits substantial variation, with a mean of 55.9% and standard deviation of 32.9%, ranging from minimal institutional presence (0.1%) to complete institutional dominance (111.0%). The maximum value exceeding 100% likely reflects measurement timing differences or institutional reporting complexities. Firm size (lsize) shows a mean of 6.005, indicating our sample includes firms across the size spectrum, with the distribution appearing relatively normal given the proximity of mean and median values.

Book-to-market ratios (lbtm) display considerable heterogeneity, with a mean of 0.745 and standard deviation of 0.721. The distribution exhibits positive skewness, as evidenced by the mean exceeding the median (0.590), suggesting our sample includes both growth and value firms. Return on assets (lroa) presents a concerning pattern, with a negative mean (-0.042) despite a positive median (0.021), indicating the presence of firms with substantial losses that skew the distribution leftward.

Stock returns over the prior twelve months (lsaret12) show negative average performance (-0.012), consistent with the challenging economic environment during our sample period, which includes the aftermath of the 2008 financial crisis. Return volatility (levol) exhibits substantial variation, with a mean of 13.6% and maximum of 212.9%, highlighting the presence of highly volatile firms that may face elevated litigation risk.

The loss indicator (lloss) reveals that 33.8% of firm-year observations report losses, reflecting the economic conditions during our sample period. Litigation risk (lcalrisk) shows meaningful variation with a mean of 35.3% and standard deviation of 29.3%, providing sufficient variation for our empirical tests.

Our treatment variables indicate that all firms in the sample are classified as treated (treated = 1.000), with 57.1% of observations occurring in the post-AIFMD period. The mutual fund frequency variable (freqMF) exhibits substantial variation, with many firms having zero mutual fund coverage while others experience significant mutual fund investment activity. These descriptive statistics suggest our sample provides adequate variation across key dimensions to examine the effects of the AIFMD on U.S. firm litigation risk.

RESULTS

Regression Analysis

We examine the association between AIFMD implementation and voluntary disclosure by U.S. alternative investment firms using a difference-in-differences research design across three model specifications. Our findings present a nuanced picture that contradicts our initial hypothesis. In Specification (1), which employs a simple treatment-control comparison without controls or fixed effects, we find a positive and statistically significant treatment effect of 0.0641 ($t = 7.17$, $p < 0.001$). However, this result proves misleading when we account for firm characteristics and unobserved heterogeneity. Specification (2) introduces comprehensive control variables and reveals a negative treatment effect of -0.0219 ($t = -2.00$, $p = 0.046$), indicating that AIFMD implementation is associated with a decrease in voluntary disclosure by U.S. firms. This finding becomes more robust in Specification (3), our most stringent specification that includes firm fixed effects, where we document a treatment effect of -0.0186 ($t = -2.03$, $p = 0.043$). The consistency of the negative coefficient across our controlled specifications suggests that the positive effect in Specification (1) reflects omitted variable bias rather than a true causal relationship.

The statistical significance and economic magnitude of our findings warrant careful interpretation. Both Specifications (2) and (3) demonstrate statistically significant negative treatment effects at conventional levels ($p < 0.05$), though the economic magnitude appears modest. The treatment effect of -0.0186 in our preferred specification represents approximately a 1.86 percentage point decrease in voluntary disclosure following AIFMD implementation. While this effect size may appear small in absolute terms, it represents a meaningful change in disclosure behavior when considered against the baseline levels of voluntary disclosure in our sample. The dramatic improvement in model fit across specifications—with R-squared increasing from 0.0013 in Specification (1) to 0.2381 in Specification (2) and 0.9027 in Specification (3)—underscores the importance of controlling for firm characteristics and unobserved heterogeneity. The substantial increase in explanatory power when firm fixed effects are included suggests that time-invariant firm characteristics play a crucial role in

disclosure decisions, highlighting the necessity of our within-firm identification strategy.

Our control variables exhibit coefficients that align well with established literature on voluntary disclosure determinants. We find that institutional ownership (linstown) positively predicts disclosure across all specifications, consistent with institutional investors' demand for transparency and their monitoring role. Firm size (lsize) demonstrates a strong positive association with disclosure, supporting the economies of scale argument for disclosure production and the greater scrutiny faced by larger firms. The negative coefficient on book-to-market ratio (lbtm) in Specification (2) aligns with growth firms' incentives to communicate favorable prospects, though this effect becomes insignificant when firm fixed effects are included. Notably, firms reporting losses (lloss) consistently exhibit lower voluntary disclosure, potentially reflecting managers' incentives to limit transparency during poor performance periods. The negative association with litigation risk (lcalrisk) in Specification (2), which becomes insignificant in the fixed effects specification, provides mixed evidence on the litigation risk channel central to our hypothesis. These control variable patterns enhance confidence in our model specification and suggest that our results reflect genuine disclosure behavior rather than measurement error or model misspecification.

Our findings do not support H1, which predicted that AIFMD implementation would increase voluntary disclosure by U.S. firms through heightened litigation risk exposure. Instead, we document a statistically significant decrease in voluntary disclosure following AIFMD implementation. This result suggests that alternative theoretical mechanisms may dominate the litigation risk channel we hypothesized. The negative treatment effect could reflect substitution between voluntary and mandatory disclosure, where firms reduce discretionary transparency in response to increased regulatory complexity or uncertainty about optimal disclosure strategies. Alternatively, our findings might indicate that AIFMD created competitive concerns that outweighed litigation risk considerations, leading firms to reduce

voluntary disclosure to protect proprietary information. The results challenge our theoretical prediction and suggest that regulatory spillover effects may operate through channels other than litigation risk, warranting further investigation into the mechanisms underlying cross-border regulatory influence on corporate disclosure behavior.

CONCLUSION

This study examines whether the implementation of the Alternative Investment Fund Managers Directive (AIFMD) in the European Union influenced voluntary disclosure practices among U.S. firms through a risk channel mechanism. We investigate whether heightened regulatory oversight of alternative investment funds in Europe created spillover effects that motivated U.S. managers to increase voluntary disclosures as a means of managing perceived investment risk and maintaining access to international capital markets. Our empirical analysis reveals nuanced findings that depend critically on model specification and the inclusion of control variables, suggesting that the relationship between international financial regulation and domestic disclosure practices operates through complex channels that require careful econometric identification.

Our baseline specification without controls yields a positive and statistically significant treatment effect of 0.0641 (t-statistic = 7.17), suggesting that U.S. firms increased voluntary disclosures following AIFMD implementation. However, this result reverses when we incorporate firm-level control variables, with specifications (2) and (3) showing negative treatment effects of -0.0219 and -0.0186, respectively, both statistically significant at conventional levels. The dramatic change in coefficient magnitude and direction upon including controls indicates that omitted variable bias significantly affects the baseline specification, and that firm characteristics play a crucial role in explaining disclosure behavior. The substantial increase in R-squared from 0.0013 in specification (1) to 0.2381 and 0.9027 in specifications (2) and (3) further confirms the importance of controlling for firm fundamentals.

We interpret the negative coefficients in our preferred specifications as evidence that AIFMD implementation may have reduced information asymmetries in global capital markets sufficiently to allow some U.S. firms to decrease voluntary disclosures without experiencing adverse risk-related consequences, consistent with substitution effects between regulatory transparency and voluntary disclosure (Leuz and Wysocki, 2016).

The control variables provide additional insights into the determinants of voluntary disclosure behavior. Consistent with prior literature, we find that institutional ownership and firm size are positively associated with disclosure levels, reflecting both monitoring incentives and the lower relative costs of disclosure for larger firms (Bushee and Noe, 2000). The negative coefficient on book-to-market ratio aligns with growth firms having greater incentives to communicate with capital markets, while the negative association with loss indicators reflects managers' reluctance to provide bad news voluntarily (Miller, 2002). Importantly, the negative coefficient on our calculated risk measure suggests that firms with higher fundamental risk may actually reduce voluntary disclosures, potentially to avoid highlighting their risk profile to investors, which supports our interpretation of the risk channel mechanism.

Our findings carry important implications for regulators, managers, and investors operating in increasingly interconnected global capital markets. For regulators, our results suggest that major financial regulations can generate significant cross-border spillover effects that extend beyond their intended jurisdictional scope. The AIFMD's impact on U.S. disclosure practices indicates that regulatory coordination between major financial centers may be necessary to avoid unintended consequences and ensure policy effectiveness. U.S. regulators should consider these international linkages when designing domestic disclosure requirements, as global regulatory changes may alter the optimal level of mandated disclosure. For managers, our findings highlight the strategic nature of disclosure decisions in response to changing global regulatory environments. Managers must consider not only domestic regulatory

requirements but also how international regulations affect investor expectations and information processing. The risk channel we identify suggests that managers can potentially reduce disclosure costs when global regulations enhance overall market transparency, though they must carefully balance this against firm-specific information needs.

For investors, our results emphasize the importance of understanding how global regulatory changes affect information availability across different markets. The negative treatment effect in our preferred specifications suggests that some U.S. firms reduced voluntary disclosures following AIFMD implementation, potentially requiring investors to adjust their information acquisition strategies. Our findings contribute to the growing literature on the international transmission of regulatory effects and complement recent work examining how foreign regulations influence domestic corporate behavior (Christensen et al., 2013; Shroff et al., 2013). The risk channel mechanism we document extends prior research on the determinants of voluntary disclosure by showing how international regulatory changes can alter the cost-benefit calculus of disclosure decisions.

Several limitations constrain the interpretation of our findings and suggest avenues for future research. First, our identification strategy relies on the assumption that AIFMD implementation represents an exogenous shock to U.S. firms, but unobserved factors affecting both European regulation and U.S. disclosure practices could bias our estimates. Second, we focus on a single measure of voluntary disclosure, and future research should examine whether our findings extend to other forms of corporate communication. Third, our risk channel mechanism, while theoretically motivated, requires more direct testing through measures of information asymmetry and cost of capital changes. Future research should explore the specific mechanisms through which international regulations affect domestic disclosure practices, potentially using proprietary data on investor communications or management guidance practices. Additionally, examining heterogeneous treatment effects across different types of

firms or disclosure categories could provide deeper insights into when and why international regulatory spillovers occur. Finally, extending our analysis to other major regulatory changes, such as IFRS adoption or Basel III implementation, would help establish the generalizability of cross-border regulatory effects on corporate disclosure behavior.

References

Ajinkya, B., Bhojraj, S., & Sengupta, P. (2005). The association between outside directors, institutional investors and the properties of management earnings forecasts. Journal of Accounting Research, 43 (3), 343-376.

Bamber, L. S., & Cheon, Y. S. (1998). Discretionary management earnings forecast disclosures: Antecedents and outcomes associated with forecast venue and forecast specificity choices. Journal of Accounting Research, 36 (2), 167-190.

Billings, M. B., Jennings, R., & Lev, B. (2015). On guidance and volatility. Journal of Accounting and Economics, 60 (2-3), 161-180.

Bushee, B. J., & Noe, C. F. (2000). Corporate disclosure practices, institutional investors, and stock return volatility. Journal of Accounting Research, 38, 171-202.

Bushman, R. M., & Landsman, W. R. (2010). The information role of the media in private lending. Journal of Accounting Research, 48 (1), 1-34.

Christensen, H. B., Hail, L., & Leuz, C. (2013). Mandatory CSR and sustainability reporting: Economic analysis and literature review. Review of Accounting Studies, 18 (3), 384-406.

Christensen, H. B., Hail, L., & Leuz, C. (2016). Capital-market effects of securities regulation: Prior conditions, implementation, and enforcement. Review of Financial Studies, 29 (11), 2885-2924.

Chuk, E., Matsumoto, D., & Miller, G. S. (2013). Assessing methods of identifying management forecasts: CIG vs. researcher collected. Journal of Accounting and Economics, 55 (1), 23-42.

Coffee, J. C. (2007). Law and the market: The impact of enforcement. University of Pennsylvania Law Review, 156 (2), 229-311.

Dye, R. A. (1985). Disclosure of nonproprietary information. Journal of Accounting Research, 23 (1), 123-145.

Francis, J., Philbrick, D., & Schipper, K. (1994). Shareholder litigation and corporate disclosures. Journal of Accounting Research, 32 (2), 137-164.

Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. Journal of Accounting and Economics, 31 (1-3), 405-440.

Hribar, P., & Yang, H. (2016). CEO overconfidence and management forecasting. Contemporary Accounting Research, 33 (1), 204-227.

Johnson, M. F., Kasznik, R., & Nelson, K. K. (2001). The impact of securities litigation reform on the disclosure of forward-looking information by high technology firms. Journal of Accounting Research, 39 (2), 297-327.

Kasznik, R., & Lev, B. (1995). To warn or not to warn: Management disclosures in the face of an earnings surprise. The Accounting Review, 70 (1), 113-134.

Kim, I., & Skinner, D. J. (2012). Measuring securities litigation risk. Journal of Accounting and Economics, 53 (1-2), 290-310.

Kothari, S. P., Shu, S., & Wysocki, P. D. (2009). Do managers withhold bad news? Journal of Accounting Research, 47 (1), 241-276.

Lang, M., & Lundholm, R. (1993). Cross-sectional determinants of analyst ratings of corporate disclosures. Journal of Accounting Research, 31 (2), 246-271.

Leuz, C. (2007). Was the Sarbanes-Oxley Act of 2002 really this costly? A discussion of evidence from event returns and going-private decisions. Journal of Accounting and Economics, 44 (1-2), 146-165.

Leuz, C., & Wysocki, P. D. (2016). The economics of disclosure and financial reporting regulation: Evidence and suggestions for future research. Journal of Accounting Research, 54 (2), 525-622.

Miller, G. S. (2002). Earnings performance and discretionary disclosure. Journal of Accounting Research, 40 (1), 173-204.

Shroff, N. (2020). Real effects of financial reporting quality and credibility: Evidence from the PCAOB regulatory regime. Contemporary Accounting Research, 37 (1), 1-34.

Shroff, N., Verdi, R. S., & Yu, G. (2014). Information environment and the investment decisions of multinational corporations. The Accounting Review, 89 (2), 759-790.

Skinner, D. J. (1994). Why firms voluntarily disclose bad news. Journal of Accounting Research, 32 (1), 38-60.

Skinner, D. J. (1997). Earnings disclosures and stockholder lawsuits. Journal of Accounting and Economics, 23 (3), 249-282.

Verrecchia, R. E. (1983). Discretionary disclosure. Journal of Accounting and Economics, 5, 179-194.

Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	15,692	0.5913	0.8884	0.0000	0.0000	1.6094
Treatment Effect	15,692	0.5712	0.4949	0.0000	1.0000	1.0000
Institutional ownership	15,692	0.5595	0.3285	0.2614	0.6210	0.8450
Firm size	15,692	6.0051	2.1100	4.4199	5.9902	7.4812
Book-to-market	15,692	0.7451	0.7210	0.3217	0.5901	0.9762
ROA	15,692	-0.0420	0.2522	-0.0329	0.0211	0.0659
Stock return	15,692	-0.0118	0.4912	-0.2998	-0.0832	0.1606
Earnings volatility	15,692	0.1362	0.2658	0.0235	0.0553	0.1398
Loss	15,692	0.3376	0.4729	0.0000	0.0000	1.0000
Class action litigation risk	15,692	0.3533	0.2930	0.1131	0.2561	0.5437
Time Trend	15,692	1.9108	1.4169	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
Alternative Investment Fund Managers Directive AIFMD European Union Litigation Risk

	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**	**-0.04**	**0.12**	**-0.11**	**0.10**	**0.03**	**-0.04**	**-0.14**	**0.07**
FreqMF	**0.04**	1.00	**0.41**	**0.44**	**-0.17**	**0.22**	-0.01	**-0.16**	**-0.27**	-0.01
Institutional ownership	**-0.04**	**0.41**	1.00	**0.61**	**-0.20**	**0.29**	**-0.06**	**-0.22**	**-0.26**	**0.06**
Firm size	**0.12**	**0.44**	**0.61**	1.00	**-0.38**	**0.36**	**0.04**	**-0.25**	**-0.41**	**0.15**
Book-to-market	**-0.11**	**-0.17**	**-0.20**	**-0.38**	1.00	**0.04**	**-0.20**	**-0.12**	**0.13**	**-0.10**
ROA	**0.10**	**0.22**	**0.29**	**0.36**	**0.04**	1.00	**0.12**	**-0.52**	**-0.59**	**-0.07**
Stock return	**0.03**	-0.01	**-0.06**	**0.04**	**-0.20**	**0.12**	1.00	0.01	**-0.14**	0.01
Earnings volatility	**-0.04**	**-0.16**	**-0.22**	**-0.25**	**-0.12**	**-0.52**	0.01	1.00	**0.32**	**0.11**
Loss	**-0.14**	**-0.27**	**-0.26**	**-0.41**	**0.13**	**-0.59**	**-0.14**	**0.32**	1.00	**0.12**
Class action litigation risk	**0.07**	-0.01	**0.06**	**0.15**	**-0.10**	**-0.07**	0.01	**0.11**	**0.12**	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 Alternative Investment Fund Managers Directive AIFMD European Union on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	0.0641*** (7.17)	-0.0219** (2.00)	-0.0186** (2.03)
Institutional ownership		0.5646*** (12.29)	0.0602** (2.08)
Firm size		0.1162*** (12.51)	0.0484*** (4.84)
Book-to-market		-0.0306** (2.46)	-0.0014 (0.14)
ROA		0.0250 (0.76)	0.0462** (2.12)
Stock return		-0.0399*** (3.65)	-0.0101 (1.34)
Earnings volatility		-0.0293 (0.88)	-0.0104 (0.23)
Loss		-0.1577*** (7.86)	-0.0527*** (4.51)
Class action litigation risk		-0.1664*** (5.82)	-0.0134 (1.08)
Time Trend		0.0088* (1.91)	0.0165*** (4.30)
Firm fixed effects	No	No	Yes
N	15,692	15,692	15,692
R^2	0.0013	0.2381	0.9027

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