

Financial Services Act 2012 United Kingdom and Voluntary Disclosure

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September 10, 2025

Abstract: The Financial Services Act 2012 represents one of the most significant regulatory reforms in UK financial sector history, fundamentally restructuring the regulatory architecture by establishing the Financial Conduct Authority and Prudential Regulation Authority with enhanced oversight mechanisms. While existing literature extensively examines domestic regulatory effects on disclosure practices, a critical gap remains in understanding how foreign regulatory reforms influence voluntary disclosure decisions of US firms through cross-border litigation risk channels. This study addresses whether the implementation of the Financial Services Act 2012 affects voluntary disclosure practices of US firms through heightened litigation risk and examines the magnitude of this cross-border regulatory spillover effect. Building on litigation risk theory, we develop testable predictions that firms with greater exposure to UK regulatory oversight will exhibit more pronounced increases in voluntary disclosure following the Act's implementation, as enhanced regulatory scrutiny increases the probability of detecting misconduct and elevates litigation likelihood across multiple jurisdictions. Our empirical analysis provides robust evidence supporting the litigation risk channel, with treatment effects ranging from 4.09 to 5.79 percentage points across specifications, all statistically significant at conventional levels. The baseline specification yields a treatment effect of 5.79 percentage points, indicating that firms exposed to the Financial Services Act 2012 increased their voluntary disclosure by approximately 5.8

percentage points relative to control firms. These findings extend existing literature by documenting significant cross-border effects of regulatory reform on voluntary disclosure practices, demonstrating that domestic regulatory changes can influence corporate behavior beyond national boundaries through litigation risk channels and highlighting the interconnected nature of modern capital markets.

INTRODUCTION

The Financial Services Act 2012 represents one of the most significant regulatory reforms in the United Kingdom's financial sector history, fundamentally restructuring the regulatory architecture that had governed financial markets since the Financial Services and Markets Act 2000. This comprehensive legislation dismantled the tripartite regulatory system and established a new framework centered on the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), creating distinct oversight mechanisms for conduct and prudential regulation (Armour, 2013; Baldwin et al., 2012). The Act emerged from the lessons learned during the 2008 financial crisis, when regulatory failures and inadequate oversight contributed to systemic instability and substantial consumer detriment across global financial markets.

The reform's emphasis on enhanced accountability and consumer protection has created significant spillover effects beyond UK borders, particularly through increased litigation risk exposure for multinational financial institutions operating in both UK and US markets (Coffee, 2007; Jackson & Roe, 2009). While existing literature extensively examines domestic regulatory effects on disclosure practices, a critical gap remains in understanding how foreign regulatory reforms influence voluntary disclosure decisions of US firms through cross-border litigation risk channels (Leuz & Wysocki, 2016; Christensen et al., 2013). This study addresses two fundamental research questions: First, does the implementation of the Financial Services Act 2012 affect voluntary disclosure practices of US firms through heightened litigation risk?

Second, what is the magnitude and economic significance of this cross-border regulatory spillover effect?

The theoretical foundation for linking UK financial regulation to US voluntary disclosure practices rests on the litigation risk channel, which operates through several interconnected mechanisms. Enhanced regulatory scrutiny and enforcement under the FCA regime increases the probability of detecting misconduct and regulatory violations, thereby elevating the likelihood of subsequent civil litigation in multiple jurisdictions where affected firms operate (Skinner, 1994; Francis et al., 1994). This heightened litigation environment creates incentives for firms to increase voluntary disclosure as a defensive strategy to mitigate potential legal exposure and demonstrate proactive compliance efforts to regulators and investors alike.

Building on established theoretical frameworks in disclosure economics, the litigation risk hypothesis suggests that managers strategically adjust their disclosure policies in response to changes in expected litigation costs (Kasznik & Lev, 1995; Johnson et al., 2001). The Financial Services Act 2012's emphasis on conduct regulation and consumer protection fundamentally altered the regulatory landscape by creating more stringent oversight mechanisms and enhanced enforcement capabilities, thereby increasing the expected costs of non-disclosure or inadequate disclosure practices (Healy & Palepu, 2001; Verrecchia, 2001). Multinational firms operating in both UK and US markets face particularly acute litigation risk exposure, as regulatory actions in one jurisdiction can trigger cascading legal consequences across multiple legal systems where the firm maintains operations or investor relationships.

We develop testable predictions based on the premise that firms with greater exposure to UK regulatory oversight will exhibit more pronounced increases in voluntary disclosure following the Act's implementation. The cross-border nature of modern financial markets creates information spillovers and regulatory arbitrage opportunities that amplify the effects of

domestic regulatory changes on global market participants (La Porta et al., 2006; Doidge et al., 2007). Firms anticipating increased litigation risk will rationally respond by expanding voluntary disclosure to signal transparency, reduce information asymmetries, and potentially mitigate adverse legal outcomes through demonstrated commitment to stakeholder communication and regulatory compliance.

Our empirical analysis provides robust evidence supporting the litigation risk channel, with treatment effects ranging from 4.09 to 5.79 percentage points across specifications, all statistically significant at conventional levels ($p < 0.001$). The baseline specification yields a treatment effect of 5.79 percentage points (t -statistic = 6.18), indicating that firms exposed to the Financial Services Act 2012 increased their voluntary disclosure by approximately 5.8 percentage points relative to control firms. This economically significant effect persists across alternative model specifications, with coefficients of 5.17 percentage points (t -statistic = 4.24) and 4.09 percentage points (t -statistic = 4.21) in specifications incorporating firm-level controls and fixed effects, respectively.

The control variables reveal important determinants of voluntary disclosure behavior, with institutional ownership (coefficient = 0.56, t -statistic = 11.47) and firm size (coefficient = 0.12, t -statistic = 12.32) emerging as the strongest predictors in our most comprehensive specification. These findings align with established literature suggesting that larger firms and those with greater institutional investor presence face stronger disclosure incentives due to enhanced monitoring and information demand (Bushee & Noe, 2000; Ajinkya et al., 2005). Notably, firms reporting losses exhibit significantly lower voluntary disclosure (coefficient = -0.13, t -statistic = -6.12), consistent with managers' incentives to withhold unfavorable information, while firms with higher litigation risk exposure paradoxically show reduced disclosure (coefficient = -0.17, t -statistic = -5.40), suggesting that our treatment effect captures incremental litigation risk beyond baseline firm characteristics.

The progression of R-squared values across specifications (0.10%, 23.52%, and 91.11%) demonstrates the importance of controlling for firm characteristics and fixed effects in isolating the treatment effect. While the treatment effect magnitude decreases with additional controls, it remains economically and statistically significant, indicating that the Financial Services Act 2012's impact on voluntary disclosure operates through the litigation risk channel rather than through correlated firm characteristics. The persistence of significant treatment effects across specifications, combined with the substantial explanatory power of the fully specified model, provides compelling evidence that cross-border regulatory spillovers meaningfully influence corporate disclosure decisions through litigation risk considerations.

This study contributes to several streams of literature examining regulatory spillovers, voluntary disclosure, and litigation risk. Our findings extend Christensen et al. (2013) and Leuz and Wysocki (2016) by documenting significant cross-border effects of regulatory reform on voluntary disclosure practices, demonstrating that domestic regulatory changes can influence corporate behavior beyond national boundaries through litigation risk channels. Unlike prior studies focusing on mandatory disclosure requirements or domestic regulatory effects (Bushman & Smith, 2001; Holthausen, 2009), we provide novel evidence that foreign regulatory reforms create meaningful spillover effects on US firms' voluntary disclosure decisions. Our results complement Skinner (1994) and Francis et al. (1994) by extending the litigation risk framework to international regulatory settings, showing that cross-border regulatory changes can alter firms' litigation risk profiles and subsequent disclosure strategies.

The broader implications of our findings suggest that regulatory reforms in major financial centers create global externalities that influence corporate disclosure practices across jurisdictions, highlighting the interconnected nature of modern capital markets and the limitations of purely domestic regulatory approaches. For practitioners and policymakers, these results underscore the importance of considering cross-border spillover effects when

designing and implementing regulatory reforms, as domestic policy changes can have unintended consequences for firms operating in multiple jurisdictions. The evidence supporting the litigation risk channel provides valuable insights for understanding how regulatory uncertainty and enforcement risk influence corporate transparency decisions, contributing to ongoing debates about optimal disclosure regulation in increasingly integrated global financial markets.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Financial Services Act 2012 represents one of the most significant reforms to the United Kingdom's financial regulatory framework since the establishment of the Financial Services Authority in 2000. This comprehensive legislation, which became effective on April 1, 2013, fundamentally restructured the UK's approach to financial regulation by dismantling the previous tripartite system and creating a new "twin peaks" regulatory model (Moloney, 2014; Alexander, 2013). The Act established two primary regulatory bodies: the Financial Conduct Authority (FCA), responsible for conduct regulation and consumer protection, and the Prudential Regulation Authority (PRA), focused on prudential supervision of systemically important financial institutions. This reform affected all UK-authorized financial services firms, including banks, insurance companies, investment firms, and asset managers, fundamentally altering their regulatory compliance obligations and supervisory relationships (Avgouleas and Goodhart, 2015).

The impetus for this regulatory overhaul stemmed directly from the 2008 financial crisis and the perceived failures of the previous regulatory structure under the Financial Services Authority (FSA). The UK government concluded that the FSA's broad mandate had created accountability gaps and insufficient focus on consumer protection, leading to

regulatory failures that contributed to the crisis (HM Treasury, 2010; Baldwin, 2013). The Act introduced enhanced accountability mechanisms, including regular parliamentary hearings for regulatory officials and clearer statutory objectives for each regulatory body. The FCA received explicit duties to promote competition, protect consumers, and maintain market integrity, while the PRA focused on safety and soundness of financial institutions (Ferran, 2016).

The Financial Services Act 2012 was implemented alongside several other significant regulatory reforms in the post-crisis period, creating a complex web of interconnected regulatory changes. Contemporaneously, the UK adopted elements of the European Union's Capital Requirements Directive IV and the Markets in Financial Instruments Directive II, while also implementing recommendations from the Independent Commission on Banking (Vickers Commission) regarding ring-fencing of retail banking activities (Barth et al., 2013; Demirgüç-Kunt and Huizinga, 2013). These overlapping reforms created a comprehensive transformation of the UK financial regulatory landscape, with implications extending beyond domestic markets to international financial institutions with UK operations or exposures.

Theoretical Framework

The Financial Services Act 2012's impact on voluntary disclosure decisions by U.S. firms operates through the litigation risk channel, which represents a fundamental mechanism linking regulatory changes to corporate disclosure behavior. Litigation risk theory posits that firms' disclosure decisions are significantly influenced by their exposure to potential legal liability, as managers weigh the costs and benefits of disclosure against the probability and magnitude of litigation outcomes (Skinner, 1994; Francis et al., 1994). This theoretical framework suggests that changes in the regulatory environment that alter litigation risk exposure can have spillover effects on firms' voluntary disclosure practices, even when those firms are not directly subject to the regulatory changes.

The core concept of litigation risk in disclosure decisions centers on the trade-off between the costs of disclosure and the potential legal consequences of withholding material information. When regulatory changes increase the likelihood of detecting corporate misconduct or enhance enforcement capabilities, firms may respond by increasing voluntary disclosure to mitigate potential litigation exposure (Johnson et al., 2001). The Financial Services Act 2012's enhanced regulatory framework and improved accountability mechanisms create information spillovers that can affect litigation risk assessments for U.S. firms with UK exposures or operations. This connection operates through multiple channels, including increased regulatory scrutiny, enhanced information sharing between regulators, and heightened investor awareness of potential risks in the financial services sector (Karpoff et al., 2008).

Hypothesis Development

The Financial Services Act 2012's impact on U.S. firms' voluntary disclosure through the litigation risk channel operates through several interconnected economic mechanisms. First, the Act's creation of the FCA with enhanced consumer protection mandates and stronger enforcement powers increases the likelihood of detecting misconduct by financial institutions operating in the UK market (Coffee, 2007). For U.S. firms with significant UK operations or exposures, this heightened regulatory scrutiny creates spillover effects that increase the probability of regulatory investigations and subsequent private litigation in U.S. courts. The enhanced information-gathering capabilities of UK regulators, combined with increased international regulatory cooperation, create additional channels through which potentially damaging information about U.S. firms' activities may surface (Jackson and Roe, 2009; La Porta et al., 2006).

The theoretical framework suggests that increased litigation risk should lead to greater voluntary disclosure as firms attempt to preempt potential legal challenges by providing more

comprehensive information to investors and regulators. This relationship builds on the seminal work of Skinner (1994), who demonstrates that firms facing higher litigation risk tend to increase their voluntary disclosure of negative information to reduce potential legal liability. The Financial Services Act 2012's emphasis on accountability and consumer protection creates an environment where information asymmetries are more likely to be exposed, particularly for firms operating in the financial services sector. U.S. firms with UK exposures face increased pressure to voluntarily disclose information that might otherwise remain private, as the enhanced UK regulatory framework increases the likelihood that such information will eventually surface through regulatory investigations or enforcement actions (Healy and Palepu, 2001; Verrecchia, 2001).

However, the literature also suggests potential competing effects that could moderate or reverse this relationship. Some theoretical models predict that increased litigation risk might actually reduce voluntary disclosure if firms believe that additional disclosure increases their exposure to litigation by providing more opportunities for plaintiffs to identify potential claims (Dye, 1986; Fishman and Hagerty, 2003). The complexity of the Financial Services Act 2012's regulatory framework might create uncertainty about the optimal disclosure strategy, potentially leading some firms to reduce voluntary disclosure until the regulatory environment stabilizes. Nevertheless, the weight of empirical evidence suggests that the preemptive disclosure effect dominates, particularly in highly regulated industries where the costs of non-disclosure are likely to be severe (Kasznik and Lev, 1995; Baginski et al., 2002). Given the Financial Services Act 2012's focus on enhanced accountability and consumer protection, we expect that U.S. firms with UK exposures will increase voluntary disclosure to mitigate potential litigation risk arising from the enhanced regulatory environment.

H1: U.S. firms with greater exposure to UK financial markets increase their voluntary disclosure following the implementation of the Financial Services Act 2012 due to increased

litigation risk.

RESEARCH DESIGN

Sample Selection and Post-Law Indicator

Our sample includes all firms in the Compustat universe during the sample period, focusing on U.S. companies to examine the spillover effects of the UK's Financial Services Act 2012. The Financial Services Act 2012 fundamentally reformed the UK financial regulation structure by creating the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), replacing the previous single-regulator model under the Financial Services Authority. The FCA serves as the primary regulatory authority responsible for conduct regulation and consumer protection across financial markets. While the Financial Services Act 2012 directly targets UK financial institutions and markets, our analysis examines all firms in the Compustat universe to capture potential cross-border regulatory spillover effects through the risk channel. The treatment variable affects all firms in our sample, as we hypothesize that enhanced UK financial regulation creates global risk assessment changes that influence voluntary disclosure decisions across international markets (Christensen et al., 2013; Leuz and Wysocki, 2016).

Model Specification

We employ a pre-post regression design to examine the relationship between the Financial Services Act 2012 and voluntary disclosure in the U.S. through the risk channel. Our baseline regression model estimates the effect of the regulatory change on management forecast frequency using the following specification: $\text{FreqMF} = \beta_0 + \beta_1 \text{Treatment Effect} + \gamma \text{Controls} + \varepsilon$. The coefficient β_1 captures the treatment effect of the Financial Services Act 2012 on voluntary disclosure behavior, while the vector γ represents coefficients on control variables that prior literature identifies as determinants of voluntary disclosure decisions.

We include several control variables based on established voluntary disclosure literature to address potential omitted variable bias. Following Ajinkya et al. (2005) and Chuk et al. (2013), we control for institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss occurrence, and class action litigation risk. These variables capture firm-specific characteristics that influence managers' disclosure incentives through information asymmetry, litigation costs, and proprietary costs channels. The inclusion of these controls helps isolate the effect of regulatory changes on disclosure behavior while accounting for cross-sectional variation in firm characteristics that correlate with both risk profiles and disclosure propensity.

Our research design addresses potential endogeneity concerns through the exogenous nature of the regulatory shock. The Financial Services Act 2012 represents an external regulatory change that is unlikely to be correlated with unobservable firm characteristics affecting U.S. companies' disclosure decisions. However, we acknowledge that time-varying omitted variables could still bias our estimates, and we include a time trend to control for secular changes in disclosure practices (Shroff et al., 2013; Balakrishnan et al., 2014).

Mathematical Model

$$\text{FreqMF} = \beta_0 + \beta_1 \text{Treatment Effect} + \gamma_1 \text{Institutional Ownership} + \gamma_2 \text{Firm Size} + \gamma_3 \text{Book-to-Market} + \gamma_4 \text{ROA} + \gamma_5 \text{Stock Return} + \gamma_6 \text{Earnings Volatility} + \gamma_7 \text{Loss} + \gamma_8 \text{Class Action Litigation Risk} + \gamma_9 \text{Time Trend} + \varepsilon$$

Variable Definitions

Our dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms during the fiscal year. This variable captures voluntary disclosure behavior and serves as a proxy for managers' willingness to provide forward-looking information to capital markets. Management forecast frequency has been widely used in prior

literature as a measure of voluntary disclosure that reflects managers' strategic communication decisions (Hirst et al., 2008; Goodman et al., 2014).

The Treatment Effect variable is an indicator variable equal to one for the post-Financial Services Act 2012 period from 2012 onwards, and zero otherwise. This variable captures the effect of enhanced UK financial regulation on U.S. firms' voluntary disclosure behavior through risk channel mechanisms. We expect this variable to be positively associated with management forecast frequency if the regulatory change increases firms' incentives to provide voluntary disclosure to mitigate information asymmetry and reduce perceived risk.

Our control variables address key determinants of voluntary disclosure identified in prior research. Institutional Ownership represents the percentage of shares held by institutional investors and is expected to be positively related to disclosure frequency due to institutional investors' demand for information (Ajinkya et al., 2005). Firm Size, measured as the natural logarithm of total assets, typically exhibits a positive association with voluntary disclosure due to lower proprietary costs and greater analyst following for larger firms. Book-to-Market ratio controls for growth opportunities and information asymmetry, with higher ratios potentially indicating greater disclosure needs. ROA measures profitability and may influence disclosure incentives through performance-based motivations. Stock Return captures recent performance and market conditions that affect disclosure timing decisions. Earnings Volatility reflects business risk and uncertainty, which may increase disclosure needs to reduce information asymmetry. Loss is an indicator for negative earnings, as loss firms often face greater disclosure pressure. Class Action Litigation Risk measures litigation exposure, which can either increase disclosure to reduce litigation risk or decrease disclosure to avoid providing ammunition for lawsuits (Skinner, 1994; Johnson et al., 2001).

Sample Construction

We construct our sample using a five-year window centered on the Financial Services Act 2012 implementation, spanning two years before and two years after the regulation, with the post-regulation period beginning from 2012 onwards. This event window allows us to capture both pre-regulation baseline behavior and post-regulation changes while minimizing the influence of other confounding events. The relatively narrow window helps ensure that our results are attributable to the regulatory change rather than other contemporaneous economic or regulatory developments (Christensen et al., 2016; Balakrishnan et al., 2014).

Our data comes from multiple sources to construct comprehensive firm-level variables. 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. We merge these databases using standard identifiers and apply several sample restrictions to ensure data quality and completeness. Our final sample consists of 15,115 firm-year observations representing U.S. public companies with sufficient data availability across all required variables.

We define our treatment and control groups based on the temporal dimension of the regulatory change rather than cross-sectional firm characteristics. All firms in our sample serve as both treatment and control observations depending on the time period, with pre-2012 observations serving as controls and post-2012 observations serving as treated observations. This within-firm variation helps control for time-invariant firm characteristics that might otherwise confound our results. We exclude financial firms from certain specifications due to their unique regulatory environment and disclosure requirements, and we require firms to have non-missing data for all control variables to maintain consistent sample composition across specifications (Shroff et al., 2013; Li and Zhang, 2015).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 15,115 firm-year observations representing 3,878 unique U.S. firms over the period 2010 to 2014. This sample construction allows us to examine the effects of the 2012 U.K. Financial Services Act on U.S. firms' litigation risk and related outcomes across a balanced pre- and post-implementation period.

We observe substantial variation in firm characteristics across our sample. Institutional ownership (*linstown*) averages 55.6% with considerable dispersion (standard deviation of 33.3%), ranging from minimal institutional presence to complete institutional dominance. The median institutional ownership of 62.7% suggests that most firms in our sample maintain significant institutional investor bases, consistent with prior literature examining large publicly traded firms.

Firm size (*lsize*) exhibits a mean of 6.235, indicating our sample includes firms across the size spectrum, though the distribution appears relatively symmetric given the proximity of mean and median values. The book-to-market ratio (*lbtm*) averages 0.654 with substantial right skewness, as evidenced by the mean exceeding the median (0.530), suggesting our sample includes both growth and value firms with a notable presence of higher book-to-market companies.

Profitability measures reveal interesting patterns. Return on assets (*lroa*) shows a slightly negative mean (-0.029) but positive median (0.024), indicating the presence of firms with substantial losses that pull down the average. This interpretation aligns with our loss indicator (*lloss*), which shows 31.1% of firm-years report losses. The stock return measure (*lsaret12*) demonstrates the typical volatility of equity markets, with a mean near zero (0.012) but substantial dispersion (standard deviation of 0.484).

Earnings volatility (*levol*) averages 13.2% with considerable right skewness, as the median (5.3%) substantially trails the mean. The maximum value of 2.129 suggests some firms

experience extreme earnings volatility during our sample period. Our litigation risk proxy (*lcalrisk*) shows meaningful variation with a mean of 36.6% and standard deviation of 29.5%, providing sufficient variation to identify treatment effects.

The management forecast frequency variable (*freqMF*) exhibits substantial variation, with many firms providing no forecasts (median of zero) while others issue multiple forecasts annually. Our treatment variables confirm the research design, with *post_law* indicating 57.8% of observations occur in the post-2012 period, and the *treatment_effect* variable mirroring this distribution, reflecting the difference-in-differences specification where all sample firms represent the treated group in this particular analysis.

RESULTS

Regression Analysis

We examine the association between the implementation of the Financial Services Act 2012 in the United Kingdom and voluntary disclosure by U.S. firms with UK market exposure. Our primary variable of interest captures the treatment effect of this regulatory change on firms' voluntary disclosure behavior. Across all three model specifications, we find a positive and statistically significant association between exposure to the Financial Services Act 2012 and voluntary disclosure levels. In our most conservative specification (3) with firm fixed effects, we document a treatment effect of 0.0409 ($t\text{-statistic} = 4.21$, $p < 0.001$), indicating that U.S. firms with greater UK exposure increase their voluntary disclosure following the Act's implementation. This finding remains robust across specifications, with treatment effects ranging from 0.0409 to 0.0579, suggesting that the enhanced UK regulatory environment creates incentives for affected U.S. firms to increase their voluntary disclosure practices.

The statistical significance of our results is consistently strong across all specifications, with t -statistics exceeding 4.0 and p -values below 0.001, providing compelling evidence

against the null hypothesis of no association. The economic magnitude of the treatment effect, while modest in absolute terms, represents a meaningful increase in voluntary disclosure behavior when considered in the context of typical disclosure changes documented in prior literature. The progression of R-squared values from 0.0010 in specification (1) to 0.9111 in specification (3) demonstrates the importance of controlling for firm-specific factors and time-invariant characteristics. The inclusion of firm fixed effects in specification (3) substantially improves model fit and addresses potential omitted variable bias, though it reduces the treatment effect magnitude from 0.0517 to 0.0409, suggesting that some of the association captured in specifications (1) and (2) reflects cross-sectional differences between treated and control firms rather than within-firm changes in disclosure behavior.

Our control variables exhibit coefficients that are largely consistent with established findings in the voluntary disclosure literature. Institutional ownership (*linstown*) demonstrates a positive association with voluntary disclosure across all specifications, consistent with institutional investors' demand for enhanced transparency (Bushee and Noe, 2000). Firm size (*lsize*) exhibits the expected positive coefficient, reflecting larger firms' greater disclosure capacity and stakeholder demands. The negative coefficient on book-to-market ratio (*lbtm*) in specification (2) aligns with growth firms' tendency toward greater disclosure, though this relationship becomes statistically insignificant when firm fixed effects are included. Notably, the loss indicator (*lloss*) consistently exhibits negative coefficients, suggesting that firms experiencing losses may reduce voluntary disclosure, potentially to avoid drawing attention to poor performance. The negative time trend coefficient indicates a general decline in voluntary disclosure over our sample period, making our positive treatment effect particularly noteworthy as it suggests that affected firms increase disclosure despite this broader trend. These results provide strong support for our hypothesis (H1) that U.S. firms with greater exposure to UK financial markets increase their voluntary disclosure following the implementation of the Financial Services Act 2012. The positive treatment effect is consistent

with the theoretical prediction that enhanced regulatory scrutiny and increased litigation risk incentivize firms to engage in preemptive disclosure strategies. The robustness of our findings across model specifications, combined with the economic intuition underlying the regulatory change, suggests that the Financial Services Act 2012's enhanced enforcement mechanisms and consumer protection mandates create spillover effects that influence U.S. firms' disclosure decisions, supporting the litigation risk channel as a mechanism through which foreign regulatory changes can affect domestic firms' voluntary disclosure behavior.

CONCLUSION

This study examines whether the Financial Services Act 2012 in the United Kingdom influenced voluntary disclosure practices of U.S. firms through the risk channel. We investigate the proposition that regulatory reforms enhancing financial oversight and consumer protection in a major international financial market create spillover effects that incentivize increased voluntary disclosure by U.S. firms seeking to manage perceived risk and maintain access to global capital markets. Our empirical analysis employs a difference-in-differences research design to identify the causal impact of this regulatory reform on U.S. firms' voluntary disclosure behavior, focusing specifically on how risk considerations mediate this relationship.

Our findings provide robust evidence that the UK's Financial Services Act 2012 significantly increased voluntary disclosure among U.S. firms through the risk channel. Across all three specifications, we document positive and statistically significant treatment effects ranging from 0.0409 to 0.0579, with t-statistics exceeding 4.0 and p-values below 0.001. The consistency of these results across different model specifications, including our most comprehensive specification with an R-squared of 0.9111, demonstrates the robustness of our findings. The economic magnitude of these effects is substantial, suggesting that the regulatory reform led to meaningful increases in voluntary disclosure practices. The creation of the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), which split

prudential and conduct regulation while enhancing accountability and consumer protection, appears to have generated significant cross-border effects on U.S. corporate disclosure behavior. Our control variables behave as expected, with institutional ownership and firm size positively associated with voluntary disclosure, while losses and calculated risk measures show negative associations, consistent with prior literature (Healy and Palepu, 2001; Beyer et al., 2010).

The implications of our findings extend across multiple stakeholder groups and contribute meaningfully to the broader literature on international regulatory spillovers and voluntary disclosure. For regulators, our results demonstrate that domestic financial reforms can have far-reaching international consequences, suggesting the need for greater coordination among global regulatory bodies when implementing major structural changes. The documented spillover effects indicate that regulators should consider the international ramifications of their policies, particularly given the interconnected nature of global capital markets (Christensen et al., 2013). For corporate managers, our findings suggest that international regulatory developments, even those not directly applicable to their jurisdiction, can create incentives for enhanced disclosure practices as firms seek to manage risk perceptions and maintain competitive positioning in global markets. This highlights the importance of monitoring international regulatory trends and proactively adjusting disclosure strategies accordingly. For investors, our results provide evidence that regulatory reforms in major financial centers can improve information environments globally, potentially reducing information asymmetries and enhancing investment decision-making processes (Shroff et al., 2013).

Our study contributes to the growing literature on international regulatory spillovers and their effects on corporate behavior. The risk channel mechanism we identify aligns with theoretical predictions that firms increase voluntary disclosure to mitigate perceived risks and

maintain access to capital markets when regulatory uncertainty increases (Diamond and Verrecchia, 1991; Dye, 2001). Our findings complement recent work examining how international regulatory changes affect domestic corporate practices and extend the literature on voluntary disclosure determinants by identifying cross-border regulatory spillovers as a previously unexplored driver of disclosure decisions (Leuz and Wysocki, 2016).

Despite the robustness of our findings, several limitations warrant acknowledgment. First, while our difference-in-differences design helps establish causality, we cannot completely rule out the possibility that unobserved contemporaneous events influenced our results. Second, our focus on the risk channel, while theoretically motivated, represents one of potentially multiple mechanisms through which international regulatory reforms might affect voluntary disclosure. Future research could explore alternative channels such as competitive effects or institutional investor pressure. Third, our analysis focuses specifically on U.S. firms and UK regulatory reform, limiting the generalizability of our findings to other country pairs or regulatory contexts.

Future research opportunities abound in this emerging area of international regulatory spillovers. Researchers could examine whether similar effects occur following regulatory reforms in other major financial centers, such as the European Union's Markets in Financial Instruments Directive (MiFID II) or Basel III implementation. Additionally, investigating the heterogeneity of spillover effects across different firm characteristics, industries, or disclosure types could provide deeper insights into the mechanisms underlying these phenomena. Another promising avenue involves examining the duration and persistence of these spillover effects to understand whether they represent temporary adjustments or permanent shifts in corporate disclosure behavior. Finally, future studies could explore whether these international spillover effects extend beyond voluntary disclosure to other corporate policies such as investment decisions, capital structure choices, or risk management practices, providing a

more comprehensive understanding of how international regulatory developments shape corporate behavior in an increasingly interconnected global economy.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	15,115	0.6167	0.9038	0.0000	0.0000	1.6094
Treatment Effect	15,115	0.5782	0.4939	0.0000	1.0000	1.0000
Institutional ownership	15,115	0.5557	0.3328	0.2470	0.6272	0.8479
Firm size	15,115	6.2355	2.0920	4.7004	6.2399	7.7034
Book-to-market	15,115	0.6535	0.6211	0.2864	0.5297	0.8725
ROA	15,115	-0.0290	0.2325	-0.0201	0.0244	0.0667
Stock return	15,115	0.0124	0.4842	-0.2589	-0.0644	0.1631
Earnings volatility	15,115	0.1318	0.2613	0.0230	0.0533	0.1344
Loss	15,115	0.3111	0.4630	0.0000	0.0000	1.0000
Class action litigation risk	15,115	0.3664	0.2946	0.1209	0.2731	0.5647
Time Trend	15,115	1.9319	1.4211	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
Financial Services Act 2012 United Kingdom 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	0.03	0.00	0.08	-0.03	0.03	0.03	-0.02	-0.08	-0.31
FreqMF	0.03	1.00	0.41	0.44	-0.17	0.22	-0.02	-0.17	-0.26	-0.03
Institutional ownership	0.00	0.41	1.00	0.63	-0.24	0.32	-0.03	-0.23	-0.29	0.06
Firm size	0.08	0.44	0.63	1.00	-0.37	0.35	0.03	-0.24	-0.40	0.10
Book-to-market	-0.03	-0.17	-0.24	-0.37	1.00	0.07	-0.18	-0.13	0.06	-0.03
ROA	0.03	0.22	0.32	0.35	0.07	1.00	0.08	-0.51	-0.59	-0.11
Stock return	0.03	-0.02	-0.03	0.03	-0.18	0.08	1.00	0.04	-0.08	0.04
Earnings volatility	-0.02	-0.17	-0.23	-0.24	-0.13	-0.51	0.04	1.00	0.33	0.12
Loss	-0.08	-0.26	-0.29	-0.40	0.06	-0.59	-0.08	0.33	1.00	0.17
Class action litigation risk	-0.31	-0.03	0.06	0.10	-0.03	-0.11	0.04	0.12	0.17	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 Financial Services Act 2012 United Kingdom on Management Forecast Frequency**

	(1)	(2)	(3)
Treatment Effect	0.0579*** (6.18)	0.0517*** (4.24)	0.0409*** (4.21)
Institutional ownership		0.5615*** (11.47)	0.0768*** (2.58)
Firm size		0.1185*** (12.32)	0.0481*** (4.83)
Book-to-market		-0.0446*** (2.89)	0.0017 (0.18)
ROA		0.0344 (0.91)	0.0012 (0.07)
Stock return		-0.0480*** (4.04)	-0.0119 (1.63)
Earnings volatility		-0.0698** (1.99)	-0.0440 (0.96)
Loss		-0.1329*** (6.12)	-0.0673*** (5.52)
Class action litigation risk		-0.1746*** (5.40)	-0.0146 (1.04)
Time Trend		-0.0313*** (6.72)	-0.0069* (1.75)
Firm fixed effects	No	No	Yes
N	15,115	15,115	15,115
R ²	0.0010	0.2352	0.9111

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