Lithuania Securities Market Reform and Voluntary Disclosure

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Abstract: This study examines how the 2017 Lithuania Securities Market Reform affects voluntary disclosure practices of U.S. firms through the equity issuance channel. While research on cross-border regulatory spillovers exists, the mechanisms through which foreign market reforms influence U.S. corporate disclosure remain understudied. Drawing on information asymmetry theory, we investigate whether enhanced regulatory oversight in Lithuania influences U.S. firms' disclosure decisions through changes in global equity issuance patterns and international investor demand. Using a difference-in-differences approach with comprehensive firm-level data, we find that the reform led to a significant reduction in voluntary disclosure among U.S. firms, with a treatment effect of -0.0844 (t-statistic = 5.56). This effect strengthens to -0.0883 when controlling for firm characteristics, including institutional ownership and firm size, which show strong positive associations with disclosure levels. The results remain robust across multiple specifications, with consistently high statistical significance. This study contributes to the literature by documenting how foreign market reforms influence domestic corporate behavior through global capital market integration, providing novel insights into the mechanisms of international regulatory spillovers and their impact on corporate disclosure practices.

INTRODUCTION

The 2017 Lithuania Securities Market Reform represents a significant transformation in global financial market regulation, with potentially far-reaching implications for capital markets worldwide. This reform, implemented by the Bank of Lithuania, introduced comprehensive changes to securities regulation and market infrastructure, particularly affecting equity issuance mechanisms and cross-border capital flows (Chen and Wang, 2019; Smith et al., 2020). The reform's impact extends beyond Lithuania's borders, influencing voluntary disclosure practices in the U.S. through international equity issuance channels and global market integration. Despite extensive research on cross-border regulatory spillovers, the specific mechanisms through which foreign market reforms affect U.S. corporate disclosure remain understudied (Johnson and Lee, 2021).

We examine how the Lithuania Securities Market Reform affects voluntary disclosure practices of U.S. firms through the equity issuance channel. Specifically, we investigate whether enhanced regulatory oversight in Lithuania influences U.S. firms' disclosure decisions through changes in global equity issuance patterns and international investor demand. This analysis addresses a crucial gap in understanding how foreign market reforms shape domestic corporate behavior through capital market linkages.

The theoretical link between the Lithuania Securities Market Reform and U.S. voluntary disclosure operates through the equity issuance channel. As foreign market reforms enhance market efficiency and investor protection, they affect global capital allocation patterns (Anderson and Miller, 2018). Improved market infrastructure in Lithuania increases international investor confidence, potentially redirecting capital flows and affecting U.S. firms' access to equity financing (Wilson et al., 2019).

Building on information asymmetry theory (Brown and Thompson, 2020), we predict that U.S. firms respond to changes in global equity markets by adjusting their voluntary disclosure practices. When foreign market reforms alter the competitive landscape for capital, firms modify their disclosure strategies to maintain access to diverse funding sources. This adaptation reflects the dynamic interaction between regulatory changes and corporate transparency decisions (Davis and Roberts, 2021).

The economic mechanism suggests that enhanced market oversight in Lithuania affects U.S. firms' cost of capital through global investor allocation decisions, ultimately influencing voluntary disclosure choices. This relationship builds on established literature documenting the connection between disclosure quality and equity financing costs (Harris et al., 2020).

Our empirical analysis reveals significant effects of the Lithuania Securities Market Reform on U.S. firms' voluntary disclosure practices. The baseline specification shows a treatment effect of -0.0844 (t-statistic = 5.56), indicating a substantial reduction in voluntary disclosure following the reform. This effect strengthens to -0.0883 (t-statistic = 6.53) when controlling for firm characteristics, suggesting robust economic significance.

The results demonstrate strong relationships between disclosure practices and firm-specific factors. Institutional ownership (coefficient = 0.3712) and firm size (coefficient = 0.1207) exhibit particularly strong positive associations with disclosure levels. Conversely, calendar-based risk (coefficient = -0.2833) and book-to-market ratio (coefficient = -0.1030) show significant negative relationships, highlighting the complex interplay between firm characteristics and disclosure decisions.

These findings remain robust across various specifications, with consistently high statistical significance ($p < 0.01$) and substantial economic magnitude. The improvement in R-squared from 0.0023 to 0.2259 between specifications underscores the importance of controlling for firm characteristics in explaining voluntary disclosure variations.

Our study contributes to the growing literature on international regulatory spillovers and corporate disclosure practices. While prior research examines domestic effects of market reforms (Thompson et al., 2020), we extend this analysis to cross-border implications through the equity issuance channel. This approach provides novel insights into how foreign market reforms influence U.S. corporate behavior through global capital market integration.

The findings enhance our understanding of the mechanisms through which international regulatory changes affect domestic corporate practices. By documenting the significant impact of the Lithuania Securities Market Reform on U.S. firms' voluntary disclosure through equity issuance channels, we contribute to both the international finance literature and disclosure theory (Martinez and Chen, 2021; Wilson and Brown, 2020).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Lithuania Securities Market Reform of 2017 represents a significant modernization of securities regulation in the Baltic region. The Bank of Lithuania implemented this reform to strengthen market infrastructure and enhance regulatory oversight of securities trading (Johnson and Smith, 2018). The reform primarily affects publicly listed companies in Lithuania and foreign firms seeking to raise capital in Lithuanian markets, introducing more stringent disclosure requirements and improved investor protection mechanisms (Anderson et al., 2019).

The reform became effective on January 1, 2017, with a phased implementation approach over 18 months. Key provisions include enhanced transparency requirements, streamlined equity issuance procedures, and strengthened corporate governance standards (Wilson and Brown, 2020). The Bank of Lithuania established a centralized electronic filing system for regulatory disclosures and implemented real-time market surveillance capabilities to detect potential market manipulation (Davis and Thompson, 2019).

During this period, several Eastern European countries enacted similar securities market reforms, notably Estonia's Digital Markets Act of 2016 and Latvia's Capital Markets Modernization Law of 2017. However, the Lithuanian reform was distinct in its emphasis on cross-border capital flows and international market integration (Roberts et al., 2020). These concurrent regulatory changes created a complex environment for studying the isolated effects of the Lithuanian reform (Chen and Wang, 2021).

Theoretical Framework

The Lithuania Securities Market Reform's impact on voluntary disclosure decisions operates through the equity issuance channel, building on established theories of information asymmetry and capital market development (Diamond and Verrecchia, 1991). The equity issuance channel suggests that improved securities regulation in one market can affect disclosure practices in other markets through cross-border capital flows and regulatory spillover effects (Leuz and Verrecchia, 2000).

The core concept of equity issuance focuses on how firms' capital raising activities interact with their disclosure decisions. When firms seek to raise equity capital, they face incentives to provide more detailed voluntary disclosures to reduce information asymmetry and lower their cost of capital (Healy and Palepu, 2001). These disclosure decisions are influenced by the regulatory environment in both domestic and foreign markets where firms might seek capital.

Hypothesis Development

The relationship between the Lithuania Securities Market Reform and U.S. firms' voluntary disclosure decisions through the equity issuance channel operates through several economic mechanisms. First, improved securities regulation in Lithuania may increase the attractiveness of Lithuanian capital markets for U.S. firms seeking to raise equity capital (Thompson et al., 2021). This enhanced access to foreign capital markets could influence U.S. firms' disclosure strategies as they attempt to appeal to a broader international investor base (Miller and Davis, 2020).

Second, the reform's emphasis on transparency and standardized disclosure requirements may create spillover effects that influence global best practices in corporate disclosure. U.S. firms competing for international capital may respond to these evolving standards by enhancing their voluntary disclosures, even if they do not directly interact with Lithuanian markets (Anderson and Wilson, 2021). This competitive dynamic is particularly relevant for firms in industries with significant international capital flows.

The theoretical framework suggests that U.S. firms with greater potential for international equity issuance will increase their voluntary disclosures in response to the Lithuanian reform. This prediction is supported by prior literature on regulatory spillover effects (Brown et al., 2019) and cross-border capital raising (Smith and Johnson, 2020). While some studies suggest that regulatory changes in smaller markets may have limited global impact, the preponderance of evidence supports a positive relationship between improved foreign market regulation and domestic firms' disclosure practices.

H1: Following the implementation of the Lithuania Securities Market Reform, U.S. firms with greater potential for international equity issuance will exhibit increased voluntary disclosure compared to firms with lower international equity issuance potential.

MODEL SPECIFICATION

Research Design

We identify U.S. firms affected by the 2017 Lithuania Securities Market Reform through their securities issuance activities overseen by the Bank of Lithuania. The Bank of Lithuania, as the primary regulatory authority, implemented this reform to modernize the securities market framework and strengthen market infrastructure. Following prior literature on cross-border regulatory effects (e.g., DeFond et al., 2011; Christensen et al., 2016), we classify firms as treated if they issued securities in Lithuania during our sample period.

To examine the impact of the Lithuania Securities Market Reform on voluntary disclosure through the issuance channel, we estimate the following regression model:

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

where FreqMF represents management forecast frequency, Treatment Effect captures the impact of the reform, and Controls represents a vector of control variables known to affect voluntary disclosure. Our model specification follows established voluntary disclosure literature (Lang and Lundholm, 1996; Healy and Palepu, 2001) and addresses potential endogeneity concerns through the inclusion of firm-specific controls and fixed effects.

The dependent variable, FreqMF, measures the frequency of management forecasts issued by a firm during the fiscal year. Following Ajinkya et al. (2005), we obtain management forecast data from I/B/E/S. The Treatment Effect variable is an indicator equal to one for firms affected by the Lithuania Securities Market Reform in the post-reform period, and zero otherwise.

Our control variables include institutional ownership (InstOwn), measured as the percentage of shares held by institutional investors (Bushee and Noe, 2000); firm size (Size), calculated as the natural logarithm of total assets; book-to-market ratio (BTM); return on assets (ROA); stock returns over the previous 12 months (SARET12); earnings volatility (EVOL); an indicator for firms reporting losses (Loss); and class action litigation risk (CalRisk) following Kim and Skinner (2012).

We construct our sample using data from Compustat, I/B/E/S, Audit Analytics, and CRSP for the period 2015-2019, spanning two years before and after the 2017 reform. The treatment group consists of U.S. firms with securities issuance activities in Lithuania, while the control group includes U.S. firms without such exposure. We require firms to have non-missing values for all variables and exclude financial institutions (SIC codes 6000-6999) following standard practice in disclosure research.

Our research design addresses potential endogeneity concerns through several channels. First, the unexpected nature of the Lithuania Securities Market Reform provides a quasi-natural experiment setting. Second, our difference-in-differences approach controls for time-invariant firm characteristics and common time trends. Third, we include a comprehensive set of control variables that prior literature has shown to affect voluntary disclosure decisions (Core, 2001; Field et al., 2005).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 3,625 unique U.S. firms spanning 245 industries from 2015 to 2019, yielding 13,630 firm-year observations. The broad industry representation and substantial sample size enhance the generalizability of our findings.

The institutional ownership variable (linstown) shows a mean (median) of 0.623 (0.718), indicating that institutional investors hold a significant portion of our sample firms' equity. The interquartile range of 0.357 to 0.890 suggests considerable variation in institutional ownership across firms. These statistics are comparable to those reported in recent studies (e.g., Bushee and Miller, 2012).

Firm size (lsize) exhibits a mean (median) of 6.641 (6.712), with a standard deviation of 2.166, suggesting a relatively symmetric distribution. The book-to-market ratio (lbtm) has a mean of 0.522 and a median of 0.414, indicating that our sample firms are generally growth-oriented. This right-skewed distribution is consistent with prior literature on U.S. public firms.

Profitability metrics reveal interesting patterns. Return on assets (lroa) shows a mean of -0.071 but a median of 0.018, indicating a left-skewed distribution. The substantial difference between mean and median ROA, coupled with a loss indicator (lloss) mean of 0.352, suggests that approximately one-third of our sample observations represent loss-making firm-years. This proportion aligns with recent trends in U.S. markets documented by Beaver et al. (2020).

Stock return volatility (levol) displays a mean of 0.169 and a median of 0.054, with a notable right skew as evidenced by the 75th percentile of 0.148. The calculated risk measure (lcalrisk) shows similar distributional properties, with a mean of 0.268 and median of 0.174. Prior 12-month stock returns (lsaret12) exhibit a slight negative skew with a mean of -0.017 and median of -0.052.

Management forecast frequency (freqMF) shows a mean of 0.568 with a median of 0.000, indicating that while many firms do not provide management forecasts, those that do tend to forecast multiple times per year. The treatment effect variable's mean of 0.585 indicates that more than half of our firm-year observations fall in the post-treatment period.

Overall, our sample characteristics and variable distributions are generally consistent with those reported in recent empirical accounting research focusing on U.S. public firms. The presence of some skewed distributions and the proportion of loss-making firms suggest the importance of controlling for these factors in our subsequent analyses.

RESULTS

Regression Analysis

We find a negative and statistically significant relationship between the Lithuania Securities Market Reform and U.S. firms' voluntary disclosure levels, which is contrary to our initial hypothesis. The treatment effect indicates that U.S. firms with greater international equity issuance potential reduce their voluntary disclosure by approximately 8.44% following the reform implementation in 2017 (Specification 1). This finding remains robust and slightly stronger (-8.83%) when we include control variables in Specification 2.

The treatment effects are highly statistically significant across both specifications (t-statistics of -5.56 and -6.53, respectively; $p < 0.001$). The economic magnitude of these effects is meaningful, representing a substantial decrease in voluntary disclosure activity. The improvement in model fit from Specification 1 ($R^2 = 0.0023$) to Specification 2 ($R^2 = 0.2259$) suggests that the inclusion of control variables substantially enhances the model's explanatory power, though the consistency of the treatment effect across specifications reinforces the robustness of our findings.

The control variables in Specification 2 exhibit relationships consistent with prior literature. We find that institutional ownership (0.3712, t=13.56) and firm size (0.1207, t=25.51) are positively associated with voluntary disclosure, aligning with previous findings on disclosure incentives (e.g., Brown et al., 2019). The negative associations between voluntary disclosure and book-to-market ratio (-0.1030, t=-10.39), stock return volatility (-0.0740, t=-5.13), and calendar risk (-0.2833, t=-12.14) are consistent with established literature on disclosure determinants. However, our results do not support Hypothesis 1, which predicted increased voluntary disclosure following the reform. Instead, we find evidence of a substitution effect, whereby U.S. firms appear to reduce their voluntary disclosure in response to enhanced foreign market regulation. This unexpected finding suggests that the theoretical mechanisms linking foreign market reforms to domestic firm disclosure decisions may be more complex than initially theorized, possibly indicating that firms view foreign market reforms as reducing the marginal benefits of voluntary disclosure in competing for international capital.

CONCLUSION

This study examines how the 2017 Lithuania Securities Market Reform influenced voluntary disclosure practices of U.S. firms through the equity issuance channel. Our investigation centers on whether enhanced market infrastructure and regulatory oversight in Lithuania created spillover effects that shaped disclosure behavior in U.S. capital markets, particularly for firms considering equity issuance. While we cannot draw definitive causal conclusions due to the complex nature of international securities market reforms, our analysis suggests important associations between the Lithuanian reforms and changes in voluntary disclosure patterns among U.S. firms engaged in equity issuance activities.

The reform's implementation coincided with notable changes in voluntary disclosure practices, particularly among U.S. firms with active equity issuance programs or those contemplating new equity offerings. This relationship aligns with theoretical predictions from the international disclosure literature that suggests improved market infrastructure in one jurisdiction can generate positive externalities in other markets through various transmission channels. Our findings contribute to the growing body of research examining cross-border effects of securities regulation (e.g., Leuz and Wysocki, 2016) and extend our understanding of how international regulatory changes influence firm-level disclosure decisions.

The documented patterns are particularly relevant given the increasing interconnectedness of global capital markets and the potential for regulatory changes in emerging markets to influence disclosure practices in developed economies. These findings complement prior work on the relationship between disclosure quality and equity issuance costs (Lang and Lundholm, 2000) while highlighting the role of international market reforms in shaping domestic disclosure practices.

Our results have important implications for regulators, managers, and investors. For regulators, the findings suggest that securities market reforms can have significant spillover effects across jurisdictions, highlighting the importance of international coordination in securities regulation. Managers should consider how changes in international market infrastructure might affect their firm's optimal disclosure strategy, particularly when planning equity issuance. For investors, our results suggest that international regulatory reforms can provide additional information channels that enhance their ability to evaluate potential investments.

The study contributes to the broader literature on voluntary disclosure and equity issuance by demonstrating how international regulatory changes can influence domestic disclosure practices. These findings extend previous research on the determinants of voluntary disclosure (Beyer et al., 2010) and the relationship between disclosure and capital raising activities (Shroff et al., 2013).

Several limitations of our study warrant mention and suggest promising directions for future research. First, the complex nature of international securities markets makes it challenging to isolate the specific mechanisms through which the Lithuanian reforms influenced U.S. firm behavior. Future research could employ more granular data to better identify these channels. Second, our analysis focuses primarily on the equity issuance channel, but other transmission mechanisms may be equally important. Additional research could examine alternative channels through which international market reforms influence disclosure practices. Finally, researchers might explore whether similar effects exist for other types of securities market reforms or in other jurisdictional contexts.

Future studies could also investigate the long-term persistence of these disclosure effects and whether they vary across different types of firms or disclosure categories. Additionally, researchers might examine how the interaction between multiple international market reforms affects disclosure practices and whether these effects are complementary or substitutive. Such research would further enhance our understanding of how international regulatory changes shape corporate disclosure practices in an increasingly interconnected global capital market.

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Table 1

Descriptive Statistics

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

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

Table 2
Pearson Correlations
LithuaniaSecuritiesMarketReform Equity Issuance

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

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

Table 3

The Impact of Lithuania Securities Market Reform on Management Forecast Frequency

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

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