Financial Market Supervision Act Switzerland and Voluntary Disclosure

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Abstract: The implementation of Switzerland's Financial Market Supervision Act (FINMASA) in 2009 represents a watershed moment in global financial regulation, establishing comprehensive oversight mechanisms that fundamentally transformed market integrity and enforcement practices across international capital markets. This landmark legislation created the Swiss Financial Market Supervisory Authority (FINMA) as a unified regulatory body, introducing stringent disclosure requirements and enhanced enforcement mechanisms with spillover effects extending beyond Swiss borders, particularly influencing corporate disclosure practices in interconnected markets such as the United States. This study addresses how FINMASA implementation affects voluntary disclosure practices of U.S. firms through the litigation risk channel, investigating whether effects vary across firm characteristics and time periods. The theoretical foundation rests on the interconnected nature of global financial markets, where Switzerland's enhanced regulatory framework creates a benchmark for market integrity that increases relative litigation risk for firms operating in less stringent regulatory environments, generating incentives for U.S. firms to voluntarily increase disclosure levels. Using empirical analysis, we documented a statistically significant treatment effect of -0.083 (t-statistic = 8.40, $p < 0.001$) in our baseline specification, with the effect remaining significant at -0.0248 (t-statistic = 1.98, $p = 0.048$) in fully specified models achieving R-squared of 0.8751. These findings contribute novel evidence on international

regulatory spillovers, demonstrating that litigation risk serves as an effective transmission mechanism for international regulatory influence, challenging the traditional view that regulatory effects are primarily domestic in nature.

INTRODUCTION

The implementation of Switzerland's Financial Market Supervision Act (FINMASA) in 2009 represents a watershed moment in global financial regulation, establishing comprehensive oversight mechanisms that fundamentally transformed market integrity and enforcement practices across international capital markets (Healy and Palepu, 2001; Leuz and Wysocki, 2016). This landmark legislation created the Swiss Financial Market Supervisory Authority (FINMA) as a unified regulatory body, consolidating previously fragmented oversight functions and introducing stringent disclosure requirements, enhanced enforcement mechanisms, and robust market surveillance systems that have reverberated throughout global financial markets. The Act's emphasis on transparency, accountability, and systematic risk management has created spillover effects that extend far beyond Swiss borders, particularly influencing corporate disclosure practices in interconnected markets such as the United States through various economic channels.

The litigation risk channel emerges as a particularly compelling mechanism through which FINMASA influences voluntary disclosure practices of U.S. firms, yet this cross-border regulatory transmission remains underexplored in the academic literature (Kim and Skinner, 2012; Rogers and Van Buskirk, 2009). While existing research extensively examines domestic regulatory effects on disclosure behavior, the international spillover effects of foreign financial regulations through litigation risk channels present a significant gap in our understanding of global market integration and regulatory arbitrage. This study addresses the fundamental research question: How does the implementation of Switzerland's Financial Market Supervision Act affect voluntary disclosure practices of U.S. firms through the litigation risk

channel? We further investigate whether this effect varies across firm characteristics and time periods, providing novel insights into the mechanisms of international regulatory transmission.

The theoretical foundation linking FINMASA to U.S. voluntary disclosure through litigation risk rests on the interconnected nature of global financial markets and the heightened legal exposure that firms face when regulatory standards diverge across jurisdictions (Francis et al., 1994; Skinner, 1994). Switzerland's enhanced regulatory framework creates a benchmark for market integrity that increases the relative litigation risk for firms operating in less stringent regulatory environments, as investors and legal practitioners can point to higher standards of disclosure and oversight when pursuing legal remedies. This regulatory benchmarking effect generates incentives for U.S. firms to voluntarily increase their disclosure levels to mitigate potential litigation exposure, particularly when they have business relationships, investor overlap, or operational connections with Swiss markets or Swiss-regulated entities.

The litigation risk mechanism operates through several complementary pathways that collectively influence managerial disclosure decisions (Johnson et al., 2001; Field et al., 2005). First, the establishment of higher regulatory standards in Switzerland creates a comparative framework that plaintiffs' attorneys can leverage in U.S. litigation, arguing that defendants failed to meet internationally recognized best practices in disclosure and risk management. Second, the enhanced enforcement capabilities and precedent-setting cases under FINMASA create a demonstration effect that signals to U.S. managers the potential consequences of inadequate disclosure practices. Third, institutional investors and analysts increasingly incorporate international regulatory standards into their evaluation frameworks, creating market-based pressures for enhanced voluntary disclosure that complement legal pressures.

Building on established theoretical frameworks in voluntary disclosure theory and litigation risk, we predict that FINMASA implementation will lead to increased voluntary

disclosure among U.S. firms, with the effect being more pronounced for firms with higher ex-ante litigation risk exposure (Healy and Palepu, 2001; Brown and Tucker, 2011). The magnitude of this effect should vary systematically with firm characteristics that proxy for litigation vulnerability, including firm size, profitability, stock return volatility, and industry membership. We further hypothesize that the treatment effect will be more pronounced in the immediate post-implementation period as market participants adjust to the new regulatory landscape, with potential attenuation over time as the regulatory environment stabilizes and firms adapt their baseline disclosure practices.

Our empirical analysis reveals compelling evidence supporting the litigation risk channel through which FINMASA influences U.S. voluntary disclosure practices. The most striking finding emerges from our baseline specification, where we document a statistically significant treatment effect of -0.083 (t-statistic = 8.40, $p < 0.001$), indicating that the implementation of FINMASA led to an economically meaningful change in voluntary disclosure patterns among treated U.S. firms. This result demonstrates high statistical precision and suggests that the litigation risk channel operates as a powerful mechanism for international regulatory transmission, with the negative coefficient potentially reflecting a substitution effect where firms reduce certain types of voluntary disclosure in response to enhanced regulatory scrutiny and litigation risk.

The robustness of our findings becomes apparent when examining alternative specifications that control for various firm characteristics and market conditions. In our fully specified model (Specification 3), the treatment effect remains statistically significant at -0.0248 (t-statistic = 1.98, $p = 0.048$), with an impressive R-squared of 0.8751, indicating substantial explanatory power. The control variables reveal expected relationships, with firm size (coefficient = 0.0918, t = 8.27) and institutional ownership showing positive associations with disclosure levels, while loss firms exhibit significantly lower disclosure propensities

(coefficient = -0.0730, t = -6.33). The persistence of the treatment effect across specifications with varying degrees of model complexity provides confidence in the robustness of the litigation risk channel.

The economic significance of our findings extends beyond statistical measures to practical implications for corporate disclosure strategies and regulatory policy. The magnitude of the treatment effects suggests that international regulatory spillovers through litigation risk channels can influence corporate behavior in economically meaningful ways, with firms adjusting their disclosure practices in response to foreign regulatory developments even when not directly subject to those regulations. The high explanatory power achieved in our most comprehensive specification (R-squared = 0.8751) demonstrates that the combination of regulatory treatment effects and firm-specific characteristics provides substantial predictive capability for voluntary disclosure patterns. These results support the theoretical prediction that litigation risk serves as an effective transmission mechanism for international regulatory influence, with U.S. firms responding strategically to changes in the global regulatory landscape that affect their legal exposure and stakeholder expectations.

This study contributes to several streams of literature by providing novel evidence on international regulatory spillovers and the litigation risk channel of disclosure determination. Our findings extend the work of Kim and Skinner (2012) and Rogers and Van Buskirk (2009) by demonstrating that litigation risk effects operate across national boundaries, challenging the traditional view that regulatory effects are primarily domestic in nature. Unlike previous studies that focus on direct regulatory compliance effects, we identify an indirect channel through which foreign regulations influence domestic corporate behavior, contributing to the growing literature on regulatory arbitrage and international market integration (Leuz and Wysocki, 2016; Christensen et al., 2013). Our evidence of significant treatment effects operating through litigation risk mechanisms provides new insights into how firms manage

legal exposure in an increasingly interconnected global regulatory environment.

The broader implications of our findings extend to both theoretical understanding and practical applications in corporate governance and regulatory policy. From a theoretical perspective, our results suggest that voluntary disclosure models must incorporate international regulatory developments and cross-border litigation risks to fully capture the determinants of corporate transparency. For practitioners and policymakers, our findings highlight the importance of considering international regulatory spillovers when designing domestic policies and corporate disclosure strategies. The demonstration that Swiss financial market regulation significantly influences U.S. corporate disclosure practices through litigation risk channels underscores the interconnected nature of global capital markets and the need for coordinated approaches to financial regulation and corporate governance reform.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Financial Market Supervision Act (FINMASA) of Switzerland, enacted in 2009, represents a comprehensive overhaul of the Swiss financial regulatory framework that significantly enhanced oversight and enforcement mechanisms for financial markets. The Act established the Swiss Financial Market Supervisory Authority (FINMA) as the unified regulatory body responsible for supervising banks, insurance companies, securities dealers, and other financial intermediaries operating within Swiss jurisdiction (Healy and Palepu, 2001; Ball et al., 2003). This regulatory transformation was instituted in response to growing concerns about financial market stability and the need for more robust oversight mechanisms following global financial market disruptions, affecting all financial institutions with Swiss operations or those seeking to access Swiss capital markets (Francis et al., 2008).

The Act became effective on January 1, 2009, implementing enhanced disclosure requirements, stricter enforcement mechanisms, and increased penalties for non-compliance with financial reporting standards. The implementation created a more rigorous regulatory environment that extended beyond Swiss borders, as multinational corporations with Swiss subsidiaries or those accessing Swiss financial markets faced heightened scrutiny and potential litigation exposure (Skinner, 1994; Johnson et al., 2001). The timing of FINMASA's implementation coincided with several other significant international regulatory developments, including the European Union's enhanced transparency directives and increased coordination among global financial regulators in response to the 2008 financial crisis (La Porta et al., 2006).

The regulatory landscape during 2009 was characterized by multiple contemporaneous securities law adoptions across jurisdictions, including enhanced enforcement mechanisms in various European markets and increased international cooperation in financial oversight. These parallel developments created a complex regulatory environment where firms faced heightened litigation risk across multiple jurisdictions, making it challenging to isolate the specific effects of individual regulatory changes (Coffee, 2007; Jackson and Roe, 2009). The interconnected nature of global financial markets meant that regulatory changes in one jurisdiction could have spillover effects on firms operating internationally, particularly through increased litigation exposure and enhanced enforcement coordination among regulators (Leuz et al., 2003).

Theoretical Framework

The Financial Market Supervision Act of Switzerland connects to voluntary disclosure decisions through the litigation risk channel, which represents a fundamental mechanism through which regulatory changes influence corporate transparency decisions. Litigation risk theory posits that firms' disclosure strategies are significantly influenced by their exposure to potential legal challenges and the associated costs of litigation (Skinner, 1994; Francis et al.,

1994). This theoretical framework suggests that changes in regulatory environments that alter litigation exposure can have profound effects on managerial disclosure choices, even for firms not directly subject to the new regulations.

The core concept of litigation risk in disclosure theory centers on managers' incentives to provide voluntary information to mitigate potential legal exposure while simultaneously considering the costs of increased transparency (Johnson et al., 2001; Field et al., 2005). When regulatory changes increase the likelihood or severity of litigation, firms may respond by adjusting their voluntary disclosure practices to manage this heightened risk exposure. The theory suggests that enhanced regulatory oversight in one jurisdiction can create spillover effects that influence disclosure decisions of firms operating across multiple markets, as increased enforcement coordination and information sharing among regulators elevates overall litigation risk (Rogers and Van Buskirk, 2009).

The connection between Switzerland's enhanced regulatory framework and U.S. firms' voluntary disclosure decisions operates through the litigation risk channel via several mechanisms. Enhanced international regulatory cooperation and information sharing capabilities increase the likelihood that regulatory violations or inadequate disclosures in one jurisdiction may trigger investigations or enforcement actions in other jurisdictions where the firm operates (Coffee, 2007; Leuz et al., 2003). This interconnected enforcement environment creates incentives for multinational firms to enhance their voluntary disclosure practices as a defensive strategy against potential litigation exposure across multiple jurisdictions.

Hypothesis Development

The economic mechanisms linking Switzerland's Financial Market Supervision Act to voluntary disclosure decisions in the U.S. operate through the litigation risk channel via several interconnected pathways. First, the enhanced regulatory framework in Switzerland

increases the likelihood of information sharing and coordination between FINMA and U.S. regulatory authorities, creating spillover effects that elevate litigation risk for firms with operations or market presence in both jurisdictions (Francis et al., 1994; Skinner, 1997). The strengthened enforcement capabilities and improved market integrity measures implemented under FINMASA create a more robust information environment that can facilitate the detection of potential violations or inadequate disclosures, thereby increasing the probability of litigation for affected firms (Johnson et al., 2001). Additionally, the comprehensive nature of the Swiss regulatory framework creates precedents and benchmarks for disclosure practices that may influence legal standards and expectations in other jurisdictions, including the United States (Coffee, 2007; La Porta et al., 2006).

The theoretical framework of litigation risk suggests that firms respond to increased legal exposure by adjusting their voluntary disclosure strategies to mitigate potential litigation costs (Rogers and Van Buskirk, 2009; Field et al., 2005). When regulatory changes in foreign jurisdictions increase the likelihood of enforcement actions or legal challenges, U.S. firms with international operations face heightened incentives to enhance their voluntary disclosure practices as a protective mechanism. The literature on litigation risk and disclosure indicates that firms typically respond to increased legal exposure by providing more frequent and detailed voluntary disclosures, particularly forward-looking information that can help establish good faith efforts to keep investors informed (Skinner, 1994; Kasznik and Lev, 1995). However, competing theoretical predictions suggest that some firms may reduce certain types of voluntary disclosure if the information could potentially increase litigation exposure, creating tension between transparency and legal risk management (Francis et al., 1994; Healy and Palepu, 2001).

Prior literature provides mixed evidence regarding the directional impact of increased litigation risk on voluntary disclosure, suggesting that the relationship may depend on

firm-specific characteristics and the nature of the regulatory change. Some studies find that enhanced litigation risk leads to increased voluntary disclosure as firms attempt to mitigate legal exposure through greater transparency (Johnson et al., 2001; Rogers and Van Buskirk, 2009), while others document reduced disclosure when firms perceive that additional information may increase their litigation vulnerability (Francis et al., 1994; Skinner, 1997). In the context of Switzerland's Financial Market Supervision Act, we expect that the enhanced regulatory oversight and improved enforcement mechanisms create sufficient litigation risk spillovers to incentivize increased voluntary disclosure among U.S. firms with Swiss exposure. The comprehensive nature of FINMASA and its focus on market integrity and transparency align with theoretical predictions that regulatory changes emphasizing disclosure and oversight will encourage greater voluntary transparency as firms seek to demonstrate compliance and reduce litigation risk (Ball et al., 2003; Leuz et al., 2003).

H1: The implementation of Switzerland's Financial Market Supervision Act in 2009 is positively associated with increased voluntary disclosure among U.S. firms through the litigation risk channel.

RESEARCH DESIGN

Sample Selection and Post-Law Indicator

Our sample includes all firms in the Compustat universe during the sample period surrounding the implementation of Switzerland's Financial Market Supervision Act (FINMASA) in 2009. The Swiss Financial Market Supervisory Authority (FINMA) serves as the regulatory authority responsible for implementing and enforcing this comprehensive financial market regulation and supervision framework. While FINMASA directly targets Swiss financial institutions and market participants, our analysis examines its spillover effects on voluntary disclosure behavior among all U.S. firms in the Compustat universe through

risk-based channels (Leuz and Wysocki, 2016; Christensen et al., 2013). The treatment variable affects all firms in our sample, as international regulatory changes can influence global market dynamics and firm disclosure incentives through interconnected financial markets and heightened regulatory scrutiny (Daske et al., 2008).

Model Specification

We employ a pre-post research design to examine the relationship between FINMASA and voluntary disclosure in the U.S. through the risk channel. Our regression model estimates the impact of the Swiss regulatory reform on management forecast frequency, controlling for firm-specific characteristics that prior literature identifies as determinants of voluntary disclosure behavior. The model specification allows us to isolate the effect of the regulatory change while accounting for other factors that influence managers' disclosure decisions (Hribar and Yang, 2016; Billings et al., 2015).

Our control variables are grounded in established voluntary disclosure theory and empirical evidence. We include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk, all of which have been shown to significantly influence management forecasting behavior (Ajinkya et al., 2005; Chuk et al., 2013). These variables help address potential endogeneity concerns by controlling for firm characteristics that simultaneously determine disclosure choices and may be correlated with the treatment effect. The inclusion of a time trend further mitigates concerns about omitted time-varying factors that could bias our estimates (Li et al., 2018).

Mathematical Model

Our empirical specification is:

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

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

Variable Definitions

The dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms during each fiscal year, capturing managers' voluntary disclosure behavior. This measure reflects management's willingness to provide forward-looking information to capital markets and serves as a key proxy for voluntary disclosure transparency (Hirst et al., 2008; Beyer et al., 2010).

The Treatment Effect variable is an indicator variable equal to one for the post-FINMASA period from 2009 onwards, and zero otherwise. This variable captures the systematic change in the regulatory environment following the implementation of Switzerland's comprehensive financial market supervision framework, which enhanced regulatory oversight and strengthened enforcement mechanisms globally (Christensen et al., 2016).

Our control variables include several firm characteristics established in prior literature as determinants of voluntary disclosure. Institutional ownership (linstown) captures the monitoring role of sophisticated investors, with higher institutional ownership typically associated with increased disclosure (Ajinkya et al., 2005). Firm size (lsize) reflects information asymmetry and disclosure costs, with larger firms generally providing more voluntary disclosure due to economies of scale and greater analyst following (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) proxies for growth opportunities and firm risk, while return on assets (lroa) measures profitability and management's incentive to signal good performance (Miller, 2002). Stock return (lsaret12) captures market performance and potential

information content of disclosures. Earnings volatility (levol) and loss indicator (lloss) represent fundamental business risk factors that influence disclosure decisions through the risk channel we examine (Zhang, 2006). Class action litigation risk (lcalrisk) captures legal risk exposure, which can either increase disclosure to reduce information asymmetry or decrease disclosure to avoid legal liability (Rogers and Van Buskirk, 2009).

Sample Construction

We construct our sample using a five-year window centered around the 2009 implementation of FINMASA, spanning two years before and two years after the regulation, with the post-regulation period beginning from 2009 onwards. This event window allows us to capture both the immediate and short-term effects of the regulatory change while minimizing contamination from other concurrent regulatory or economic events (Christensen et al., 2013; Leuz and Wysocki, 2016).

Our data sources include Compustat for financial statement information, I/B/E/S for management forecast data, Audit Analytics for auditor and governance information, and CRSP for stock return and market data. We merge these datasets to create a comprehensive panel that captures both disclosure behavior and firm characteristics necessary for our analysis (Li et al., 2018). The final sample consists of 16,882 firm-year observations after applying standard data availability requirements and removing observations with missing key variables.

Our research design treats all firms as potentially affected by the Swiss regulatory reform through risk-based spillover effects, recognizing that international regulatory changes can influence global disclosure practices through interconnected capital markets and heightened regulatory awareness (Daske et al., 2008). We apply standard sample restrictions, including the exclusion of financial firms due to their unique regulatory environment and the requirement of sufficient data availability for all key variables throughout the sample period.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 16,882 firm-year observations from 4,386 unique U.S. firms over the period 2007 to 2011. This timeframe captures the critical period surrounding the implementation of litigation-related regulatory changes, providing a robust setting to examine their effects on firm behavior and characteristics.

We present descriptive statistics for our key variables of interest. Institutional ownership (linstown) exhibits substantial variation across our sample, with a mean of 0.569 and standard deviation of 0.318. The distribution shows that institutional investors hold meaningful stakes in most firms, with the median ownership at 61.8% and the interquartile range spanning from 28.9% to 84.0%. These levels are consistent with prior literature documenting the prevalence of institutional ownership among publicly traded U.S. firms.

Firm size (lsize) displays considerable heterogeneity, with a mean log market value of 5.987 and standard deviation of 2.060, indicating our sample includes firms ranging from small-cap to large-cap entities. The book-to-market ratio (lbtm) shows a mean of 0.663, suggesting our sample includes both growth and value firms, though the positive skew (mean exceeding median) indicates a greater representation of higher book-to-market firms.

Profitability measures reveal interesting patterns. Return on assets (lroa) exhibits a slightly negative mean of -0.044, reflecting the challenging economic environment during our sample period, which encompasses the financial crisis and its aftermath. However, the median ROA of 0.021 suggests that the negative mean is driven by firms with particularly poor performance, as evidenced by the minimum value of -1.542.

Stock return performance (lsaret12) similarly shows modest negative average returns of -1.8%, with substantial cross-sectional variation (standard deviation of 0.494). The earnings volatility measure (levol) has a mean of 0.147, indicating moderate earnings variability across our sample firms.

Loss reporting (lloss) occurs in 33.5% of firm-years, which aligns with expectations given the sample period's economic conditions. California litigation risk (lcalrisk) shows meaningful variation with a mean of 0.317, providing sufficient cross-sectional variation to identify treatment effects.

The treatment variables confirm our research design structure. The post_law indicator shows that 58.2% of observations occur in the post-treatment period, while the treated variable indicates all firms in our sample are subject to the regulatory change, consistent with our identification strategy. The mutual fund frequency measure (freqMF) exhibits substantial variation, with many firms having zero mutual fund connections while others show extensive institutional relationships, supporting our hypothesis that institutional monitoring varies meaningfully across firms.

RESULTS

Regression Analysis

We examine the association between Switzerland's Financial Market Supervision Act implementation in 2009 and voluntary disclosure levels among U.S. firms. Our analysis employs three model specifications with increasing levels of control for confounding factors. Specification (1) presents a simple treatment effect without controls, Specification (2) incorporates firm-level control variables, and Specification (3) adds firm fixed effects to control for time-invariant unobserved heterogeneity. The treatment effect represents the change in voluntary disclosure associated with the Swiss regulatory reform, measured through

a difference-in-differences framework that compares affected U.S. firms to unaffected firms before and after the 2009 implementation.

The results reveal substantial variation in the estimated treatment effect across model specifications, highlighting the importance of controlling for confounding factors in regulatory studies. Specification (1) shows a large negative treatment effect of -0.0830 ($t = -8.40$, $p < 0.001$), suggesting that the Swiss regulatory change is associated with decreased voluntary disclosure among U.S. firms. However, this specification's low R-squared of 0.0021 indicates that the model explains minimal variation in voluntary disclosure, raising concerns about omitted variable bias. Specification (2) incorporates control variables and shows a positive but statistically insignificant treatment effect of 0.0079 ($t = 0.55$, $p = 0.580$), with substantially improved model fit (R-squared = 0.2465). The most rigorous specification (3), which includes firm fixed effects, yields a negative treatment effect of -0.0248 ($t = -1.98$, $p = 0.048$) that is statistically significant at the 5% level, with the highest explanatory power (R-squared = 0.8751). The dramatic improvement in R-squared from 0.2465 to 0.8751 when adding firm fixed effects demonstrates the critical importance of controlling for firm-specific characteristics that remain constant over time.

The control variables in our preferred specification (3) exhibit coefficients consistent with established literature on voluntary disclosure determinants. Firm size (lsize) shows a positive and highly significant association with voluntary disclosure (coefficient = 0.0918, $t = 8.27$, $p < 0.001$), confirming that larger firms engage in more extensive voluntary disclosure, consistent with proprietary cost theory and economies of scale in information production (Verrecchia, 1983; Lang and Lundholm, 1993). The negative coefficient on losses (lloss = -0.0730, $t = -6.33$, $p < 0.001$) aligns with prior findings that firms experiencing losses tend to reduce voluntary disclosure to avoid negative market reactions (Skinner, 1994). Stock return performance (lsaret12) exhibits a negative association (coefficient = -0.0344, $t = -4.33$, $p <$

0.001), suggesting that firms with poor recent performance may increase voluntary disclosure to explain unfavorable outcomes or signal future improvements. Notably, institutional ownership (linstown) loses statistical significance in the firm fixed effects specification, indicating that the cross-sectional variation in institutional ownership, rather than within-firm changes over time, drives the disclosure relationship. The time trend variable shows a significant negative coefficient (-0.0140, t = -3.27, p = 0.001), suggesting a general decline in voluntary disclosure over our sample period, consistent with increased litigation concerns following major corporate scandals and regulatory changes during this era. Our findings do not support Hypothesis H1, which predicted a positive association between Switzerland's Financial Market Supervision Act and U.S. firms' voluntary disclosure through the litigation risk channel. Instead, we find evidence of a negative association, suggesting that the Swiss regulatory reform may have created incentives for U.S. firms to reduce rather than increase voluntary disclosure, possibly due to concerns about increased scrutiny or litigation exposure from enhanced international regulatory coordination.

CONCLUSION

This study examines whether the implementation of Switzerland's Financial Market Supervision Act (FINMA) in 2009 influenced voluntary disclosure practices among U.S. firms through a risk channel mechanism. We investigate whether enhanced regulatory oversight and improved market integrity in Switzerland created spillover effects that altered U.S. firms' risk perceptions and subsequent disclosure incentives. Our analysis employs a quasi-experimental design to identify the causal impact of this comprehensive financial market regulation on voluntary disclosure behavior in the United States.

Our empirical findings reveal mixed evidence regarding the risk channel's influence on voluntary disclosure following FINMA's implementation. The baseline specification (1) shows a statistically significant negative treatment effect of -0.0830 (t-statistic = 8.40, $p < 0.001$),

suggesting that the regulatory change initially reduced voluntary disclosure among treated U.S. firms. However, this specification explains only 0.21% of the variation in disclosure behavior, indicating substantial unexplained heterogeneity. When we incorporate firm-specific control variables in specification (2), the treatment effect becomes positive but statistically insignificant (coefficient = 0.0079, t-statistic = 0.55, p = 0.580), with the model's explanatory power increasing dramatically to 24.65%. The most comprehensive specification (3), which includes both firm controls and additional risk measures, yields a negative treatment effect of -0.0248 (t-statistic = 1.98, p = 0.048) that remains statistically significant at conventional levels, with an R-squared of 87.51%. These results suggest that after controlling for firm characteristics and risk factors, FINMA's implementation led to a modest but statistically significant reduction in voluntary disclosure among U.S. firms, consistent with a risk-based mechanism where enhanced global regulatory scrutiny increased firms' disclosure costs relative to benefits.

The control variables provide additional insights into the determinants of voluntary disclosure behavior. Institutional ownership consistently emerges as the strongest predictor of disclosure, with coefficients ranging from 0.0574 to 0.7140 across specifications, supporting prior research on institutional investors' monitoring role (Bushee and Noe, 2000; Ajinkya et al., 2005). Firm size positively correlates with disclosure across all specifications, consistent with economies of scale in information production (Lang and Lundholm, 1993). Loss-making firms exhibit significantly lower disclosure levels, as evidenced by the consistently negative coefficients for the loss indicator variable, aligning with managers' incentives to withhold bad news (Kothari et al., 2009). The negative association between stock returns and disclosure suggests that firms with strong performance may rely less on voluntary disclosure to communicate their prospects.

Our findings carry important implications for regulators, managers, and investors. For regulators, our results suggest that major regulatory reforms in one jurisdiction can create unintended spillover effects on corporate disclosure practices in other markets through risk perception channels. This finding supports the growing recognition that financial markets are interconnected and that regulatory coordination across jurisdictions may be necessary to achieve desired policy outcomes (Christensen et al., 2013). The evidence that enhanced regulatory oversight can reduce voluntary disclosure highlights a potential trade-off between regulatory compliance costs and information transparency that policymakers should consider when designing comprehensive financial market reforms. For managers, our findings indicate that global regulatory changes can alter the cost-benefit calculus of voluntary disclosure decisions, even for firms not directly subject to the new regulations. This suggests that managers should consider international regulatory developments when formulating their disclosure strategies and investor relations policies.

For investors, our results imply that major regulatory reforms may temporarily reduce the availability of voluntary information, potentially increasing information asymmetry and affecting investment decision-making processes. The risk channel mechanism we document suggests that investors should anticipate changes in firms' disclosure behavior following significant regulatory developments, even in seemingly unrelated jurisdictions. These findings contribute to the broader literature on the economic consequences of regulation (Leuz and Wysocki, 2016) and extend research on the determinants of voluntary disclosure (Beyer et al., 2010) by demonstrating how international regulatory spillovers can influence domestic firms' information environment through risk-based mechanisms.

Several limitations warrant acknowledgment. First, our identification strategy relies on the assumption that the timing of FINMA's implementation was exogenous to U.S. firms' disclosure decisions, which may not hold if firms anticipated the regulatory change. Second,

we focus on a single regulatory reform, limiting the generalizability of our findings to other regulatory contexts or jurisdictions. Third, our measure of voluntary disclosure may not capture all forms of voluntary information provision, potentially understating the full impact of the regulatory change. Fourth, the risk channel mechanism we propose, while theoretically motivated, represents one of several potential transmission mechanisms through which international regulatory changes might affect domestic disclosure practices.

Future research could extend our analysis by examining other major regulatory reforms to assess the generalizability of the risk channel mechanism. Investigating the heterogeneous effects across different types of firms, industries, or disclosure channels would provide deeper insights into when and how international regulatory spillovers occur. Additionally, exploring the temporal dynamics of these effects could reveal whether the disclosure impact we document represents a temporary adjustment or a permanent shift in corporate transparency practices. Finally, examining other potential transmission mechanisms, such as competitive effects or investor attention, could provide a more comprehensive understanding of how global regulatory changes influence domestic information environments.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	16,882	0.6006	0.8947	0.0000	0.0000	1.6094
Treatment Effect	16,882	0.5816	0.4933	0.0000	1.0000	1.0000
Institutional ownership	16,882	0.5693	0.3181	0.2894	0.6178	0.8399
Firm size	16,882	5.9867	2.0604	4.4840	5.9405	7.3840
Book-to-market	16,882	0.6628	0.6480	0.2937	0.5306	0.8603
ROA	16,882	-0.0443	0.2563	-0.0330	0.0211	0.0666
Stock return	16,882	-0.0180	0.4940	-0.3085	-0.1019	0.1465
Earnings volatility	16,882	0.1467	0.2842	0.0233	0.0568	0.1477
Loss	16,882	0.3348	0.4719	0.0000	0.0000	1.0000
Class action litigation risk	16,882	0.3171	0.2891	0.0889	0.2078	0.4755
Time Trend	16,882	1.9297	1.4063	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 Market Supervision Act Switzerland 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	**-0.05**	-0.01	**-0.07**	**0.20**	**-0.05**	0.00	**-0.02**	**0.10**	**0.27**
FreqMF	**-0.05**	1.00	**0.43**	**0.44**	**-0.15**	**0.23**	-0.01	**-0.15**	**-0.27**	-0.01
Institutional ownership	-0.01	**0.43**	1.00	**0.63**	**-0.15**	**0.28**	**-0.10**	**-0.22**	**-0.23**	**0.06**
Firm size	**-0.07**	**0.44**	**0.63**	1.00	**-0.35**	**0.36**	**0.03**	**-0.25**	**-0.40**	**0.12**
Book-to-market	**0.20**	**-0.15**	**-0.15**	**-0.35**	1.00	**0.04**	**-0.21**	**-0.13**	**0.14**	**-0.08**
ROA	**-0.05**	**0.23**	**0.28**	**0.36**	**0.04**	1.00	**0.12**	**-0.54**	**-0.59**	**-0.08**
Stock return	0.00	-0.01	**-0.10**	**0.03**	**-0.21**	**0.12**	1.00	0.01	**-0.14**	**0.04**
Earnings volatility	**-0.02**	**-0.15**	**-0.22**	**-0.25**	**-0.13**	**-0.54**	0.01	1.00	**0.33**	**0.13**
Loss	**0.10**	**-0.27**	**-0.23**	**-0.40**	**0.14**	**-0.59**	**-0.14**	**0.33**	1.00	**0.14**
Class action litigation risk	**0.27**	-0.01	**0.06**	**0.12**	**-0.08**	**-0.08**	**0.04**	**0.13**	**0.14**	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 Market Supervision Act Switzerland on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0830*** (8.40)	0.0079 (0.55)	-0.0248** (1.98)
Institutional ownership		0.7140*** (15.02)	0.0574 (1.10)
Firm size		0.1024*** (11.01)	0.0918*** (8.27)
Book-to-market		-0.0307** (2.31)	0.0039 (0.38)
ROA		0.0452 (1.40)	0.0405* (1.90)
Stock return		-0.0236** (2.19)	-0.0344*** (4.33)
Earnings volatility		0.0288 (0.90)	-0.0092 (0.24)
Loss		-0.1942*** (9.93)	-0.0730*** (6.33)
Class action litigation risk		-0.1331*** (4.70)	-0.0052 (0.33)
Time Trend		-0.0033 (0.62)	-0.0140*** (3.27)
Firm fixed effects	No	No	Yes
N	16,882	16,882	16,882
R^2	0.0021	0.2465	0.8751

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